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2015 Annual Report of mBank S.A. Group

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mBank

Letter of the President of the Management Board of mBank S.A. to the Shareholders

Dear Shareholders,

In spite of adverse developments in the external environment, 2015 was a very successful year for mBank Group. Net profit attributable to the shareholders of mBank reached PLN 1,301.2 million, which represents an increase of 1.1% year on year. This satisfying result was achieved under conditions of strong pressure exerted both by factors affecting the revenue of financial institutions and by unfavourable one-off events faced by the Polish banking sector. Following the interest rate cuts in October 2014, the Monetary Policy Council (RPP) decided to continue the easing and reduced the reference rate by another 50 basis points to the historically low level of 1.5%. As a result, net interest margin decreased further in H1 2015. As another factor adversely impacting the revenue of the sector, the interchange fee on cashless card transactions in Poland was reduced to one of the lowest levels in Europe. The interchange fee decreased from 0.5% to 0.2% or debit cards and 0.3% for credit cards as of 29 January 2015. However, thanks to dynamic business expansion, which was additionally supported by robust economic growth, including continued recovery of consumption and investments, mBank Group generated its historically highest core income of PLN 3,408.5 million. Net interest income increased by 0.8% driven by growing lending in key segments. Net fee and commission income decreased by 0.5% year on year as rising transactional activity of clients was insufficient to bridge the gap opened by the interchange fee reduction within such a short time horizon.

In 2015, the Polish banking sector suffered its first bankruptcy in 15 years. Following the insolvency of Spółdzielczy Bank Rzemiosła i Rolnictwa w Wołominie, banks had to contribute an additional PLN 2.0 billion to the Bank Guarantee Fund (BFG) to pay out guaranteed deposits. The total contribution of mBank and mBank Hipoteczny reached PLN 141.7 million. Another significant cost in Q4 2015 was a contribution to the Borrower Support Fund set up at Bank Gospodarstwa Krajowego for clients in a difficult financial position. The contributions were determined pro rata to the held portfolio of housing mortgages which are more than 90 days overdue. The contribution of mBank Group amounted to PLN 52.1 million.

These unforeseen costs were offset in 2015 by the sale of the subsidiary BRE Ubezpieczenia TUiR to AXA Group as well as the sale of the Bank's interest in PZU. On 27 and 30 March 2015, after all required regulatory approvals were granted, the sale to the strategic insurance partner was closed, including agreements establishing long-term co-operation between mBank Group and AXA Group in the distribution of life and non-life insurance products. As a result, mBank clients gained access to a wide range of insurance products offered via the online and mobile platforms and in brick-and-mortar branches. The one-off positive impact of the sale on the pre-tax profit of mBank Group recognised in Q1 2015 was PLN 194.3 million. In early December, the Management Board of mBank decided to divest and sell its interest in PZU equal to 0.55% of the company's share capital. The selling price was set at PLN 37.75 per share and, net of the cost of sale, the revenue was PLN 125.0 million.

As a result, mBank Group earned a total revenue close to PLN 4.1 billion in 2015, representing an increase of 3.9% year on year. Based on the reported results, the cost/income ratio was 50.2%; net of the positive and negative one-offs, the normalised C/I was 49.3%, compared to 44.9% a year earlier. Superior efficiency is a key attribute of mBank's operational model, and its structural cost advantage consistently sets the Group apart from other financial institutions in Poland. The recurrent administrative expenses including depreciation and amortisation increased by 5.1% year on year to PLN 1,860.5 million in 2015. This was mainly driven by a nearly double regular contribution to BFG as its rate was raised from 0.137% in 2014 to 0.239% of total risk exposure. As a result, mBank's contribution increased by PLN 65.6 million year on year. The Group's headcount grew by 223 FTEs in 2015, resulting in a modest increase of personnel costs. To ensure highest quality and security of mBank's electronic platform, the IT expenditure increased while other material costs remained at the level of 2014.

mBank Group's cost of risk was 54 basis points in 2015. Net loan loss provisions decreased by 18.4% year on year to PLN 421.2 million. The high exchange rate of the Swiss franc prevailing since January 2015 did not impair the capacity of mBank's retail clients to repay their debt, and the solid economic conditions and relatively low unemployment supported the quality of the loan portfolio. Furthermore, mBank's understanding of sector risks prevented excessive exposure to sectors in a weaker position and ensured a diversified corporate portfolio with a well-distributed structure. As a result, mBank Group's NPL ratio decreased to 5.7% at the end of 2015 and the coverage ratio rose to 58.9%.

Consequently, return on equity decreased to 11.8% from 13.1% in 2014. The ROE of the Group should be considered from the perspective of the continuous improvement of the capital position. This approach derives from regulatory initiatives designed to enhance the stability and security of the Polish sector and its resilience to extreme market scenarios. Following announcements made earlier in the spring, on 23 October 2015 the Polish Financial Supervision Authority (KNF) issued individual recommendations imposing additional capital requirements on banks with significant exposures to FX residential mortgage loans. mBank's capital buffer was 4.39 percentage points, of which at least 75% or 3.29 percentage points must consist of Tier 1 capital. It was the highest additional requirement among all Polish banks, largely due to the fact that mBank calculates the total risk exposure under the advanced internal rating-based approach (AIRB). As a result, risk weights for mortgage loans denominated in foreign currencies are much lower at mBank than under the standardised approach followed by most institutions in Poland, which was not a factor considered in the single methodology applied to all players in the sector. However, even in view of such high requirements imposed by KNF, mBank Group's capital ratios are still well above the regulatory minimum.

It should be noted that the volumes and the sales of new loans grew dynamically. Gross loans of mBank Group increased by 5.2% year on year to PLN 81.4 billion in 2015. The production of new mortgage loans increased by 41.8% year on year in 2015. Importantly, 42.3% of mortgage loans granted in Poland were disbursed by mBank Hipoteczny, adding to the pool of assets eligible for covered bond issues. The sales of consumer loans, whose rising volumes contribute to a steady improvement of net interest margin, grew by 8.5% year on year. It should be emphasised that corporate lending excluding reverse repo transactions increased by a high 11.8% year on year in 2015 with a strong contribution of term loans granted to small and medium-sized enterprises.

mBank continued to develop its deposit base, which reached PLN 81.1 billion at the end of 2015, representing an increase of 12.0% year on year. The balances of retail on-sight accounts, which include current accounts and savings accounts, grew by a strong 16.1% year on year. Corporate deposits increased at an even more impressive rate: balances of corporate current accounts alone grew by 24.3% year on year in 2015. Importantly, the growth rate was greater than client acquisition, which suggests that it resulted from improved transactional activity, a key objective of mBank's efforts focused on offering the most convenient online and mobile transactional banking systems. These growth rates helped to further improve the loan-to-deposit ratio, which stood at 96.7% at the end of 2015, compared to 103.0% a year earlier. The ratio, brought down to less than 100% after many years, demonstrates the success of the long-term restructuring of our balance sheet and growing independence of funding provided by Commerzbank.

One of the key factors differentiating mBank in the Polish banking sector is the capacity of organic growth, which has become our key competitive advantage. The results of client acquisition in 2015 were once again more than satisfactory. Our corporate client base increased by 1,775 companies and stood at 19,562 at the year's end. The number of mBank's retail clients increased by 177.6 thousand in Poland and as much as 57.6 thousand in the Czech Republic and Slovakia. We also added 160.7 thousand accounts to the Orange Finanse client base. All in all, mBank now serves 4,947.3 thousand clients on the three markets. A key project in 2015 was the migration of former MultiBank transactional service users to the mBank platform, successfully completed in October. We also continued to develop and improve our mobile application to ensure that clients can conveniently manage their finance wherever they are.

The results of the Retail Banking Line improved year on year as the pre-tax profit stood at PLN 1,060.7 million. The improvement was driven by the booked one-off revenue on the sale of the insurance subsidiary, while the core income remained under pressure due to the interest rate cuts and reductions of the interchange fee on card transactions. mBank's foreign branches in the Czech Republic and Slovakia also improved their results and made a bigger contribution to the performance of retail banking, not only in the acquisition of clients and deposits but also the steadily growing volume of loans and revenue. Intensified sales initiatives and the re-positioning of the offer helped to largely step up lending in both countries as the gross balance-sheet volumes increased by 31.0% year on year. In turn, Corporates and Financial Markets reported a pre-tax profit of PLN 617.6 million in 2015, a decrease of 8.2% year on year due to a much lower net trading income and gains on investment securities. In 2015, the Group expanded its offer for SMEs, steadily building up mBank's position in this market segment which has a promising growth potential.

In 2015, mBank Group was very active in the implementation of strategic initiatives. mBank Hipoteczny issued more than PLN 1.5 billion of covered bonds, a record on the Polish market. Following its divisionalisation, mLeasing strengthened the foundations of its business expansion in the corporate and retail segments and reported significant growth in the SME segment. The subsidiary moved up to the second position among leasing companies present on the Polish market in 2015. Dom Maklerski mBanku was also active in major transactions on the Warsaw Stock Exchange. In April 2015, with the support of mCorporate Finance as a financial advisor and mBank as underwriter, it completed the IPO of the German manufacturer of aluminium wheels Uniwheels AG. The IPO of PLN 504 million was the biggest public offering on the Polish market since the end of 2013. mBank Private Banking celebrated its 20th anniversary in 2015. This coupled with business successes, including a nearly 21% increase in total assets under management, which in total with mWealth Management exceeded PLN 12.0 billion at the end of 2015.

To summarise, despite many new adverse regulatory developments, which will be faced by the banks in 2016, including the bank tax and increased capital requirements, I am certain that the expansion of the Group's business results based on client relationships will remain on a growth trajectory. mBank has competitive advantages which allow it to grow its strategic segments under any market conditions. Our excellent business and advisory competences, professionalism and state-of-the-art technologies allow us to acquire new clients in three countries and provide them with top-quality service. Coupled with fast developing distribution channels, further growth of transactional activity as well as active cross-selling, this ensures that mBank's revenue will grow steadily.

I wish to thank you, our Shareholders, for your confidence and support. Let me assure you that our company has key advantages which will enable us in the coming years, despite the many challenges and costs, to grow our business model successfully and deliver satisfying results.

I thank the Supervisory Board for its close co-operation and unwavering support.

I also thank our employees whose commitment and engagement contributed to the success of mBank Group in 2015. I believe that we are relatively well prepared to leverage our strengths and successfully face the market conditions in 2016.

Yours faithfully,

Cezary Stypułkowski

Letter of the Chairman of the Supervisory Board of mBank S.A. to Shareholders

Dear Shareholders,

Year 2015 on the one hand gave us reasons to feel proud and satisfied, but on the other hand was filled with doubts concerning the future of the banking sector in Poland. It was yet another year which proved that the change of name and brand in 2013 was the right decision, was profitable for the company and contributed to the fact that the financial results and the general state of the bank are in a very good condition. mBank became the synonym of youth and modernity, the icon of mobility and client-friendliness. Holding an account with it is very prestigious. Our constantly improved website, often appreciated and awarded for a pro-client approach, simplicity and user-friendliness, is one of the main things to be proud of. In 2015, mBank developed its client base, business model and service technology. mBank finalised the key technological undertaking, i.e. the migration of MultiBank clients to the mBank platform, with great success. It will allow for better adjustment of our offer to the needs of clients and will lower the costs of servicing them. The Orange Finance project continued to be developed with very good results, similarly as our activities in the Czech Republic and Slovakia.

In 2015, mBank acquired 396 thousand new clients in the Retail Banking segment, and the value of funds deposited by retail clients increased during 12 months by 17%. Further increase in card transactions is also worth mentioning. Their number grew year on year by 36%. This allows the bank to hold a 12% market share in non-cash transactions in Poland. We are still developing and streamlining our credit activity on the retail market, especially in the scope of consumer loans the balance of which increased by 12%.

The bank achieved positive results also in the Corporates and Financial Markets segment. The client base of corporate banking grew by 1,775 clients. The balance of deposits and credit receivables increased in this area by 17% and 6%, respectively. The most dynamic growth was reported with regard to cooperation with clients from the large company segment.

In 2015 the Supervisory Board analysed all processes taking place at mBank S.A. with due diligence, remaining in regular contact with the Management Board of the Bank. As in previous years, Members of the Supervisory Board seated on four standing Committees: The Audit Committee, the Risk Committee, the Remuneration Committee and the Executive Committee.

The current composition of the Supervisory Board is characterised by its focus on professionalism of its members exercised by selecting top specialists with broad knowledge, professional experience and skills. On 24 November 2015 the composition of the Supervisory Board of mBank S.A changed. Stefan Schmittmann, who stepped down from his position and decided to retire after many years of work for the Commerzbank Group AG, was replaced by Marcus Chromik, who was also appointed Chairman of the Risk Committee of the Supervisory Board as of 1 January 2016.

Stefan Schmittmann has been a member of the Supervisory Board for 6 years. On behalf of the Supervisory Board of mBank S.A., I would like to thank Mr Schmittmann for his long-standing commitment and great cooperation with our bank. He was instrumental in safeguarding the bank's growth connected with a prudent approach to risk management. We wish him the best of luck in his future endeavours.

Marcus Chromik has been Chief Credit Risk Officer of Commerzbank's Core Bank (GRM-CRC) since 2012. Earlier, for more than three years, he served as Market Risk Officer for Commerzbank's Corporates & Markets segment where he was responsible for market and liquidity risk management. Marcus Chromik, who holds a PhD in nuclear physics, started his professional career with McKinsey in 2001. Afterwards, he joined Postbank Group in 2004, where he held various executive positions, and was responsible, among others, for new projects and syndication, liquidity management, and treasury.

Finally, on behalf of the entire Supervisory Board, I would like to thank the Management Board of mBank for effective and harmonious cooperation, and you, our Shareholders, for your trust in the operation of our bank. I hope that the current year will be as successful as the previous one both in terms of reaching goals and effective cooperation.

Maciej Leśny

Chairman of the Supervisory Board

Assessment of the Supervisory Board of mBank S.A. regarding the Bank's standing in 2015, including assessment of the internal control system, the system of managing the risk significant for the Bank, operation of the compliance area and the function of the internal audit.

Based on: Rule II.Z.10 of the Best Practice of WSE Listed Companies 2016

2015 was a year of improvement of the Polish economy. GDP grew at the end of 2015 by 3.6% YoY, compared with 3.5% in 2014, in accordance with the updated estimation of the Central Statistical Office.

The net profit of the Bank in 2015 amounted to PLN 1,271 million. This result equals the one of last year and is 1% lower than planned. Taking into account various negative surprises brought to the banking sector by the social and economic environment in 2015, this result may be considered quite good. The Supervisory Board thanks all employees of the Bank for achieving it.

In 2015, mBank finalized its key technological undertaking, i.e. the migration of MultiBank clients to the mBank platform, with great success. It will allow better adjustment of our offer to the needs of clients and will lower the costs of servicing them. The Orange Finance project continued to be developed with very good results, similarly as our activities in the Czech Republic and Slovakia. The year 2015 proved that mBank's change of name and brand was the right decision, was profitable for the company and contributed to the fact that the financial results and the general state of the Bank are in a very good condition. mBank became the synonym of youth and modernity, the icon of mobility and client-friendliness. Holding an account with it is very prestigious.

The Bank achieved positive results in the Corporates and Financial Markets segment. The client base of corporate banking increased by 1,775 clients. The balance of deposits and credit receivables increased in this area by 17% and 6%, respectively. The most dynamic growth was reported with regard to cooperation with clients from the large company segment.

In 2015, mBank acquired 396 thousand new clients in the Retail Banking segment, and the value of funds deposited by retail clients increased during 12 months by 17%. Further increase in card transactions is also worth mentioning. Their number increased year on year by 36%. Thanks to the above, the Bank maintains its 12% share in cashless transactions in Poland. We are still developing and streamlining our credit activity on the retail market, especially within the scope of consumer loans the balance of which increased by 12%.

The Supervisory Board is happy to state that the high profitability of mBank S.A. Group is very stable. It is also confirmed when compared to 2014. Over the past three years this stability has not been disrupted, or even more so – it accompanied the breaking of profitability records.

Taking into account the macroeconomic conditions in 2015, and specifically the decline in market interest rates, the Board appreciates the results generated by mBank.

Taking all the above into consideration, the Supervisory Board makes a positive assessment of the standing of mBank S.A. in 2015.

The Supervisory Board appreciates last year's commitment and effort made by the Management Board and its employees aimed at increasing the long-term value of the Bank for the Shareholders. At the same time, the Supervisory Board expresses hope that the efforts will be continued in 2016 and in the coming years. The Supervisory Board thanks also the Shareholders for their trust in mBank's operation.

Assessment of the internal control system and the system for managing the risk significant for the Bank

In the case of risk-related issues, the Supervisory Board operates through the Risk Committee exercising ongoing control over particular risk types, especially credit (including concentration risk), market, operational, liquidity and business risk. The Committee issues recommendations on large exposures posing single-entity risk. Moreover, in the past year the Committee dealt with various important issues related to risk, including macroeconomic issues, the internal control system of the Bank, the real property market strategy and the portfolio of treasury securities.

Furthermore, at the Bank there are several committees whose tasks are directly related to risk management at mBank Group. These are, in particular: The Credit Committee of mBank Group, the Data Quality Management Committee, the Capital Management Committee, and the Assets and Liabilities Committee.

The Supervisory Board positively assesses the risk management system at mBank S.A. In the opinion of the Supervisory Board, the system covers all the risk types significant for the Bank and the Group.

Assessment of the functioning of the Compliance area and Internal Audit at the Bank.

The Audit Committee, operating within the Supervisory Board, monitors all the issues connected with internal control on an ongoing basis, and supervises and exercises functional control over the Internal Audit Department. In 2015, the Audit Committee of the Supervisory Board was regularly informed about a broad spectrum of audit-related issues, including assessment of internal control and risk management systems, the course of the major audits at the Bank and in the subsidiaries of the Group. The Committee also assessed and approved the Audit Plan for 2015. Moreover, the Chairman of the Supervisory Board was provided by the Internal Audit Department with reports on all the audits conducted at the Bank and in the subsidiaries of the Group. The Audit Committee of the Supervisory Board is also supported by an external auditor who in 2015 regularly reported on the results of and conclusions from the audit of financial statements.

During the meetings of the Audit Committee, the Compliance Department submitted information on problems concerning the Compliance area, presented the Supervisory Board with all reports of the Department and changes in the Compliance Rules which required approval of a supervisory body. During the following meetings of the Audit Committee, the Compliance Department discussed the Whistle-blowing Reports (BKMS application used for anonymous fraud reporting in the bank).

The Supervisory Board positively assesses the operation of the Internal Audit and Compliance area at mBank S.A. In the opinion of the Supervisory Board, the operation covers all the risk types significant for the Bank and the Group that are related to their activities.

Maciej Leśny

Chairman of the Supervisory Board

Management Board Report on the Performance of mBank S.A. Group in 2015

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Management Board Report on the Performance of mBank Group in 2015

1. Short overview of mBank Group

mBank Group is the fourth-largest financial institution in Poland as measured by total assets. It offers retail, corporate and investment banking as well as other financial services such as leasing, factoring, insurance, financing of commercial real property, brokerage operations, wealth management, corporate finance and advisory in the scope of capital markets. mBank is the only Polish bank, which successfully replicated its Polish business model on foreign markets - in 2007 it started its retail operations in the Czech Republic and Slovakia.

2015 turned out well for the economy, however, the GDP growth was only slightly higher than the 2014 figure, amounting to 3.6% year on year compared with 3.3% in 2014. The change in growth composition and positive developments on the labour market are the key factors contributing to robust macroeconomic environment in 2015. The growth was driven by consumption rather than investments; consumption was based mainly on domestic resources, which reduced growth in import, while growth in export came only slightly below the 2014 figure, which improved the GDP growth statistics owing to a positive contribution to net export growth. Continuing recovery of the Polish economy created favourable conditions for the improvement of borrowers' financial position and lead to an increase of demand for loans and other banking services.

However, a pressure exerted both by factors affecting the revenue of financial institutions and by unfavourable one-off events faced by the Polish banking sector has made 2015 more challenging than expected for Polish banks. Following interest rate cuts in October 2014, the Monetary Policy Council (RPP) decided to continue the easing and in March 2015 reduced the reference rate by another 50 basis points to the historically low level of 1.5%. Additional burdens such as contribution to the Bank Guarantee Fund (BFG) due to the bancrupcy of Spółdzielczy Bank Rzemiosła i Rolnictwa w Wołominie and contribution to the Borrower Support Fund, combined with the low interest rate environment, meaningfully reduced the banking sector's profitability.

For mBank Group, despite a challenging market environment, 2015 was another good year followed by sound business growth across segments. As a result of growing income, the net profit grew compared to 2014. The Group completed a number of projects which made it better prepared for both market and regulatory challenges in the coming years.

The key highlights of 2015 for mBank Group include:

- Growth in the net profit of mBank Group by 1.1% compared to 2014 to PLN 1,301.2 million.
- Growth in revenues by 3.9% year on year, supported by historically highest core income and gains on the sales of BRE Ubezpieczenia TUiR and PZU shares.
- High-growth dynamics of revenues adversely impacted by the unforeseen one-off costs, such as normal and extra-ordinary contribution to the BFG and contribution to the Borrower Support Fund: cost to income ratio at 50.2%. Excluding abovementioned costs and gain from the sale of BRE Ubezpieczenia TUiR and PZU shares cost to income ratio stood at 49.3% as at the end of December 2015.
- Sound volume development:
    - Increase in gross loans by 5.2% compared to the previous year, supported by active sales in Retail Banking segment as well as in Corporates and Investments. Excluding reverse repo/buy sell back transactions and the FX effect gross loans increased by 6.3% year on year.
    - Considerable growth in clients' deposits by 12.0% year on year, due to a growth in deposits of both individual and corporate clients.
- Retail lending expansion reflected in record-high sale of mortgage and non-mortgage loans – PLN 4.5 billion and PLN 4.9 billion of new loans sold, respectively.
- As a result of rapid growth of deposits, record-breaking reduction of the loan to deposit ratio to 96.7%.
- Further improvement in the quality of assets, with a significantly lower cost of risk compared to 2014, at the level of 54 bps.

mBank S.A. Group
Management Board Report on the Performance of mBank Group in 2015

- High quality of capital base – capital ratios surpassing regulatory requirements: CET 1 ratio at 14.3%, Total Capital Ratio at 17.3%.
- Accelerating client acquisition – in 2015, 396 thousand individual and 1,775 corporate clients were acquired.
- Signing of a strategic agreement with AXA Group on distribution of insurance products through the channels of mBank and a simultaneous sale of BRE Ubezpieczenia.
- Strenghtening the position as mobile and transactional Bank with the completion of the migration of former Multibank and Private Banking clients onto New mBank platform and further cooperation with strategic partners.

1.1. Key financial and business data of mBank Group

	2011	2012	2013	2014	2015	YoY change
Key Financials (PLN thou.):						
Net interest income	2,148,602	2,279,597	2,225,811	2,490,658	2,511,373	0.8%
Net fee & commission income	839,972	786,546	834,738	901,690	897,176	-0.5%
Total income	**3,563,510**	**3,570,774**	**3,673,524**	**3,939,168**	**4,093,464**	**3.9%**
Total costs (incl. A)	**-1,722,913**	**-1,661,331**	**-1,678,043**	**-1,770,565**	**-2,054,246**	**16.0%**
Thereof: One-off regulatory costs*	-	-	-	-	-193,793	-
Loan loss provisions	-373,470	-444,635	-477,778	-515,903	-421,222	-18.4%
Profit before income tax	**1,467,127**	**1,464,808**	**1,517,703**	**1,652,700**	**1,617,855**	**-2.1%**
Net profit attributable to shareholders	**1,134,972**	**1,197,321**	**1,206,375**	**1,286,668**	**1,301,246**	**1.1%**
Balance Sheet (PLN thou.):						
Total assets	98,875,647	102,144,983	104,282,761	117,985,822	123,523,021	4.7%
Total liabilities	90,802,982	92,526,062	94,026,323	106,912,844	111,248,057	4.1%
Total equity	8,072,665	9,618,921	10,256,438	11,072,978	12,274,964	10.9%
Key Indicators:						
Cost/Income ratio	48.3%	46.5%	45.7%	44.9%	50.2%	-
ROE net	16.4%	14.6%	13.1%	13.1%	11.8%	-
NIM	2.5%	2.4%	2.2%	2.3%	2.1%	-
NPL ratio#	4.7%	5.2%	6.3%	6.4%	5.7%	-
Coverage ratio	66.2%	64.1%	47.8%	51.9%	58.9%	-
Core Tier 1 / CET 1**	9.6%	13.0%	14.2%	12.2%	14.3%	-
CAR / Total Capital Ratio**	15.0%	18.7%	19.4%	14.7%	17.3%	-
Employment (FTE, at the end of period)	6,294	6,138	6,073	6,318	6,540	3.5%
Investor & Shareholder Information:						
Share capital (PLN thou.)	168,411	168,556	168,696	168,840	168,956	0.1%
Number of shares	42,102,746	42,138,976	42,174,013	42,210,057	42,238,924	0.1%
P/BV	1.3	1.4	2.1	1.9	1.1	-42.1%

Business Data	2011	2012	2013	2014	2015	YoY change
Retail Banking						
No. of customers (thou.)	3,893	4,134	4,368	4,551	4,947	8.7%
Total loans (PLN M)	38,689	37,704	38,308	41,560	46,259	11.3%
Total deposits (PLN M)	26,701	33,234	34,203	39,285	46,117	17.4%
Corporate Banking						
No. of customers (thou.)	14	15	16	18	20	11.1%
Total loans (PLN M)	27,890	28,405	29,475	32,841	33,447	1.8%
Total deposits (PLN M)	27,015	24,249	26,753	32,237	34,424	6.8%

** Contribution to the Bank Guarantee Fund of PLN 141.7 million to cover the cost of payments to deposit holders of bankrupt Cooperative Bank in Wołomin and contribution for the Borrowers Support Fund of PLN 52.1 million*

 # Since Q4/13 a modified methodology of NPL recognition in retail area has been applied (the NPL ratio is calculated in accordance to a more strict client perspective methodology).

***Since the end of March 2014 capital ratios are calculated according to the rules based on the Basel III.*

1.2. History of mBank Group

Year	Event
1986	Establishment of Bank Rozwoju Eksportu as a joint-stock company with aim to service the needs of Poland's expanding export-oriented companies
1989	Receipt of credit line facilities from the World Bank and International Finance Corporation; BRE Bank becomes a member of the international settlement system SWIFT
1991	Start of BRE Bank Group: BRE Brokers, the Group's first subsidiary is established
1992	Listing of BRE Bank on the Warsaw Stock Exchange
1994	Signing of a strategic partnership agreement with Commerzbank AG
1996	Poland's first Private Banking offer is launched
1998	Merger with Polski Bank Rozwoju SA
2000	Establishment of mBank – the first Internet-only bank in Poland – completed in just one hundred days
2001	Launch of Multibank, the second retail arm of BRE Bank, targeting affluent customers
2004	Start of iBRE, a modern Internet banking system for companies
2007	Foreign expansion of retail operations, the first branches of mBank are set up in the Czech Republic and Slovakia
2010	Successful issue of new shares, in which the Bank raises nearly PLN 2 billion
2011	mBank's mobile transactional platform for iOS and Android is launched
2012	„One Bank" Strategy for 2012-2016 is announced
2013	Rebranding – Group brands are replaced with the strongest name: mBank New mBank transactional platform is launched
2014	Launch of cooperation with Orange Launch of New mBank platform for clients in Czech Republic and Slovakia
2015	Launch of the long-term cooperation with AXA Group Migration of former Multibank and Private Banking to mBank transactional platfrom

1.3. mBank Group's business model in a snapshot

mBank Group is the fourth largest measured by total assets financial institution in Poland, providing retail, corporate and investment banking as well as other financial services, including leasing, factoring, commercial real estate financing, brokerage, wealth management, corporate finance and capital markets advisory as well as distribution of insurance.

Historically, mBank developed its operations from corporate banking, which has always been its strength. Since its establishment in 1986 the Bank has served some of Poland's largest companies involved in foreign trade on export markets. A longstanding experience in corporate banking services set the stage for the Bank's further expansion into the small and medium-sized corporate client segment.

In 2000, mBank started its retail operations by launching a fully Internet-based bank in Poland. It was a pioneering project in the local market, based on the Internet, direct service through call centre, and later on mobile banking and also other new technology-based solutions. In 2001, mBank also launched a high street brick-and-mortar bank, offering a broad range of products and services targeted at affluent customers and micro-businesses seeking an access to high quality, personalised service at branches.

mBank is the only Polish bank with a successful track record of rolling out its domestic business model into foreign markets. In 2007, mBank launched retail operations in the Czech Republic and Slovakia, focusing initially on transactional banking and deposit products and further expanding into mortgage and consumer loans as the bank has been able to establish and develop strong client relationships. The Bank also offers to its Czech and Slovak clients a convenient mobile application.

As a result, the Bank's client base has grown almost entirely organically, reaching 4,947 thousand retail clients and 19,562 corporate customers at the end of 2015.

Over the past few years, mBank has strengthened its client-oriented approach and has been pursuing a stable, focused strategy as a modern and innovative transactional bank providing an integrated range of multiple products and services meeting the needs of its clients. In 2013, mBank launched a reinvented, modern, convenient, easily accessible and user-friendly Internet platform (New mBank) with more than 200 new features, which won global recognition for innovation in banking taking home many international awards. The bank has been also systematically expanding its mobile application to provide the customers with the ability to manage their finances wherever they are.

mBank's widely recognised operational excellence is based on its state-of-the-art user interface for online banking, next-generation mobile applications, video banking and P2P payments via Facebook and text messaging, and real-time, event-driven customer relationship management (CRM) based on client behaviour patterns. The whole product offer is centred around the current account with a broad spectrum of financial services accessible in just "one click", as the aim is to be the most convenient transactional bank on the market.

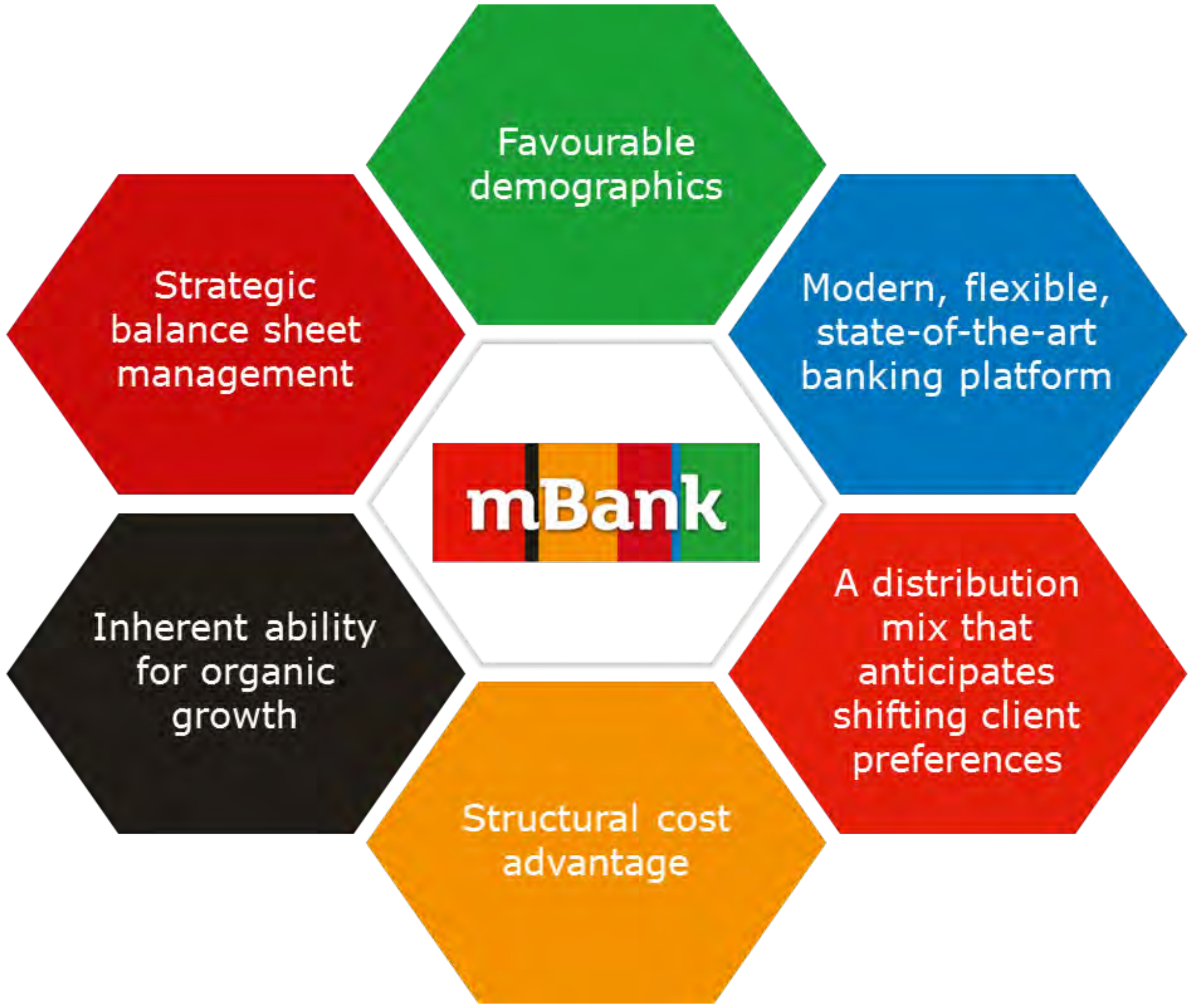
In the corporate and investment banking area, mBank's offer for business clients include a range of fully integrated commercial banking products, services and solutions, with particular emphasis on the advanced transactional banking platform. This comprehensive product offering is complemented by investment banking services, such as ECM, DCM and M&A advisory services.

mBank's distribution concept combines the most technologically advanced solutions adapted for the Polish banking market as well as current and future operating environment. It has been primarily based on Internet and mobile-based tools, tailored separately to the needs of both retail and corporate clients, and a mid-sized physical distribution network, offering premium service quality, located throughout Poland.

With its proven ability in achieving the communicated targets, mBank is well positioned to continue its successful business growth in selected client segments through exploiting attractive market opportunities. The IT platform architecture allows the Bank to develop and introduce new products, services and sales channels rapidly, efficiently and with a low operational risk. Thanks to such a flexible infrastructure, mBank is able to manage its business expansion strategy.

1.4. mBank Group's strategic advantages

Over the past years mBank Group developed a range of competitive strengths, which enable the organisation to take advantage of growth opportunities and successfully achieve its strategic objectives. The key factors are illustrated and described below:



Favourable demographics

mBank's unique value proposition in the retail banking segment, anchored in an attractive and forefront business model, has been developed to target young, aspiring and tech-savvy clients, who quickly adapt innovative solutions. Consequently, mBank's customer base has an advantageous demographic profile as compared to the Polish market.

A half of the Bank's retail clients are under the age of 35 and are expected to reach their highest personal income levels in the coming years, positioning mBank to reap the benefits from additional cross-selling opportunities of banking and insurance products. Maturing of the customer base provides a natural source for revenue growth as well as supports the asset quality of the Group and the responsiveness of its clients to cross-selling initiatives. More on the demographics of mBank Group customers in the chapter 4.4. Demographic profile of mBank Group clients.

Modern, flexible, state-of-the-art banking platform

Anticipating the development and increasing accessibility of the Internet, already since 2001, mBank has applied and promoted a modern and highly convenient retail banking model based on the Internet and other new technologically advanced solutions. As a result, the Bank is uniquely positioned in the market to offer a wide range of innovative products and services, meeting the changing needs of its target clients.

mBank, as a global innovator in banking, has been constantly improving its Internet and mobile transaction systems. In 2013, a re-developed, modern, intuitive, easily accessible and user-friendly Internet platform

mBank S.A. Group
Management Board Report on the Performance of mBank Group in 2015

(New mBank) with more than 200 new features and improvements was launched. Implemented solutions have been delivering higher client acquisition and transactionality. A flexibility of the mBank's platform to expand or roll-out new strategic ventures is an additional advantage (e.g. an offering for the customers of Orange Finanse). At the same time, the Bank has been continuously enhancing its mobile application, providing the customers with even more convenient way to manage their finances wherever they are.

A distribution mix that anticipates shifting client preferences

Given its multi-channel approach, which has been designed to anticipate and follow the changing needs of clients, mBank's current sales mix is already ahead of what is expected to be the pattern of distribution prevailing in the banking sector in the coming years. Internet, mobile, video and call centre channels are rapidly gaining importance as demonstrated by the sales levels of various banking products generated by these channels as compared to traditional branches.

In particular, a half of current accounts and more than 2/3 of saving products are sold through mBank's Internet platform. In addition, a dynamically growing number of banking activities has been performed through mBank's mobile application, of which checking the balance of current account and making transfers are the most popular. Such a sales mix guarantees no need for painful structural adjustments in the near future. Moreover, as the Bank promotes a self-service model in which retail customers operate their accounts predominantly via remote channels, it gains an opportunity to proactively use modern real time marketing and cross-sell more products.

Structural cost advantage

Heavy investments in the Internet and mobile transaction platforms along with maintaining a light and efficient branch infrastructure result in a lower overall cost base and a high degree of operating flexibility for mBank. The Group's competitive advantage stemming from its business model manifests itself in superior efficiency metrics compared to other Polish banks. Based on such ratios as cost to income, cost to average assets or gross loans to number of branches, mBank ranks among the top in all three categories when compared to the major Polish banks. mBank operates through the optimal number of branches, what implies no need to carry out a restructuring of its physical distribution network resulting in the branch closures.

Inherent ability for organic growth

mBank is the largest organically developed retail banking franchise in the CEE region. In contrast to most financial services groups in Poland, mBank has not grown through any significant mergers and acquisitions, proving its strong ability to constantly attract new customers in the three countries. The Group's retail client base in Poland, the Czech Republic and Slovakia has grown solely organically by 322 thousand and 396 thousand in 2014 and 2015, respectively, reaching in total 4,947 thousand retail customers.

Strategic balance sheet management

Due to its continued focus on diversified, long-term and attractively priced funding, mBank Group managed to improve its liquidity profile, as demonstrated by gradually declining loan to deposit ratio, which reached 96.7% at the end of 2015.

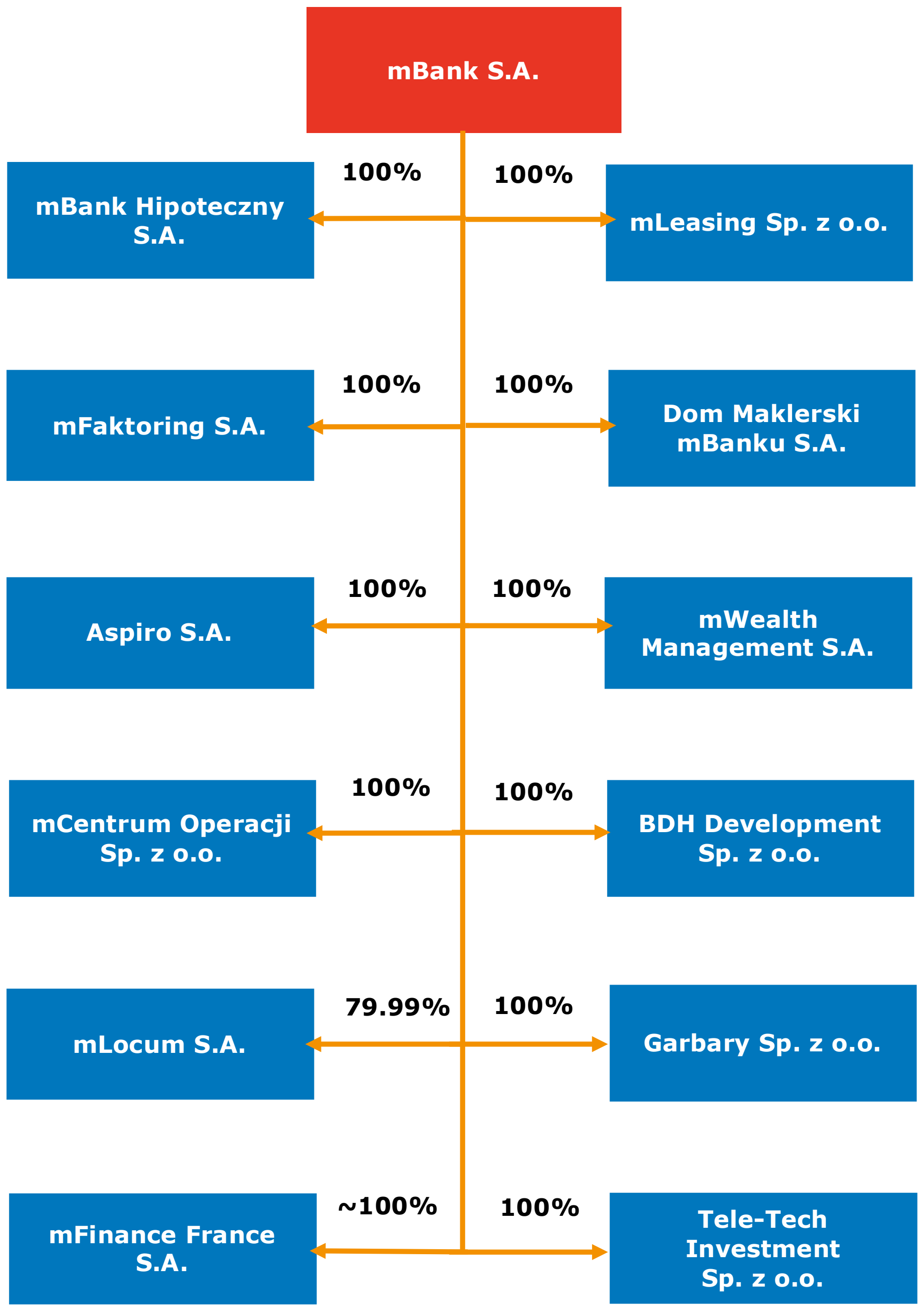
On the asset side, development of balance sheet benefits from the phasing out of the legacy CHF-denominated mortgage loan portfolio and the intended expansion of higher margin lending products, such as retail consumer loans (predominantly cross-selling of non-mortgage loans to existing current account customers), PLN-denominated mortgage loans and SME loans. On the liabilities side, mBank is focused on ensuring a stable and adequate deposit base by leveraging the higher sight deposit volume as a primary banking relationship for majority of its retail clients.

Strengthening of balance sheet funding quality is also supported by issuances of senior unsecured and subordinated bonds in domestic and international markets. Moreover, mBank Hipoteczny maintains a leadership position on the Poland's covered bond market, adding to the Group's long-term financing sources. Issues of these instruments, performed both in EUR and PLN, not only help to cut the funding costs, but also better match the maturity of assets and liabilities as well as their currency structure.

1.5. Composition of mBank Group and main activities areas

mBank Group is composed of: mBank S.A. – a parent company, and 12 subsidiaries, where mBank holds majority of shares. At 2015 mLeasing, mBank Hipoteczny, Dom Maklerski mBanku and mFaktoring were among most important subsidiaries at the Group.

The composition of mBank Group as at the end of 2015 was as follows:



In 2015, the Group aimed for adjusting its business model with regard to the sale of non-life and life insurance products, focusing on a future strategic partnership with AXA Group, the best in class international insurance group. On March 30, 2015, mBank Group finalized the transaction concerning the sale of 100% of shares in BRE Ubezpieczenia TUiR to AXA Group. For more on the transaction with AXA Group, see chapter 2.5. Strategic partnerships.

In Q3 2015, in connection with the cessation of the activity of MLV 45 Sp. z o.o. spółka komandytowa, mBank S.A. has conducted reorganisation within mBank S.A. Group, which involved the transfer of shares held by the company MLV 45 Sp. z o.o. spółka komandytowa in companies mBank Hipoteczny S.A., mLeasing Sp. z o.o., mFaktoring S.A. and mLocum S.A. under the direct control of mBank S.A. On September 10, 2015, shareholders of MLV 45 Sp. z o.o. spółka komandytowa - mBank S.A. and MLV 45 Sp. z o.o. adopted a resolution on MLV 45 Sp. z o.o. spółka komandytowa liquidation, opening a liquidation procedure and appointing a liquidator. The application for the opening of the liquidation procedure was submitted to the District Court for the Capital City of Warsaw, 12th Division of the National Court Register on September 10, 2015 and the company was deleted from the register on December 22, 2015. The afore-mentioned reorganisation steps have had no impact on the continuing full control mBank S.A. exercises over the mentioned subsidiaries. As a result the Group ceased to consolidate MLV 45 Sp. z o.o. Sp.k. in Q3 2015.

In Q3 2015, the company Tele-Tech Investment Sp. z o. o. was consolidated. The company's business includes investing funds in securities, trading in receivables, proprietary trading in securities, managing controlled enterprises, business and management consultancy. The company has no employees.

In view of the above, at the end of 2015 the division of the operations of mBank Group into segments and business areas was the following:

Composition of mBank Group

Segment		Corporates and Financial Markets	
	Retail Banking	Corporate and Investment Banking	Financial Markets
Bank	■ Retail customers and microenterprises ■ Affluent retail customers ■ Private Banking	■ Corporations and non-banking financial institutions (capital groups) (K1) ■ Large Companies (K2) ■ SME (K3)	■ Banks ■ Corporate clients in scope of trading and sales ■ Market and Liquidity Risk Management
Consolidated subsidiaries	■ Dom Maklerski mBanku S.A. (brokerage house) - Retail ■ mLeasing Sp. z o.o. - Retail ■ mBank Hipoteczny S.A. - Retail ■ Aspiro S.A. ■ mWealth Management S.A.	■ Dom Maklerski mBanku S.A. (brokerage house) - Corporate ■ mLeasing Sp. z o.o. – Corporate ■ mBank Hipoteczny S.A. - Corporate ■ mFaktoring S.A. ■ Garbary Sp. z o.o. ■ Tele-Tech Investment Sp. z o. o.	■ mFinance France S.A. (special purpose entity reserved for financing activities of the Bank) ■ mLeasing Sp. z o.o. – within the scope related to fund raising ■ mBank Hipoteczny S.A. – within the scope related to fund raising
	Other subsidiaries	■ mLocum S.A. (a real estate developer) ■ mCentrum Operacji Sp. z o.o. (outsourcing services provider) ■ BDH Development Sp. z o.o. (a real estate management company)	

Under IFRS, all of the above subsidiaries are consolidated by way of acquisition accounting. The business of selected subsidiaries is briefly described in chapter 10.2. Business activity of selected subsidiaries.

Changes in authorities of mBank

Supervisory Board of mBank S.A.

As of December 31, 2015, the Supervisory Board was composed of the following members:

1. Maciej Leśny – Chairman of the Supervisory Board
2. Martin Zielke – Deputy Chairman of the Supervisory Board
3. Martin Blessing – Member of the Supervisory Board
4. Andre Carls – Member of the Supervisory Board
5. Stephan Engels – Member of the Supervisory Board
6. Thorsten Kanzler – Member of the Supervisory Board
7. Teresa Mokrysz – Member of the Supervisory Board
8. Stefan Schmittmann – Member of the Supervisory Board
9. Agnieszka Słomka-Gołębiowska – Member of the Supervisory Board
10. Waldemar Stawski – Member of the Supervisory Board
11. Wiesław Thor – Member of the Supervisory Board
12. Marek Wierzbowski - Member of the Supervisory Board.

On November 24, 2015, Maciej Leśny, Chairman of the Bank's Supervisory Board, received a letter of resignation from Dr. Stefan Schmittmann, Member of the Bank's Supervisory Board and Chairman of the Risk Committee on resigning from the held functions as of December 31, 2015. Pursuant to a Resolution of the Supervisory Board of the Bank dated December 10, 2015, Dr. Marcus Chromik, replacing Stefan Schmittmann who resigned as of January 1, 2016, was appointed Member of the Supervisory Board of the Bank until the end of the term of office of the current Supervisory Board. He was also appointed Chairman of the Risk Committee of the Supervisory Board of mBank.

Management Board of mBank S.A.

As of December 31, 2015, the Management Board was composed of the following members:

1. Cezary Stypułkowski – President of the Management Board, Chief Executive Officer
2. Lidia Jabłonowska-Luba – Deputy President of the Management Board, Chief Risk Officer
3. Przemysław Gdański – Deputy President of the Management Board, Head of Corporate and Investment Banking
4. Jörg Hessenmüller – Deputy President of the Management Board, Chief Financial Officer
5. Hans-Dieter Kemler – Deputy President of the Management Board, Head of Financial Markets
6. Cezary Kocik – Deputy President of the Management Board, Head of Retail Banking
7. Jarosław Mastalerz – Deputy President of the Management Board, Chief Operations Officer.

For more information on profiles of Members of the Supervisory Board and the Management Board of mBank, see chapter 16. Statement of mBank on application of Corporate Governance principles in 2015.

2. 2015 – key highlights of mBank Group

2.1. 2015 in numbers

Revenues
PLN **4,093** million

RoE net
11.8%

Increase in total loans
excl. FX effect & reverse repo
6.3% YoY

Increase in total deposits
12.0% YoY

No. of clients
retail & corporate
5.0 million

No. of employees
6,540 FTE

No. of mobile application users
More than **1** million

Market positioning
#4 in terms of assets

Business lines – key data

RETAIL BANKING

mBank runs its retail operations in Poland, Czech Republic and Slovakia, providing service to individual clients as well as micro-enterprises.

Many innovations are introduced each year in order to satisfy client's needs.

66% of mBank Group profit

Profit before tax:	PLN 1,060.7 million
No. of branches:	278
No. of clients:	4.9 million
Increase in loans excl. FX effect:	6.3%
Increase in deposits:	17.0%

CORPORATE AND INVESTMENT BANKING

The aim of commercial operations of the Bank is supporting the development of companies from SME and corporate sector.

Many years of Bank's experience in providing services to this segment lead to a successful cooperation with the customers.

33% of mBank Group profit

Profit before tax	PLN 537.4 million
No. of branches and offices:	47
No. of clients:	19.6 thousand
Increase in loans excl. FX effect & reverse repo:	11.2%
Increase in deposits excl. reverse repo:	17.0%

FINANCIAL MARKETS

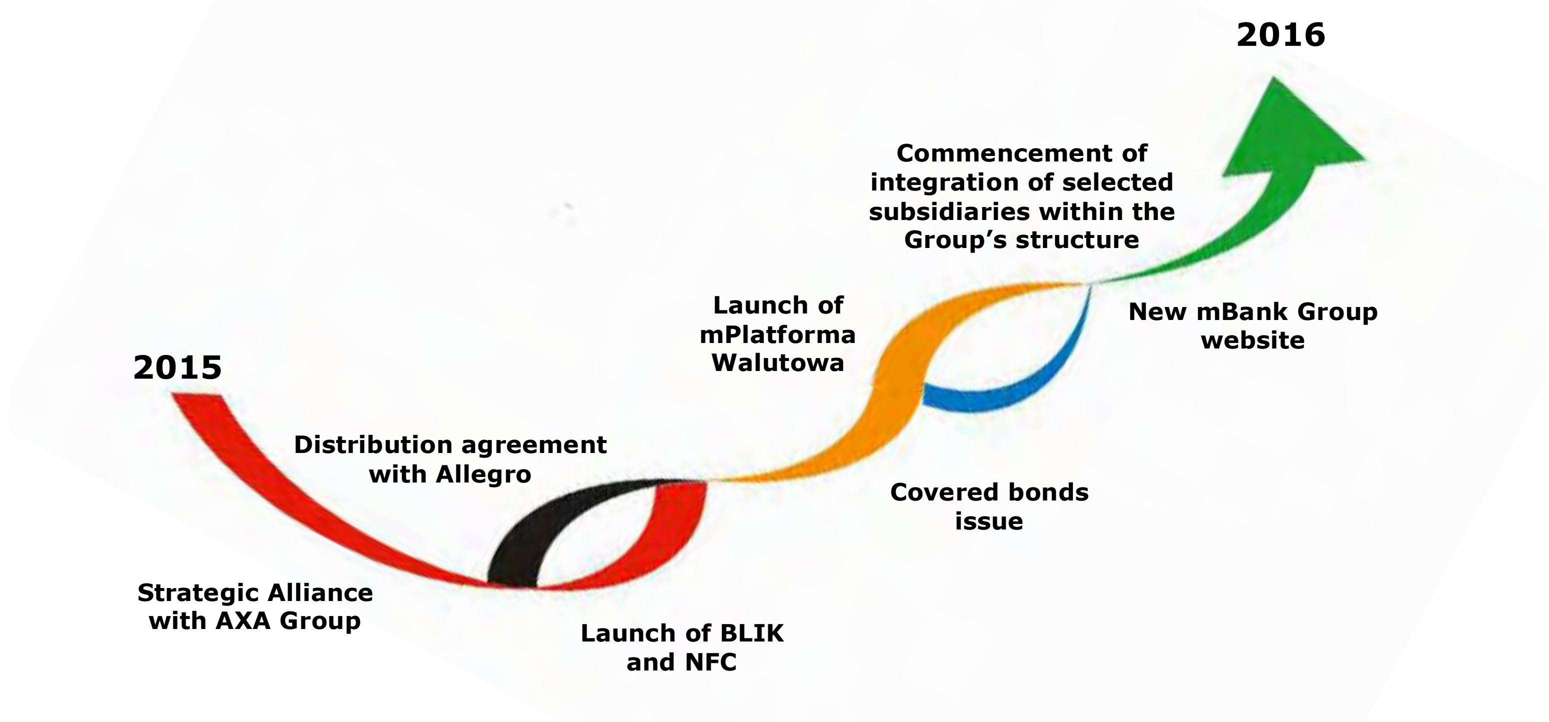
Among the main tasks of this business line there are: direct sale of financial products, management of assets and liabilities of the Bank, interest rate risk management, depositary services and supervising the operations of mBank's Brokerage House (Dom Maklerski mBanku, mDM).

5% of mBank Group profit

Profit before tax:	PLN 80.2 million
Increased profitability of derivative transactions:	33.6%
Increase in no. of active clients:	~50%
Market share of Treasury bills and bonds:	20.5%

2.2. Summary of 2015

Q1	Strategic alliance with AXA Group; Distribution agreement signed with Allegro; Launch of mobile payments services - BLIK and NFC
Q2	Intensified relations with small and medium-sized enterprises; launch of mPlatforma Walutowa (mobile FX Platform)
Q3	Issue of over PLN 800 million covered bonds by mBank Hipoteczny; mBank again among the top banks in Poland, according to the rankings of Forbes and Newsweek
Q4	Commencement of integration of Dom Maklerski mBanku and mWealth Management within the Group's structure; Launch of mBank Group new website



2.3. Key projects of mBank Group in 2015

Migration of Multibank clients to mBank

On October 19, 2015 former Multibank and Private Banking clients gained access to mBank's transactional system, finalising the process of business integration under one, common mBank brand. It was the most complex and complicated operation in the Bank's history, taking into account the number of systems which were undergoing simultaneous changes. Migration included 630 thousand clients and consisted of data transfer between transactional systems. As a result, clients can now use over 200 new functionalities and improvements. At the same time all products and services held by former Multibank and Private Banking clients were transferred to the new mBank service. They also gained access to the mBank's mobile application, while the old system and application have been switched off.

Commencement of integration of Dom Maklerski mBanku and mWealth Management within the Group's structure

In Q4 2015, the management boards of mBank and Dom Maklerski mBanku S.A. and mWealth Management S.A. signed the division plans marking the first stage of the planned integration of the companies within the Group's structure. Brokerage services that so far have been rendered through Dom Maklerski mBanku and mBank will be carried out via single entity, i.e. mBank, with mWealth Management expected to join the process later on.

The division will ultimately result in integration of the brokerage operations of mBank, Dom Maklerski mBanku and mWealth Management in an expanded brokerage bureau of mBank. By bringing the brokerage operations under one roof, mBank Group will be able to offer an optimum portfolio of brokerage services to all its client groups, both individuals and institutions.

As a result, a one-stop shop will be created offering all clients tailor-made brokerage services matching their individual situation and investment objectives. The client base of mBank Group subsidiaries and its dynamic growth will support the increase in the Group's brokerage services potential. Following the integration, mBank brokerage bureau will provide the clients with all the solutions available on the brokerage services market - ranging from simple execution of client instructions to investment advisory and portfolio management. All clients will be able to use cutting-edge transactional platforms offering tailor-made features.

When implemented, the target model of rendering brokerage services will enable mBank Group to better use its resources and potential, giving it an even greater competitive advantage in the brokerage services market.

One Network Project of mBank

Under its Strategy adopted in 2012, mBank has been implementing the One Network Project to consolidate its sales network and further improve both retail and corporate customer service.

In the cities included in the project, the separate retail and corporate branches are being replaced by advisory competence centres located in office buildings and the so-called "light" branches located in shopping malls.

Light branches are to provide quick and effective service in the basic scope (sale and services regarding core products, i.e. bank accounts, payment cards issued on the spot or cash loans, including cash-desk service and accepting instructions). The idea of advisory centres is to offer thorough, often time-consuming service including a full range of products from retail, corporate and private banking area and products of selected mBank subsidiaries (e.g. mLeasing, mFaktoring and Dom Maklerski mBanku).

In 2015, the decision was made to introduce this new sales model in the 10 largest cities in Poland. Changes will be implemented gradually until the end of 2020. Since the beginning of the project, by the end of 2015, 6 advisory centres and 9 "light" mBank outlets were opened, while in Gdynia and Kielce the transformation process was completed.

In addition, mBank's network is supported by around 90 mKiosks operated by Aspiro.

Issue of covered bonds by mBank Hipoteczny

mBank Hipoteczny (mBH) is one of three mortgage banks currently active on the Polish market (next to Pekao Bank Hipoteczny and PKO Bank Hipoteczny) and the leader in covered bond issues with a market share of 75.6% at the end of December 2015.

Similarly to 2014, in 2015 mBank Hipoteczny became an even more active player on the debt securities market. mBH placed seven series of covered bonds during the year. The total nominal value of the covered bonds in issue exceeded PLN 1.5 billion. Consequently, mBH successfully achieved its target for 2015.

In 2015, 7 issues of mortgage bonds were carried out:

Volume	Currency	Date of issue	Maturity	Tenor (in years)	Coupon
200 M	PLN	20.02.2015	28.04.2022	7.2	WIBOR 6M + 78pb
20 M	EUR	25.02.2015	25.02.2022	7.0	Fixed (1.135%)
250 M	PLN	15.04.2015	16.10.2023	8.5	WIBOR 6M + 87pb
11 M	EUR	24.04.2015	24.04.2025	10.0	Fixed (1,285%)
50 M	EUR	24.06.2015	24.06.2020	5.0	EURIBOR 3M + 69pb
500 M	PLN	17.09.2015	10.09.2020	5.0	WIBOR 3M + 110pb
255 M	PLN	02.12.2015	20.09.2021	5.8	WIBOR 3M + 115pb

For more information on covered bond issues by mBank Hipoteczny, see chapter 6.2. mBank Group funding.

Project ALM (Asset and Liability Management)

At the beginning of 2015, the Bank launched the ALM Project. Its aim is to consolidate the systems of interest rate risk, market risk and liquidity risk, the funds transfer pricing system and the Bank's Treasury system into an integrated ALM System. As a result, the Bank will improve the quality and effectiveness of balance sheet and net interest income management processes. Through works on the implementation of the ALM System, the Bank strives to eliminate redundant systems and processes for collecting and processing data, systems, reporting processes and analytical tools which will translate in the improvement of the Bank's cost-efficiency.

In 2015, the Bank completed the phase of development of a tool for thorough collection and processing of data for the needs of the target ALM System. The project has been implemented by interdisciplinary teams from the Risk, Finance, Treasury and IT areas of the Bank.

2.4. Innovations at mBank Group

Mobile application

Mobility-based technologies find application in a wide range of business models, while their capabilities are almost revolutionary compared with the time when mobility was still at a nascent stage. Today, it is difficult for many people to imagine life without a smartphone, which became an indispensable tool we use on a daily basis to make our lives easier.

In the past, in order to pay a bill a client had to visit a bank's branch. After the Internet revolution, such payments could be made without leaving the house. Today, all it takes to make a payment is a few seconds and clicks on a smartphone; clients no longer need to give the 26-digit account number and can make payments anytime and anywhere. This is the reason why freedom, speed, control, convenience and personalisation are what the users of mobile technologies appreciate the most. In line with the forecasts for the development of e-commerce market in Poland, in a few years' time also the purchase of banking products using mobile technologies will surely become one of the core services offered by banks.

According to a report by PR News, at the end of Q3 2015 the number of active users of mobile banking exceeded 5 million. mBank boasts the greatest number of mobile users, which stood at 1,162,000 in Q3 2015.[a] The number of mBank's clients that have already gone mobile is twice the Polish market average.[b]

All mBank's applications were downloaded 1,057,480 times, which represents a 44% increase compared with the previous year.

- The share of client logins in the mobile channel rose by half: in December nearly one in three logins to mBank were from a mobile device.
- In 2015, the number of mobile channel users surged by almost 45% year on year.
- The clients' activity in the mobile channel, as measured by the number of logins per one user, increased nearly by half in twelve months.

Over the last two years, mBank's mobile application, launched in February 2014, won a large group of new users, and based on a survey of actual needs of the clients, was enriched with a number of new functionalities. Following an enthusiastic reception received by new functionalities such as balance check without login, quick cash loan, P2P transfers or mobile mOkazje and PUSH notifications, mBank decided to pursue further development.

The key new elements of mBank's application include:

- New section "Deposits", which makes the deposit offer available via mBank's mobile application more attractive by offering products on special terms in the mobile tariff dedicated solely to those who downloaded the application. Now, the application users can use offers which so far had only been available via the Internet Banking channel, such as Offer for You or 3-day Deposit
- Mobile mTransfer, which allows clients to pay for their purchases on PayU/Allegro platform in only one click in mBank's application
- Currency mPlatform, which allows clients to exchange currencies online in the application
- Multi-person Authorisation of Transactions, which allows for a "double-check" authorisation in the application. This functionality makes it possible to authorise transfers set up on another device
- BLIK service, which allows clients to quickly pay for their purchases, make ATM withdrawals and pay online via smartphones. For more information about BLIK functionality, please see the "BLIK Service" section
- Payment of invoices using the QR codes scanning functionality
- NFC payments for Android system available to Orange subscribers
- Additional facilities, such as an option to repeat a transfer or answer to a transfer or quick supply of account number
- Change of authorisation limits on payment cards - the amount or number of limits can be changed monthly or daily
- mLine in a click, which allows clients to connect with mLine consultants directly from the application, without the need to dial the number manually or log in using one's client number and telecode

2015 was also an important year for mBank's website development, which underwent a major overhaul. The new website launched in November was designed in line with the RWD (Responsive Web Design) technology, which provides an optimal viewing and interaction experience across a wide range of devices used to browse it. For more information about mBank's new website, please see "New website" section.

[a] Source: http://prnews.pl/raporty/raport-prnewspl-rynek-bankowosci-mobilnej-iii-kw-2015-6551613.html

[b] According to Finalta Research 2015

Each year mBank is awarded numerous distinctions for the quality of services and products offered and wins contests against competitors from both Poland and abroad.

A small sample of what mBank Group managed to achieve with the support of its clients during its 27-year presence on the Polish market is presented below:

- February 2015 - prestigious Mobile Trends Awards were handed out for the fourth time to the best companies and institutions from the mobile technologies sector. The award committee named the winners in as many as seventeen categories, while three special prizes went to the authors of applications selected by Internet users. mBank won in the following categories: mobile banking and Mobile Trends Awards special prize.
- July 2015 - every year Forrester Research compiles a ranking of mobile applications designed by European banks (European Mobile Banking Functionality Benchmark). The 2015 edition covered thirteen banks. mBank's mobile application ranked third, which should be perceived as a considerable distinction, taking into account the scale of the undertaking.
- September 2015 - at this year's Great Gala of the Banking Industry organised by *Newsweek* and *Forbes* magazines, banks competed neck and neck and the rivalry was exceptionally fierce. mBank won as many as four awards and came second in the Mobile Banking category, just a few points shy of the leader.

For more information on awards granted to mBank Group, see chapter 2.6. Awards and distinctions.

New website

Since November 29, 2015, mBank's clients have been using a new website. Not only the website appearance has changed, but also its layout, graphics and functionalities. The website is based on the *Responsive Web Design* technology enabling it to adapt the website layout to the screen of a device displaying the content. The technology makes it easier to surf the internet using such devices as smartphones or tablets, reducing to the minimum the need to resize invisible fragments of text and scroll or pan the displayed image to see the entire website.

Clients expect to be able to access quickly interesting content on a given website, regardless of the device they use to open it. Bearing this in mind, a number of improvements have been introduced, such as a new layout and a fast browser, which suggests a further part of a phrase entered by the user. The information is displayed in an organised manner, starting from the most up-to-date content. Additionally, once the user enters a phrase, for example "cash loan", not only are the offer details displayed but also a link to apply for a cash loan at once.

Changes in the website are noticeable as well when the user starts browsing for outlets, ATMs and deposit machines. It is possible to filter an outlet to check not only its address, but also the scope of services.

A new economic website was also launched. All the necessary data was collected in one place and presented in a clear form of graphs. Investors may save data on funds they find interesting in the "favourites" tab, keeping the information within reach whenever he wishes to review it again.

The website designers also kept in mind the needs of blind users or those with poor eyesight. New websites were adjusted to the needs of this group of clients and designed in line with the *Web Content Accessibility Guidelines.*

Last but not least, one of the most important elements implemented as part of the project is a new common login site for clients from all segments. Retail clients, corporate clients, Private Banking clients and SMEs may switch between their dedicated transactional systems from the level of one site, which is particularly important after the merger of mBank and Multibank.

mBank StartUP Challenge "Cooperate with the bank and visit Tel Aviv!"

In November 2015, young entrepreneurs were given an opportunity to participate in mBank StartUP Challenge competition organised in cooperation with Business Link Polska. The winners were invited to an acceleration programme in Tel Aviv and were given the possibility of entering into business cooperation with mBank.

mBank's mission in the scope of servicing small and medium-sized enterprises (SME) goes far beyond the area of product service. mBank's aim is to create an "entrepreneur's ecosystem", i.e. an environment where a start-up will not only easily use products it needs but also receive support in the process of managing a business - starting from support in its establishment to advisory services regarding its further development.

To accomplish this mission mBank StartUP Challenge - the acceleration programme - has been organised, which is a unique opportunity to develop a business and find international investors. For a business beginner, such a trip is a great opportunity which may be more helpful than money. Moreover, for the Bank it is an occasion to start cooperating with small entities developing products on the verge of innovation.

In order to take part in the competition, candidates were to present how their products may prove helpful in cooperation with the Bank. The proposed activities should help to increase the number of users of the mobile application, encourage mBank's clients to save or invest or enable the Bank to carry out more effective credit risk assessment. The main criterion for the assessment of concepts presented by the participants was the innovativeness of a proposed solution and the possibilities of its application in business.

Additionally, the competition participants were asked to develop the grounds for a business model and use it to present their ideas for cooperation with mBank.

Out of hundreds of applications, the competition organisers - the University Entrepreneurship Incubators Foundation and mBank - selected the best 5 proposals which were presented on December 15, 2015, during the competition gala, taking place at mBank's headquarters in Warsaw.

The competition finalists were the following companies: KoalaMetrics - an entity analysing data in the area of mobile applications, FriendlyScore – an entity using social media data in credit scoring, zapobraniem.pl - a designer of innovative payment solutions in e-commerce area, iWisher - a designer of a platform combining e-commerce with clients' savings goals, and Oort - an entity operating in the area of Internet of Things and SmartHome solutions.

During the gala, each finalist had three minutes for a pitch talk to briefly present its concept.

The winner - KoalaMetrics was awarded with participation in the acceleration programme in Tel Aviv which offers but is not limited to workshops and coaching and mentoring sessions with the aim to develop and refine its business model, as well as meetings with potential investors.

NFC service in Orange Finanse

The rapidly increasing importance of mobile payments is in line with one of the most substantial trends nowadays - smartphones taking over new areas of our life. It seems that within the coming months, contactless mobile payments will become a common payment method in Poland. Today, over 60% of Polish consumers are interested in paying at shops using their smartphones, and two thirds expect that in 5 years we will pay by phone at least once a week, according to the Mobile Money 2020 survey carried out by Visa Europe.

Contactless payments with the use of a smartphone are becoming a part of our reality, thanks to an increasing popularity of NFC technology, which makes it possible to use a smartphone as a digital wallet.

Following this trend, in February 2015, Orange Finanse expanded its offer with NFC contactless payments dedicated to Android systems. The process is fully integrated with Orange Finanse mobile application. All the steps such as applying for an NFC card, its activation, card payments or cancellation are carried out from the level of the mobile application; there is no need to install more applications on a smartphone.

From the client's perspective, handling NFC cards is extremely easy; all that he needs to do is instal Orange Finanse mobile application, apply for the card in the application and activate the card through the assignment of PIN. Then, he may pay with the card at shops and other service outlets.

It takes less than 10 minutes to instal an NFC card in the mobile application. The simplicity of installation is crucial - the client is only 7 clicks and 2 screens away from getting the card.

For more information on cooperation with Orange, see chapter 2.5. Strategic partnerships.

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BLIK Service

In February, mBank activated in its mobile application the functionality for paying at traditional and online shops and withdrawing cash from ATMs by means of BLIK service. Thanks to this functionality, it is possible to make a payment just using a smartphone with the Bank's mobile application. BLIK service was activated at the same time by 6 member banks - shareholders of Polski Standard Płatności which operates the BLIK system. The innovativeness of mBank's solution was awarded at the annual Polish Card Gala in the Best Cashless Product of 2015 category. For more information on awards granted to mBank Group, see chapter 2.6. Distinctions and awards.

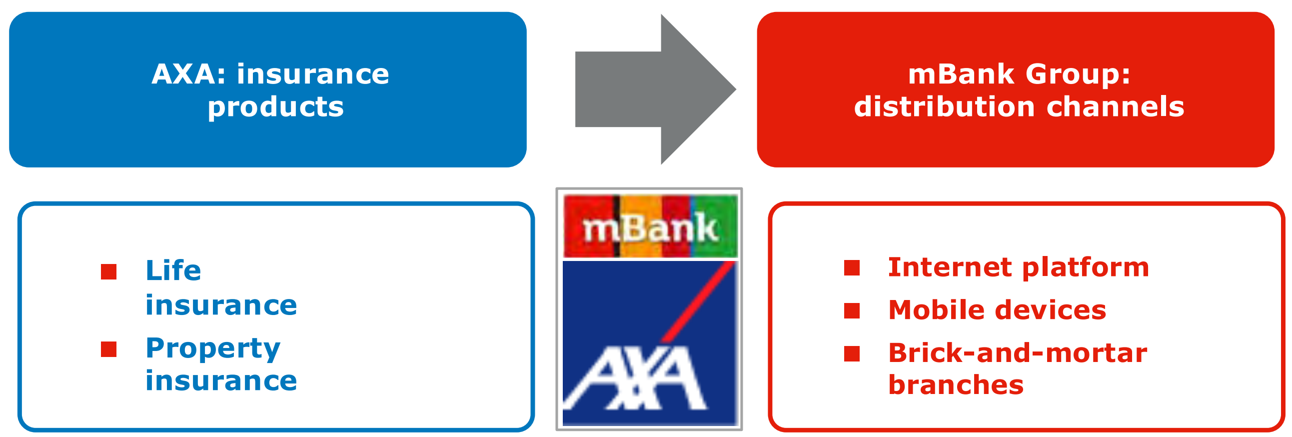
2.5. Strategic partnerships

Strategic cooperation with AXA Group

In March 2015, the sale of BRE Ubezpieczenia Towarzystwo Ubezpieczeń i Reasekuracji (BRE Ubezpieczenia TUiR) was completed. On March 30, mBank Group and AXA Group signed agreements accompanying the sale and distribution agreements, governing long-term cooperation between mBank Group and AXA Group on the distribution of insurance products.

The total consideration of mBank Group from the sale of shares in its insurance subsidiary and from the distribution agreements signed with AXA Group members amounted to PLN 579.5 million, while the one-off impact of the transaction on the pre-tax income of mBank Group recognised in Q1 2015 amounted to PLN 194.3 million.

As part of the transaction there were signed several agreements to govern the long-term cooperation between the Bank and AXA Group companies concerning distribution of life and non-life insurance products. The term of the distribution agreements will be no less than 10 years.



The cooperation with AXA Group is being reflected in the expansion of the product mix and improvement in the quality of services for mBank Group's clients, who have access to the most innovative insurance products offered via both electronic and mobile platforms, as well as traditional branches. For the Bank, the strategic alliance with AXA is yet another step towards the full utilization of the potential of the mBank's Internet and mobile platforms. In July mBank and AXA Group launched their first joint advertising campaign, which aims at presenting how the cooperation of two experienced business partners translates into convenience and security of clients buying insurance policies.

Strategic partnership with Orange

The joint-venture of mBank and Orange, Poland's leading landline telephone, mobile, Internet and data transfer provider, called Orange Finanse, was launched on October 2, 2014.

Thanks to its innovative offer, after only a year upon its launch, Orange Finanse became mBank's key acquisition channel. By the end of 2015, more than 250,000 accounts were opened with Orange Finanse, including almost 210,000 in 2015 alone.

H1 2015 was marked by new implementations and changes in the offer of Orange Finanse, whose clients are currently offered personal accounts, loans (Express Cash Loan, Renewable Loan), debit cards, credit cards, NFC payments by mobile phones, savings accounts, 3, 6 and 12-month deposits, discount programmes covering approx. 3 thousand partner outlets (stores, service providers, hotels, restaurants) and additional benefits available to the clients of Orange mobile network. For more information on NFC payments method, see chapter 2.4. Innovations at mBank Group.

H2 2015 was a period of mobile finance development with a number of improvements being introduced, such as adding Windows Phone to the list of operating systems compatible with the mobile application of Orange Finanse or enabling the payment of invoices using QR codes, which takes only seconds to complete and requires no transfer data to be entered manually, and starting the sale of cash loans in Orange stores. It was also a period when a new joint offer for Orange clients was presented, promoting active users of Orange Finanse, who can have their monthly phone bills reduced by PLN 25.

In 2015, specific initiatives were launched and enhanced products were offered to micro-enterprises as part of the offer of Orange Finanse, such as Account for Companies with an option to receive a limit of up to PLN 10 thousand, debit cards, savings account and Auxiliary Accounts.

Banking products and services

- ✓ Banking licence
- ✓ Advanced mobile and Internet platforms
- ✓ Know-how and banking expertise

Marketing and sales

- ✓ Established brand
- ✓ Large and attractive client base
- ✓ Wide distribution network

innovative products | Orange Finanse – produkty bankowe dostarcza mBank | **one simple offer**

In October 2015, Orange Finanse brand was ranked among the top global players participating in the contest for the best banking projects organised by Efma and came second in the Best New Product and Service category. Efma is an organisation associating more than 3.3 thousand financial institutions from over 130 countries, including 80% of Europe's largest retail financial institutions. The purpose of the competition is to award the most interesting and innovative projects of financial institutions worldwide, addressed to retail clients. In 2015, 211 financial institutions from 59 countries entered the competition with 500 innovations. For more information on awards won by mBank Group, see chapter 2.6. Awards and distinctions.

mBank's cooperation with Allegro

In Q1 2015, mBank signed a long-term agreement on strategic cooperation with Poland's on-line auction market leader, Allegro. The cooperation will consist in offering banking products to Allegro users. Since the beginning of cooperation the volume of sales via Allegro amounted to PLN 60.2 million, while the number of clients stood at 29.2 thousand as at December 2015.

mBank products, primarily current accounts or cash loans, are offered to individuals across different parts of the service in the form of banners with contextual ads, mailings and newsletters allowing for an enhance of the cross-sell of loans.

The cooperation with Allegro, the largest on-line auction service in Poland, will provide mBank with access to an additional group of clients - 13 million users concluding about 160 million transactions per year.

2.6. Awards and Distinctions

Following table presents selected awards received by mBank Group in 2015:

Product offer and quality of customer service	
Global Finance – Best Digital Bank Award 2015	**The Global Finance magazine named mBank the best bank in Poland** and ranked it among **"World's Best Corporate/Institutional Digital Banks".** mPlatforma Walutowa (FX mPlatform) was named the best transaction platform for currency exchange dedicated to corporate banking clients in the CEE region (Best Online Treasury Services in CEE).
Efma	In an international contest organised by **Efma** (organization formed by bankers and insurers, which specialises in financial marketing and distribution) **and Accenture** for the most innovative banking projects, mBank was once again among the best banks in the world with: - marketing banking platform (a tool enabling management of multichannel direct marketing campaigns leading to their better personalization and automation and integrating all the data about the clients) **the best in the "Digital Marketing" category** - 3rd place in **„Global Innovator"** category Additionally, **Orange Finanse** climbed the podium having won second place in the category "Best new product or service"
	**In the 6th edition of the Golden Banker** ranking organised by Bankier.pl, a financial portal, and PayU, leader of Internet payments in Poland, mBank triumphed for the fifth time, winning awards for the best mobile banking, the best personal account and account for entrepreneurs and winning therefore a major award - **the Golden Bank statuette.**
Jakość Obsługi 2015	mBank was once again among the winners and received the **Service Quality Star award** in the "Banks" category in the **Service Quality programme**. Brands with the highest Customer Satisfaction Index (CSI) that stand out against their competitors were selected on the basis of assessments and opinions of consumers published on the website: jakoscobslugi.pl.

In the **4th edition of the "Quality you can bank on"** ranking organised by TNS Polska in cooperation with **Dziennik Gazeta Prawna** daily mBank **came second in terms of the quality of services offered in its branches**. As part of this year's edition, the auditors of **TNS Polska** visited branches of 19 banks offering personal accounts**.**

Experts of the consultancy and research institution **Celent Research**, appreciated mBank's insurance sales model. For the second consecutive time mBank was among the winners of the international **Model Bank Awards competition. mBank won in the "Innovation and Emerging Technologies" category**.

At this year's **Banking Gala** organised by **Newsweek** and **Forbes** magazines, mBank was recognized with the largest number of awards among all financial institutions listed in the ranking. In the 14th edition of the **"Newsweek's Friendly Bank" contest** mBank was ranked:
- second in the "On-line Banks" category
- second in the "Mobile Banking" category
- third in the "Bank for Kowalski" category - in which the quality of service is assessed along with the engagement of advisors in acquiring and retaining clients.

For the seventh time Private Banking of mBank was ranked the best in Poland by Euromoney Magazine, a British financial magazine. Every year, Euromoney Magazine conducts a survey among financial institutions offering specialist banking services to affluent clients. In Poland, **mWealth Management** has been the winner of this ranking every year since 2007.

Marketing activities and mBank's loyalty programme

The design of the mBank Internet marketing platform was recognised as the most innovative technology supporting business development. **It won the Financial Cool Business Award competition,** which is part of an industrial event **Gartner Symposium ITxpo 2015** in Barcelona. The mobile banking application was also ranked high and made it to the finals in its category.

mBank's loyalty programme **mOkazje won in the category "The best loyalty activities in services"** in the first edition of the Loyalty Awards, a contest of the best loyalty programmes in Poland in 2014.

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Brokerage activities

mBank's team of brokerage analysts (mDM) was unrivalled in 2015 in forecasting the key macroeconomic and market indicators among participants of the forecasting contest organised by **Parkiet** daily. Based on the opinions of investors who evaluate the research departments of brokerage houses, **mDM was ranked first.**

Dom Maklerski mBanku won the title of the best broker/investment bank in Central and Eastern Europe in the first edition of **the Annual CEE Capital Markets Awards**. Moreover, mBank came second in a ranking of "Parkiet" compiled based on readers' votes on 16 largest investments companies maintaining at least 10 thousand investment accounts.

Other awards

mBank won the prestigious „**The Best of the Best"** award for the best 2014 annual report, in „**The Best Annual Report"** contest for listed companies organised by the Tax and Accounting Institute.

mBank triumphed in the innovation category of the first edition of **the Banking Stars competition organised by Dziennik Gazeta Prawna and PwC**. mBank entered three projects in the competition: mobile banking, "light" branches located in shopping malls and cash loan available on line with credit decision in 30 seconds.

For the second time in a row **mBank won the title of the most innovative bank in the Leaders of Banking & Insurance World competition**. The jury appreciated the changes introduced in the area of mobile banking and the new, redesigned application offering solutions such as the 30-second loan, i.e. the fastest loan on the market, or mOkazje discount programme with the possibility of geolocation of available offers, made banking simpler and more attuned to the clients' lifestyles.

mBank Hipoteczny and **mBank** climbed the podium having won **second and third place** respectively in the ranking of banks financing real estate developers organised by the **Polish Union of Developers**.

3. mBank Group Strategy and plans for the coming years

3.1. Implementation of mBank Group Strategy for 2012-2016

The underlying principles of the Bank's "One Bank" strategy, which was adopted in July 2012, are to improve the long-term profits and income generating capacity of the Group supported by a sound balance sheet and by providing clients with a high level of technological support.

The Bank has undertaken a number of initiatives in line with this strategy, including the following:

- The Bank has improved its balance sheet structure. In particular, it has reduced its loan to deposit ratio and diversified its funding, including through its EMTN programme and through the launch of a programme to finance retail mortgage loans by the issue of covered bonds.
- The Bank has provided all its customers in Poland, the Czech Republic and Slovakia with state-of-the-art, award-winning, innovative Internet banking platform. The Bank also offers its clients a best in class mobile application, and has positioned itself as the leader of mobile banking in Poland in terms of number of active users, and the "Mobility icon" in the context of the marketing communication. For more information on banking platform and mobile application, see chapter 2.2. Innovations at mBank.
- The Bank has completed the migration of former Multibank clients to mBank transactional platform. As a result, the Bank is able to get a better insight into its clients requirements and to offer improved products. The Bank also believes that by unifying its retail client platform, the Bank will be able to increase efficiency and provide more dedicated marketing communications.
- The Bank has enhanced its position in transactional banking. The number and value of card transactions for retail clients increased dynamically between 2012 and 2015, and mBank's market share currently totals 12%. The Bank has also maintained a strong position in corporate transactional banking.
- The Bank has implemented a new organisational structure for Corporate and Investment Banking which is integrated with K2 client requirements (K2 segment covers corporates with an annual turnover from PLN 30 million to PLN 500 million and medium enterprises of the public sector). This is an important aspect of mBank's long-term focus on deepening relationships with corporate clients, in particular K2 clients, by offering a full range of corporate finance solutions within an integrated institution. The Bank has also strengthened its position in arranging debt and equity issues, as well as on the M&A market.
- In the area of the retail banking, the Bank has enhanced the development of its relationship with small and medium-sized enterprises (SME) by an integration of competences related to SME services, including sales management and business development using mBank's strengths, i.e. Internet banking, mobility, fast banking processes. In addition, the Bank is focusing on acquiring clients within the K3 client segment. The K3 client segment covers small and medium sized enterprises with an annual turnover up to PLN 30 million.
- The Bank has increased revenues generated by mBank's foreign branches in the Czech Republic and Slovakia through the dynamic development of the clients' base and focusing on the sale of high-margin products.
- The Bank has standardised its brand policy by offering services to all of mBank's Group clients under the mBank's brand.
- The Bank continues to reorganise its network of retail and corporate outlets by focusing on technology and clients' expectations arising from technological trends and developments. In particular, the Bank is seeking to standardise its sales network, integrate its products and services and enhance its retail and corporate customer service. In the largest Polish cities, the separate retail and corporate branches are being replaced by advisory competence centres (in office buildings) and the so-called "light" branches located in shopping malls. For more information on network of retail branches, see chapter 2.1. Key projects of mBank in 2015.
- Commenced the re-design of the Group's approach to the cooperation with the most affluent clients - the process of integration of services for the clients of private banking, wealth management, and brokerage services (Dom Maklerski mBanku) under the umbrella of mBank is underway.

From the point of view of financial goals, the Bank implemented the vast majority of its strategic assumptions. Confronted with the deteriorating banking environment exercising pressure on net income, as well as entailing higher fees and commissions in respect of costs, the C/I ratio increased from 44.9% in 2014 to 50.2% in 2015. Excluding one-off costs, such as payment of guaranteed funds to the deposit holders of SK Bank in Wołomin and payment related to contribution to the Borrowers Support Fundand, together with the gain from the sale of BRE Ubezpieczenia TUiR and PZU shares, the cost to income ratio as at the end of 2015 stood at 49.3%.

The table below presents financial objectives set under Strategy for 2012-2016:

Strategy for 2012-2016		
Financial objectives	**Target values**	**As at the end of 2015**
Loan-to-deposit ratio	approx. 115% by 2016	96.7%
Net Stable Funding Ratio (NFSR)	min. 110%	109%
Core Tier 1 ratio	approx. 11%	14.3%*
Cost-to-income (C/I) ratio	max. 48%	50.2%
Gross ROE	min. 15%	14.7%
Net ROA	min. 1.4%	1.0%

** Common equity Tier 1 Capital ratio calculated in line with Basel III rules.*

3.2. Strategy for 2016 - 2020

mBank is working on a Group's strategy for the years 2016 – 2020. The new strategy will address the most challenging factors faced by mBank. mBank's actions, as specified in the new strategy, will focus mainly on clients. The success on the banking market in the coming years will depend on the "client-centricity" skill - on the ability to identify and foresee client's needs, and the introduction of simple and user-friendly solutions. In the context of changing behavioural patterns of clients and their expectations and preferences concerning cooperation with the Bank, mBank aspires to understand clients better, skilfully identify and precisely address their needs. The adoption of the new strategy is scheduled for H1 2016.

4. Macroeconomic environment

4.1. Economy and the banking sector in 2015

Economy and banking sector in Poland

Key macroeconomic parameters	2015	Banking sector indicators	2015
Real GDP growth rate (forecast)	3.5%	Base interest rate	1.5%
Nominal GDP per capita (EUR)	10,300*	Loan to Deposit ratio	99.1%
GDP per capita in PPS (EU-28=100)	68%*	Non-performing loans ratio	7.4%
Average annual inflation rate	-0.7%	Total Capital Ratio (TCR)	15.6%*
Unemployment rate	7.5%	Return on Assets (ROA)	0.8%
Population	38 M	Return on Equity (ROE)	6.8%

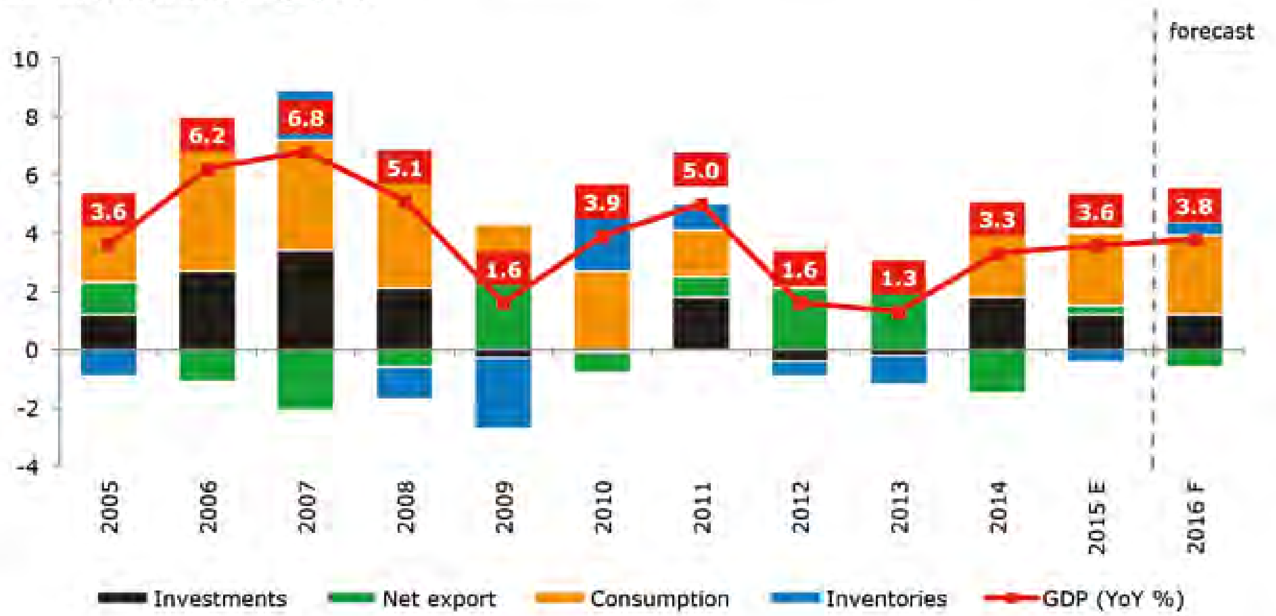
Source: Eurostat, Polish Financial Supervision Authority
** Data as at December 31, 2015, or latest available*

Summary of 2015

2015 was a year of changes. For the first time in 10 years, interest rates in the US were raised. At the same time, 2015 turned out well for the economy; however, in search of positive aspects one should go way beyond bald statistics of the national accounts because the GDP growth (according to estimates) was only slightly higher than the 2014 figure: 3.6% year on year compared with 3.3% in 2014. The change in growth composition and positive developments on the labour market are particularly worth highlighting.

In 2015, the growth was driven by consumption (3.2% compared with 2.6%) rather than investments (6.6% compared with 9.8% in 2014); consumption was based mainly on domestic resources, which reduced growth in import, while growth in export came only slightly below the 2014 figure, which improved the GDP growth statistics owing to a positive contribution to net export growth (2015 was a record-breaking year in terms for the combined trade surplus in goods and services).

Contribution to GDP growth



Higher growth in consumption was a direct consequence of changes on the labour market: higher growth in salaries (in real terms: 4.6% compared with 3.2% in 2014) and continued decrease in unemployment rate, which slid below 10% in 2015, coupled with a major rise in the number of available job vacancies on

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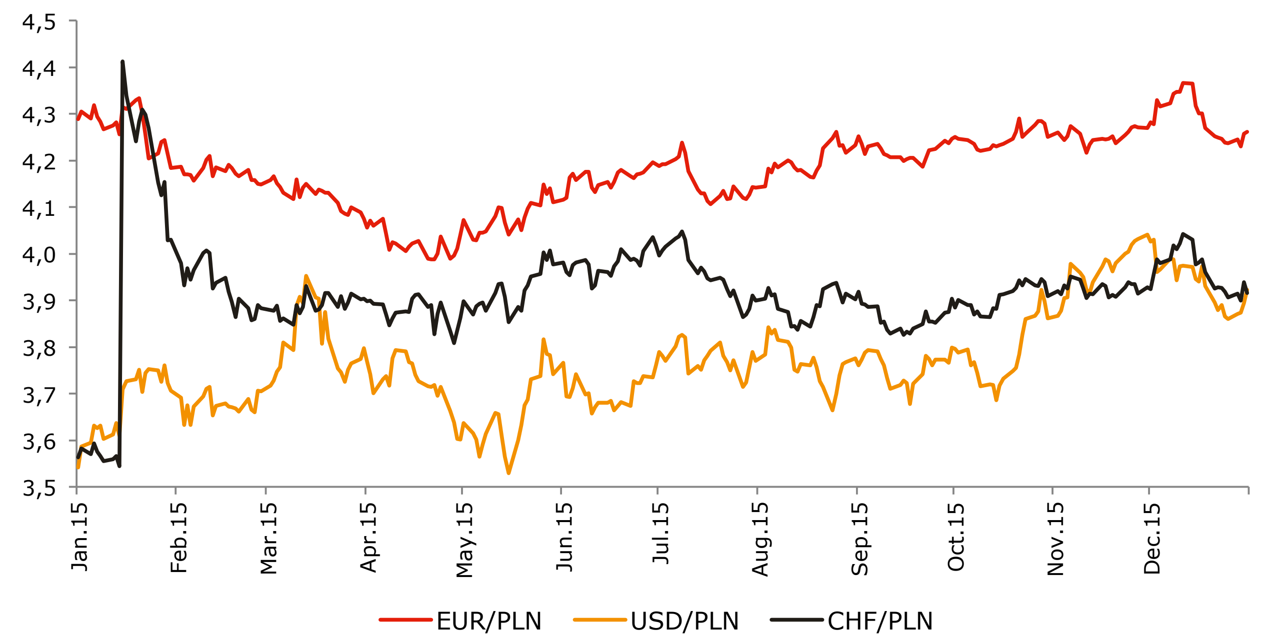


The yields on 10-year T-bonds hit their lowest level on January 29 (1.939) only to lose value by June, reaching 3.40% (maximum reported on June 16). Although a part of the decline was compensated for over the following months (2.94% at the end of 2015), the performance of the debt instruments with long maturities became more variable and prone to global factors and sell-offs (these factors include a rise in the Fed's interest rates, fears surrounding China); Polish bonds displayed greater correlation with emerging market countries, whose economies are structured differently than the Polish economy (Russia, Republic of South Africa, Turkey), which could be a sign that foreign investors place Polish debt in one basket with that of emerging market countries. At the same time, 5-year bonds performed similarly. The difference was particularly visible in the case of 2-year bonds whose yields, supported by the expected easing of the monetary policy, continued their downward trend. Apart from Fed's interest rates hike and the negative surprise from the European Central Bank, the sell-off in December, just like in the case of 5-year bonds, was also caused by the plans (ultimately not realised) to impose tax on T-bonds being a component of banks' assets, which previously were fairly popular among banks as a security for credit portfolios and a liquidity management tool.

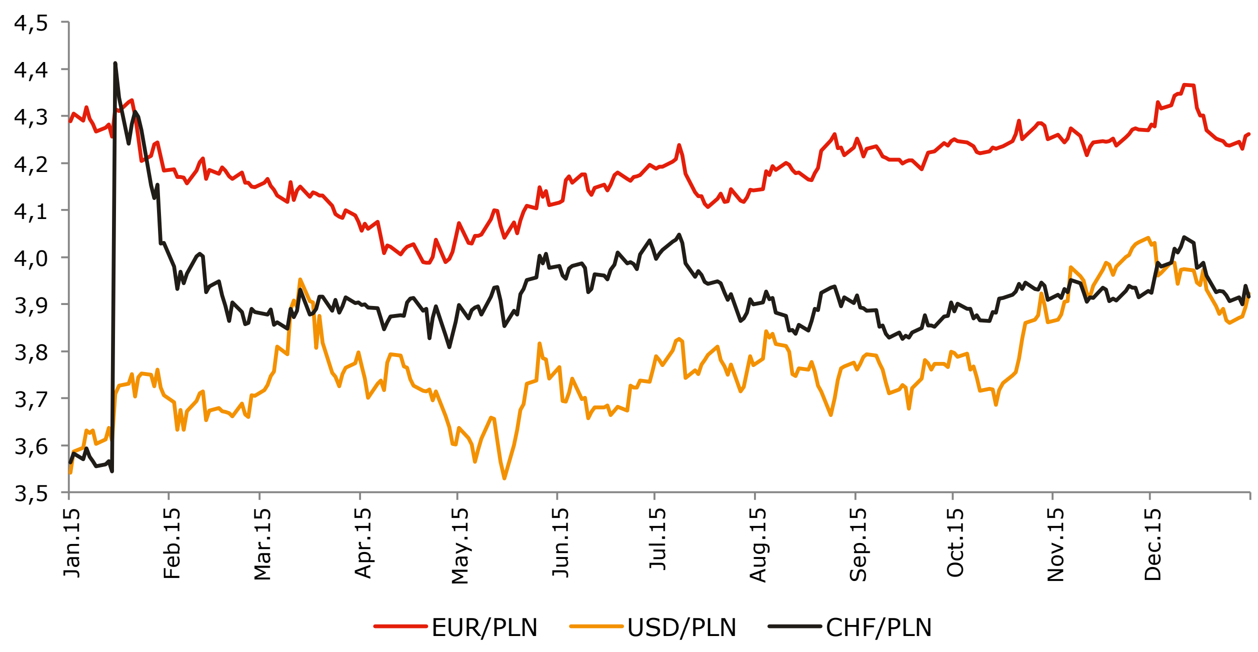
What will 2016 be like for the Polish economy?

In 2016, the GDP growth rate is expected to stabilise around ca. 3.5%. The structure of growth will still be based on consumption and export, while investments will recede into the background; however in the case of investments 2016 is expected to be a transition period.

Poland, being a country with high value added in export (which means that a major part of export is generated in Poland) takes full advantage of the weakening foreign exchange rate. Supported by strong labour market (which is close to becoming an employee's market, continuation of processes started in 2015) and the expected launch of the government's 500+ programme, consumption may grow by nearly 4% annually.

In 2016, public investments will be curbed (in fact, only road construction expenditures will be rising; traditionally, the period between EU perspectives entails railways' problems with using funds, suspension of investment plans in the energy industry and restrictions at the local government level). The beginning of the year will also be unfavourable to private investments due to political uncertainty (as shown by a study of the National Bank of Poland). However, if the economy remains on an upward trajectory, it will help to resume private investment programmes in the face of extensive use of production capacity.

Poland will face the deflation until autumn when a considerable rise in prices is expected (helped by: statistical base effect, slow growth in prices of food and raw materials, pressure on prices of services connected with pay rises, tax on supermarkets). Since RPP takes an opportunistic view on interest rate



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cuts, there is little chance of any reductions at the beginning of the year, which means that a decrease in the exchange rate volatility should rather be expected.

Złoty and Polish bonds

Polish assets have started to show more features typical of emerging markets. Over the next few months it will remain unknown whether we will be facing an escalation of internal risks or rather a normalisation; however, the economic parameters such as current account surplus, GDP growth, low USD debt, and inflow of EU funds suggest that the złoty is presently undervalued. In addition, the złoty should benefit from a more expansive policy of the main central banks. However, the room for appreciation of the zloty is smaller than the fundamental models would suggest. In Q1, the deflationary pressure will continue.

Compared with the previous years, there are fewer arguments in favour of a convergence between Polish long-term interest rates and European rates. The pursued strategy of lowering dependence on foreign investors (which involves greater use of domestic capital, including banks' capital, to finance the budget deficit) is expected to reduce the steepness of the yield curve (up to 5 years) in the coming months. Consequently, in the next few months the yields on Polish bonds may even go down. In the following months, the trend on the base markets may become less favourable for bonds. At this point, we would like to point out the historically strong correlation between bond yields and inflation. The latter will pick up in H2 2016.

Banking sector and monetary aggregates

As a result of increasing interest rates (loan margins had been rising even before the introduction of the banking tax), stricter requirements concerning the LtV ratio and relatively low attractiveness of mortgage loans caused by additional burdens imposed on banks, the growth in mortgage loans will slow down. This will be offset by faster growth in consumer loans (driven, among others, by the positive impact of the government's 500+ programme on creditworthiness) as well as the dynamic growth in corporate loans where the banking tax should initiate limited restructuring and consolidation.

Although a significant decline in interest on deposits may be expected (another effect of the banking tax and the restructuring of balance sheet size), it should not have a major impact on the growth in household deposits. At present, investment alternatives are unattractive, while higher nominal income (driven by both higher salaries and social benefits) translate into more deposits in the banking sector.

4.2. Changes in recommendations of the Polish Financial Supervision Authority (KNF), legal acts concerning banks in Poland

Changes in recommendations of the Polish Financial Supervision Authority (KNF) and legal acts concerning banks in Poland are presented in the table below:

A legal act / Recommendation	Date of entry into force and a summary of new challenges		Influence on the main areas of the Bank YES – the regulation has an impact on a given area NO – the regulation has no impact on a given area, or has a limited impact on a given area	
	2015			
Basel III (CRD IV/CRR regulatory package)	**01.01.2014 ->2019**	Defines requirements concerning, among others, capital base, liquidity, leverage ratio, corporate governance and remuneration policy. Transposition of provisions into Polish legislation has been carried out mainly by Act on macroprudential supervision, amending the Banking Law, but accompanying standards and documents are systematically being issued.	▪ **Capital Base** ▪ **IT & HR resources** ▪ **Financial result (without IT/HR costs)** ▪ **Client & Offer**	YES NO YES YES
Banking Recovery and Resolution Directive (BRRD)	**01.01.2015**	The directive introduces framework for managing recovery and resolution of banks. It imposes the need to prepare respective plans (recovery – by banks, resolution – by resolution authority, in Poland – BFG) and establishes a resolution fund to provide for assistance in managing bank's failure. It also constitutes minimum requirement for own funds and eligible liabilities allowing for effective bail-in of sufficient amount of liabilities and avoiding contagion or a bank run (MREL, binding since beginning of 2016, but delay in implementation on both European and domestic level is observed).	▪ **Capital Base** ▪ **IT & HR resources** ▪ **Financial result (without IT/HR costs)** ▪ **Client & Offer**	YES NO YES NO
Act on Foreign Account Compliance Act (FATCA) agreement	**01.12.2015**	The adopted Act constitutes a legal framework for implementing FATCA provisions, obliging Polish banks to identify, collect, process and transmit information about US citizens and residents' accounts to America's Tax Office. An automatic information exchange will be performed on the basis of reciprocity.	▪ **Capital Base** ▪ **IT & HR resources** ▪ **Financial result (without IT/HR costs)** ▪ **Client & Offer**	NO YES NO YES
Act on macroprudential supervision over the financial system and crisis management	**Q4 2015/01.01.2016**	The Act introduces additional capital buffers described in CRD IV to Polish legal framework. It implements also provisions concerning corporate governance, disclosure framework and crisis management principles, establishing the BFG as a resolution authority in Poland equipped with the resolution tools (BRRD partial implementation). The Act influences dividend policy of the banks by setting maximum distributable amount of dividend depending on the joint buffer requirement fulfilment.	▪ **Capital Base** ▪ **IT & HR resources** ▪ **Financial result (without IT/HR costs)** ▪ **Client & Offer**	YES NO NO NO
Recommendation P	**31.12.2015**	Recommendation P issued by KNF aims at updating the standards of liquidity risk management in line with market practice (and EBA guidelines). It provides for defining the acceptable liquidity risk, liquidity measurement and management, especially versus other types of risk, intraday liquidity measurement, stress-testing and disclosures. Additionally, it contains requirements towards liquidity cost allocation within a fund transfer pricing system.	▪ **Capital Base** ▪ **IT & HR resources** ▪ **Financial result (without IT/HR costs)** ▪ **Client & Offer**	NO YES NO NO
Banking Law and other Acts	**27.11.2015**	An amendment to banking law and other acts concerns mainly liquidation of banking enforcement title, which served debt collection process, and regulating procedure of managing accounts of deceased and their takeover by the heirs.	▪ **Capital Base** ▪ **IT & HR resources** ▪ **Financial result (without IT/HR costs)** ▪ **Client & Offer**	NO NO NO YES
Recommendation on Internet payments security	**December 2015**	KNF Recommendation aims at setting uniform minimum requirements concerning security of payment transactions performed via Internet. Its provisions address i.e. process management, control and risk assessment as well as education of customers with this respect.	▪ **Capital Base** ▪ **IT & HR resources** ▪ **Financial result (without IT/HR costs)** ▪ **Client & Offer**	NO YES NO YES

Act on payment services	**01.02.2015/17.11.2015**	Amendment to the Act introduces the cap on maximum level of interchange fee of 0.2% for debit cards and 0.3% for credit cards, beginning from February 1, 2015. In Q4 2015, change concerning transitional period until December 8, 2018 for the small (max 3% market share), eligible payment services was made in order to promote development of Polish payment services companies.	**Capital Base** **IT & HR resources** **Financial result (without IT/HR costs)** **Client & Offer**	NO YES YES YES
	2016			
European Market Infrastructure Regulation (EMIR)	**2016/prolongation of some provisions/**	Addresses financial markets functioning, in particular risk mitigator. It requires transactions to be cleared centrally through Central Counterparty and sets margining requirements.	**Capital Base** **IT & HR resources** **Financial result (without IT/HR costs)** **Client & Offer**	NO YES NO YES
Act on Bank Guarantee Fund, the deposit guarantee scheme and resolution	**2016**	An amendment to an Act is going to implement the EU Directives: on Deposit Guarantee Scheme (DGS) and the BRRD (in respect to recovery plans, MREL, BRR fund). Main differences compared to these documents concern increased target levels for DGS fund (2.8% instead of 0.8%) and Resolution fund (1.4% instead of 1.0%). Collection period for the target volume of funds is set at 2024. Banks' contributions are going to depend on their market share in the respective calculation and the risk profile of an institution. Under the currently binding regime, the annual contribution rate for 2015 (to be paid in 2016) was set at the level of 0.167% of total risk exposure amount (TREA) (0.189% in 2014) and prudential fee rate at 0.079% of TREA (0.05% in 2014).	**Capital Base** **IT & HR resources** **Financial result (without IT/HR costs)** **Client & Offer**	NO NO YES YES
Act on assistance to borrowers in difficult financial situation	**19.02.2016**	The Act aims at providing financial support to indebted individuals, fulfilling certain requirements who ran into financial difficulties and are not able to repay mortgage on their own. Financial help will be provided from the 'assistance fund', financed by the banks (initial value of PLN 600 million) proportionally to volumes of their portfolios of mortgage loans to households, for which the delay in repayment exceeds 90 days.	**Capital Base** **IT & HR resources** **Financial result (without IT/HR costs)** **Client & Offer**	NO NO YES NO

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Recommendation W	**30.06.2016**	Recommendation W, on model risk management was issued by the KNF in July, 2015. It aims at setting the standards of the model risk management process as well as framework for building models and assessing their quality with the aim to ensure appropriate corporate governance.	**Capital Base** **IT & HR resources** **Financial result (without IT/HR costs)** **Client & Offer**	NO YES NO NO
Recommendation Z	**01.11.2016**	The draft of Recommendation Z on corporate Governance was submitted to public consultation by the KNF on December 23, 2015. It covers the elements of corporate governance resulting from other regulations, such as Banking Law (implementing majority of CRD IV provisions of corporate governance in banks) in a detailed way, also based on the KNF's observations and BION assessment results. The recommendation is expected to become binding from November 1, 2016.	**Capital Base** **IT & HR resources** **Financial result (without IT/HR costs)** **Client & Offer**	NO YES NO NO
Act on tax on financial institutions	**01.02.2016**	The Act imposes monthly tax of 0.0366% (0.44% annually) from selected financial institutions, including banks. Tax will be calculated based on the assets volume subject to several deductions, including own funds and treasury bonds.	**Capital Base** **IT & HR resources** **Financial result (without IT/HR costs)** **Client & Offer**	NO NO YES YES
	2018			
MIFID II & MIFIR	**2018**	The set of ESMA technical standards on transparency requirements for trading venues and investment firms and on the obligation for investment firms to execute transactions in certain shares on a trading venue or a systematic internaliser has been published in 2015. The implementation date is set for January 1, 2018.	**Capital Base** **IT & HR resources** **Financial result (without IT/HR costs)** **Client & Offer**	NO YES NO NO

Impact of the appreciation of the Swiss franc on the position of borrowers, the banking sector, and mBank

The Polish Banks Association's proposal

Several days after the Swiss franc's abrupt surge in mid-January 2015 the Polish Banks Association (ZBP) proposed solutions to help CHF borrowers repay inflated credit instalments.

The package of solutions included:

- Taking into account the negative CHF LIBOR
- Narrowing the currency spread for 6 months
- Extending the repayment period at the client's request
- Not requesting new collateral or loan insurance from the borrowers who repay their instalments on time
- Converting the loans using the fixing rate of the National Bank of Poland (NBP)
- Introducing more flexible rules for restructuring mortgage loans applicable to clients.

In May 2015, the ZBP followed up with new measures. Banks declared financial and organisational involvement in the introduction of additional support for clients who took out housing loans, especially loans in foreign currencies. These measures include:

- Extending the applicability period of the first ZBP package by the end of 2015 with an option to extend the applicability of certain solutions even further
- Setting up internal stabilization funds dedicated solely to CHF borrowers
- Allocating PLN 125 million from banks' own resources to the Mortgage Loans Restructuring Support Fund whose creation by way of an act is requested by the banks declaring financial support
- Making it possible for the borrowers who took out mortgage loans in foreign currencies to meet their own housing needs to transfer mortgage collateral in order to facilitate the sale or exchange of flats.

The subsidies from internal stabilization funds would be granted if the exchange rate of the Swiss franc exceeded a pre-defined threshold. This solution would be available to the borrowers who are ready to undertake to convert their loans at a specified exchange rate and meet the specific income criteria. The support would be addressed to the borrowers whose income at the time of requesting for an amending annex is below the average monthly income in the national economy and whose flat or house is not bigger than 75 or 100 square metres respectively. Another condition is regular repayment. In accordance with the declaration signed by banks, the subsidies would be granted when the CHF exchange rate exceeded PLN 5, yet the amount of the subsidy cannot be higher than PLN 0.33 per 1 CHF. According to ZBP's estimations, in 10 years the amount of subsidies paid by banks from the stabilization funds would reach approx. PLN 3.5 billion. Certain aspects of the ZBP proposals were later incorporated into the Presidential Bill on the Borrowers Support Fund.

The Mortgage Loan Restructuring Support Fund aims at helping mortgage borrowers regardless of the loan currency who found themselves in financial straits due to an adverse event such as unemployment or illness. The support would account for up to 100% of the principal and interest instalment over 12 months, but no more than PLN 1,500 monthly. Except for special cases, the support would be reimbursable. (for more information see table 4.2)

Presidential proposal on restructuring of FX loans

On January 15, 2016 the President's Office published his proposal for FX mortgage loans bill proposing the conversion of Swiss franc denominated mortgage loans held by individuals (other than entrepreneurs using loan's interest as a tax shield) into PLN and ways of compensating borrowers for excessive FX spreads. The proposal includes three mechanisms of loan restructuring. The first two solutions are based on conversion

of FX mortgage loan at "fair" rate of exchange, which is calculated by comparison of FX rate at origination, corrected by the accumulated difference in servicing costs of FX mortgage loan in comparison to a similar PLN denominated mortgage loan. Loan restructuring solutions are as follows:

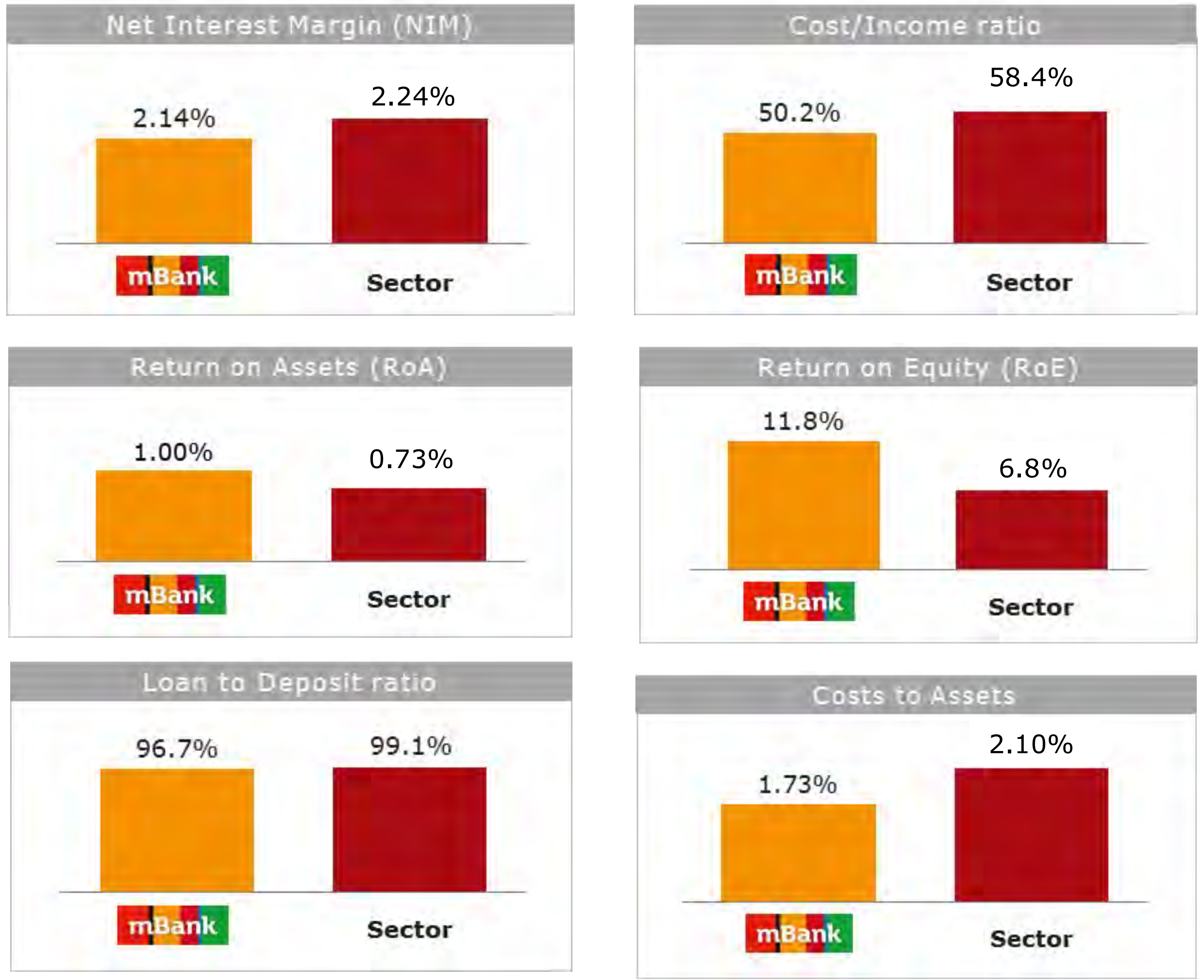
- Voluntary conversion, based on terms agreed between a client and a bank. The loan is converted into PLN and switched to WIBOR.
- Forced conversion of FX mortgage loan at "fair rate". A loan will stay on bank's balance sheet in FX, it will be repaid at fixed fair rate of exchange (calculated individually for each loan by a bank, according to the formula described in the bill) and monthly instalments will be based on LIBOR. "Fair" rate exchange cannot be lower than historical rate at which borrower has drawn the obligation, and higher than current exchange rate. The conversion to PLN will be gradual, until the maturity of the loan, but always at the "fair" FX rate. The intention of the President's Office is to spread the losses of conversion over time, rather than incurring them at once. mBank's Management Board agrees with the views of various professionals working in the Accounting and Audit industry, namely that under the applicable International Financial Reporting Standards rules the impact caused by this solution would have to be recognized up front.
- Transfer of the property to the bank, and release of the debtor from the debt only if "voluntary" or "forced" conversion would not have taken place. The borrower, in order to be eligible to transfer the mortgaged property, must meet the following criteria: the amount of loan must be higher than 130% of the loan amount at origination, and monthly instalment needs to exceed 20% of customer's monthly income. It cannot be applied to individuals:
    a. who over the last 12 months had an average income denominated in the currency of the FX loan in the amount sufficient to pay monthly instalments
    b. whose 12-month average monthly instalment is lower than 20% of 12-month average income.

Moreover, banks will be obliged to return FX spreads charged on the clients in the past and pay interest for delayed payment on FX spreads by deducting the amount from the value of outstanding debt. The bill also allows partial deduction of losses connected to the restructuring from the banking tax up to 20% of the monthly tax amount. The unused part of the deduction is cumulated for the future reduction in the banking tax.

If a proposal concerning Swiss francs loan conversion is adopted, it might require banks to reflect large write-offs in the financial statements. The costs of conversion are being calculated by Polish Financial Supervision Authority (KNF) before presenting the bill in the Parliament.

4.3. mBank Group and the Polish banking sector performance in 2015

mBank's performance relative to the overall banking sector in 2015 was very strong, as presented in the comparisons of key efficiency and profitability ratios in the following graphs:



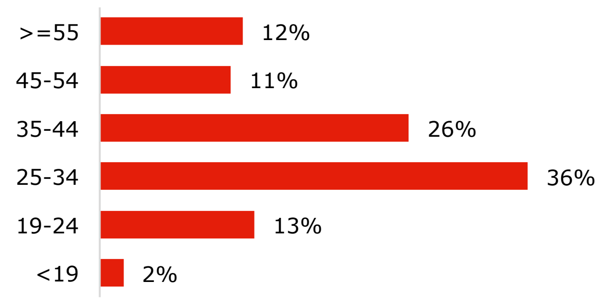
Source: Own calculations, based on statistics published by the Polish Financial Supervision Authority (data as of December 31, 2015)

4.4. Demographic profile of mBank Group clients

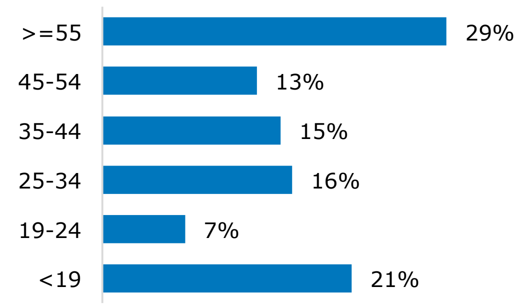
mBank stands out with its favourable demographic profile of clients. As a Bank actively using new technologies, mBank has always had a special appeal for younger people, who have been surrounded by technological innovations from a relatively early age.

The charts below present the demographic structure of mBank's clients and the Polish society in 2014:

mBank: demographic structure



Poland: demographic structure



Source: Central Statistical Office (GUS), data as at December 31, 2014

The majority of mBank's clients represent the working age population aged 25-44 (62%), while in Poland this age group accounts for 31%. The second largest group of mBank's clients are people aged 19-24, who at the same time are the least numerous age group in Poland (7%).

Among mBank's clients there are also children and young people aged below 19, as well as middle-aged people and seniors, i.e. people aged 55+, yet these groups are relatively small (2% and 12% respectively), especially in view of the demographic situation. This is due to the fact that, despite rising popularity of accounts dedicated to young clients, many parents are still reluctant to open accounts for their children.

In turn, clients aged 55+ typically take a conservative approach to finances and technological innovations, which prevents those who do not have an account from opening one or those who already have a relationship with one bank from switching to a different bank, even if another financial institution offers more attractive products and services.

According to demographic forecasts, the Polish society is aging. Therefore, it is particularly important for mBank to enhance interest in its offer among young people and working age population, who in several dozen years, being seniors, will be the largest demographic group in Poland's demographic structure. It is worthy to note that by 2050 people over the age of 60 will be a completely different, new generation of seniors for whom the Internet and modern technologies hold no mystery.

4.5. Housing market

The situation on the property market in Poland in 2015 was driven, similarly to 2014, by a slow but steady economic growth, as well as the relatively low interest rates maintained by the Monetary Policy Council (MPC). Consequently, banks relaxed their credit policies, as mirrored by the mortgage loan offer becoming more attractive.

The Polish mortgage lending market saw no revolution in 2015 despite the regulatory changes introduced a year earlier. Although the Recommendation S of the Polish Financial Supervision Authority (KNF) changed the rules applicable to lending in Poland, no major change on the property market or, consequently, the mortgage lending market, has been observed since the Recommendation was issued.

In 2015, MPC stabilised interest rates at a record low level. The reference rate was set at 1.5%, while WIBOR 3M stood at 1.65% in March 2015 and then remained at a stable level of 1.73-1.74% until the end of the year. As a result, new loans (including mortgage loans) offered very low costs to borrowers; due to low interest rates and a more attractive credit offer, their creditworthiness was stronger.

The introduction of reverse mortgage in December 2014 did not affect the property market in 2015. Reverse mortgage is a loan for persons who have a legal title to a property, secured by a mortgage on the property. However, no bank in Poland has launched reverse mortgage products to date.

Situation on the private property market (in six major Polish cities)

The situation on the private property market was stable throughout 2015. Transaction prices of apartments on the primary and secondary market in the largest Polish cities changed only slightly. In the analysed cities, the transaction price per square meter on the primary market changed by approx. 2.2% year on year, while the prices on the secondary market remained stable.

From January to September 2015 banks signed 132.6 thousand credit agreements worth PLN 28.7 billion in total, compared with about 131.1 thousand loans worth PLN 27.6 billion granted in the same period of 2014. Therefore, new lending in the entire 2015 is likely to be a little higher than in 2014.

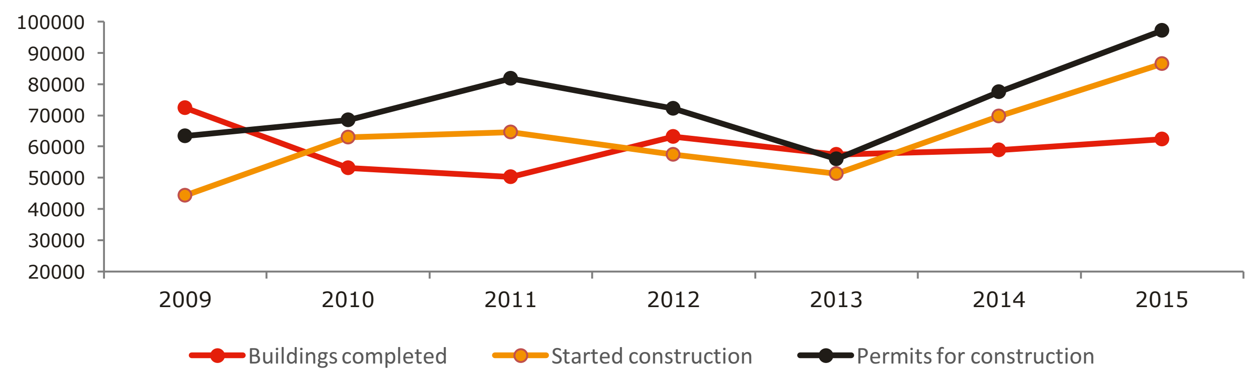
Housing demand was boosted by low interest rates, cash purchases of apartments, improvement on the labour market, rising households' income, higher limits and changes in the government's programme *Mieszkanie dla Młodych* (Apartments for the Young). The biggest change in the programme was the inclusion of transactions on the secondary market. Moreover, the programme became more family-friendly with subsidised own contributions and an option for any person to accede to the credit agreement together with the borrower. Consequently, about 43% of applications were related to second-hand apartments and about 57% with primary market apartments. Additionally, in view of a risk that the funds allotted to the programme in 2016-2018 will turn out insufficient, many people may be encouraged to hasten their decision to buy an apartment.

The housing construction market indices in 2015 reflect heightened activity of investors. According to preliminary data released by the Central Statistical Office (GUS), the number of completed apartments rose by about 3.2% year on year, the number of apartments whose construction has begun grew by about 13.7%, while the number of apartments with building permits issued went up by about 20.5% year on year. Over the 12 months ended in November 2015, developers started the construction of more than 83.7 thousand apartments, thus establishing a new record for the number of agreements (which breaks the previous record set in June 2008 - 82.3 thousand agreements).

2015 was a successful year for real property developers. The total number of transactions on the six analysed markets reached a record level of nearly 13.2 thousand apartments in Q3 2015. Over the last four quarters, almost 48.6 thousand apartments were sold on the primary market, which represents an increase by nearly 13% compared with the record-breaking 2014 when the figure stood at 43 thousand. In Q3 2015, nearly 15.9 thousand apartments were offered for sale (up by about 20% quarter on quarter). Until then, the only quarter that had seen a higher number of apartments put up for sale was Q4 2007, which was the peak of the housing market boom.

The chart below presents situation on the private property market in Poland:

Number of apartments in which construction has begun, completed and with permits for construction*



**No. of apartments available for sale*
Source: Central Statistical Office (GUS), data as at December 31, 2015

In total, over the last four quarters there were about 50.8 thousand apartments offered for sale. Despite strong sales, the number of apartments offered on the primary market rose by about 3 thousand to reach 51.4 thousand at the end of Q3 2015. The biggest rise was reported in Warsaw (approx. 11% quarter on

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quarter), Wrocław (approx. 9% quarter on quarter) and Kraków (approx. 6% quarter on quarter). In Poznań and Łódź the number of apartments on offer remained unchanged, while in Tricity (Trójmiasto) it fell by about 5% quarter on quarter.

High sales materially affected the structure of offer on the primary housing market, especially as far as the sale of ready-for-sale apartments is concerned. At the end of Q3 2015, apartments completed in 2014 and before accounted for merely about 10% of all apartments offered by real property developers, apartments scheduled for completion in 2015 accounted for about 17%, while those scheduled for completion in 2016 and later accounted for 44% and 29% respectively.

In the majority of analysed cities, the time needed to sell all apartments on offer at the current rate of sales was stable and ranged from 4 to 5 quarters. Tricity, where demand clearly outweighs supply and the average selling time is 3.2 quarter, was an exception. Therefore, the above data show that the supply of apartments is at a safe level, assuming that the current rate of sales is maintained.

Over the next few quarters the upward trend in prices may be mildly reinforced. On the other hand, a rise in demand is driven by low interest rates, alternative sources of funding the purchase of apartments, improvement on the labour market, rising households' income, and changes in the programme *Mieszkanie dla Młodych*. The main threat looming over the property market (and causing a shift in price trends) is the uncertainty about the regulatory environment (prospective regulations resulting in higher costs of banks' operation) and the external environment. In the long-term perspective, demographic developments are the fundamental factor affecting housing demand. The decline in population and ageing of the society forecast by the Central Statistical Office (GUS) will contribute to a slowdown in demand for apartments.

Situation on the commercial property market

The volume of investment transactions on the Polish property market exceeded EUR 4 billion in 2015. It was the second best year in the history of the Polish property market (EUR 4.7 billion in 2006). The record-breaking result was helped mainly by two major transactions involving the purchase of shares in Echo Investment SA by Oaktree and PIMCO funds, and the partial takeover of Trigranit special purpose vehicles by TPG Real Estate. The markets saw a decline in capitalisation rates for the best assets. The rates for "prime" properties on the office space market stood at 6.0-6.5%, approximately 6% on the commercial property market, and approximately 7% on the warehouse space market.

The volume of transactions on the commercial properties market increased by about 285% compared with 2014, reaching a record high level of EUR 2.2 billion. Investment transactions accounted for 55% of the total volume, which represents a rise by 37 percentage points year on year. Such a surge in transaction volume was driven predominantly by heightened investors' activity in Q4 2015.

The trend towards changing of the business model, re-commercialising, and upgrading older commercial properties so that they meet present market standards continues. The extension of gastronomic areas is a special trend connected with adjusting older commercial properties to the latest solutions. Such an upgrade results, among others, from changing life styles and growing purchasing power of the society. Moreover, bigger space earmarked for gastronomic services may encourage international brands which so far have not been present on the Polish market to expand into Poland.

In the past months there has been no considerable change in rents for commercial space. Warsaw, where the monthly "prime" rents for the best premises of up to 100 square metres in the most prestigious shopping malls exceed EUR 100 per square metre, still remains the most expensive location.

The vacancy rate in commercial properties located in the largest Polish cities is still relatively low (from 1.5% to 4.5%).

The volume of transactions on the office space market in seven major cities in Poland (with an approx. 32% share in the total value of transactions) fell by about 27% year on year. As before, Warsaw remains the largest office space market in Poland. High supply of new space under construction and pressure on rents contributed to suspending new investments in the capital city and shifting investors' interest to regional cities. Transactions on regional markets accounted for more than half of previous year's volume in the office space sector.

The asking price for space to lease remained stable. Developers are still highly flexible as far as negotiations of lease terms other than rent are concerned, such as participation in refurbishment costs or rent-free periods.

High level of new space under construction (approx. 1.2 million square metres in the main cities of Poland) may trigger a growth in vacancy rate in 2016. In particular, older office buildings (B-class) and ones with less convenient location are threatened by higher vacancy rate.

Investment activity on the warehouse space market in seven major regions in 2015 was slightly below the level reported in the record-breaking 2014 and reached EUR 470 million in volume. Investors are still deeply interested in the warehouse space market, while the fall in volume was caused by the absence of projects for sale matching their expectations.

The activity of developers on the warehouse space market is still high. The share of speculative projects in new projects, currently at 42.3% of supply in construction, is on the rise.

Despite record low vacancy rate (approx. 6%), effective rates in new warehouse projects in the area of Poznań, Warszawa, and Upper Silesia follow a downward trend. In addition, the gap between offered and effective rents is widening. The highest rates are still charged in the urban area of Warsaw and the lowest ones in central Poland and on the outskirts of Warsaw.

In 2016, the volume of transactions is expected to be similar to that reported in 2015. At the same time, a modest rise in the share of the office space sector in the total volume of transactions should be expected, mainly due to big transactions expected in Warsaw and on regional markets.

5. Financial position of mBank Group in 2015

5.1. Profit and loss account of mBank Group

mBank Group reported a profit before tax of PLN 1,617.9 million in 2015, compared with PLN 1,652.7 million in 2014 (-PLN 34.8 million, i.e. -2.1%). The net profit attributable to the shareholders of mBank reached PLN 1,301.2 million, compared with PLN 1,286.7 million in 2014 (+ PLN 14.5 million, i.e. +1.1%).

Summary of financial results of mBank Group

PLN M	2014	2015	Change in PLN M	Change in %
Total income	3,939.2	4,093.3	154.1	3.9%
Net impairment losses on loans and advances	-515.9	-421.2	94.7	-18.4%
Overhead costs and amortization	-1,770.6	-2,054.2	-283.6	16.0%
Profit before income tax	**1,652.7**	**1,617.9**	**-34.8**	**-2.1%**
Net profit attributable to:	**1,286.7**	**1,301.2**	**14.5**	**1.1%**
ROA net	1.1%	1.0%		
ROE gross	16.9%	14.7%		
ROE net	13.1%	11.8%		
Cost / Income ratio	44.9%	50.2%		
Net interest margin	2.3%	2.1%		
Common Equity Tier 1 ratio	12.2%	14.3%		
Total capital ratio	14.7%	17.3%		

The main drivers of the financial results of mBank Group in 2015 included:

- **Increase in total income** which stood at PLN 4,093.3 million. The increase was recorded in net interest income, gains less losses from investment securities, investments in subsidiaries and associates. In 2015, mBank Group reported gains on the sale of BRE Ubezpieczenia TUiR and signing of agreements accompanying the sale with AXA Group companies and on the sale of 4,731,170 PZU shares.
- **Increase in operating expenses** (including amortisation) to PLN 2,054.2 million compared with 2014. In 2015, mBank Group reported one-off costs related to payments of guaranteed funds to the deposit holders of Spółdzielczy Bank Rzemiosła i Rolnictwa in Wołomin and contribution to the Borrowers Support Fund.
- **Decrease in efficiency** as measured by the cost/income ratio which stood at 50.2% at the end of 2015 compared with 44.9% at the end of 2014. Excluding the one-off costs and the gains on the sale of shares of BRE Ubezpieczenia TUiR and PZU the cost/income ratio stood at 49.3% in 2015.
- **Lower costs of risk** at 54 bps, compared with 72 bps in 2014.
- **Continued organic growth and business expansion** as demonstrated by:
    - Increase in the individual client base in Poland, the Czech Republic and Slovakia, and clients of Orange Finance, to 4,947 thousand (+396 thousand clients compared with the end of 2014). Due to the migration of former Multibank and Private Banking clients to mBank transactional platform in Q4 2015 and differences in methods of identifying each customer

before and after the migration, the number of clients dropped thereafter with preserved high-growth dynamics.

- Increase in the number of corporate clients to 19,562 clients (+1,775 clients compared with the end of 2014).

Gross loans and advances increased by 5.2% year on year while customer deposits increased by 12.0%. Consequently, the loan to deposit ratio decreased from 103.0% at the end of 2014 to 96.7%.

The changes in the Group's results translated into the following profitability ratios:

- Gross ROE of 14.7% (16.9% at the end of 2014).
- Net ROE of 11.8% (13.1% at the end of 2014).

mBank Group's capital ratios remained high. Total Capital Ratio stood at 17.3% at the end of December 2015, compared with 14.7% in 2014. Common Equity Tier 1 capital ratio reached 14.3%, compared with 12.2% at the end of 2014.

Income of mBank Group

Total income generated by mBank Group was PLN 4,093.3 million in 2015, compared with PLN 3,939.2 million in 2014, representing an increase by PLN 154.1 million, i.e. 3.9%. The increase was mainly driven by improved net interest income, gains less losses from investment securities and investments in subsidiaries and associates.

PLN M	2014	2015	Change in PLN M	Change in %
Interest income	3,956.3	3,660.5	-295.8	-7.5%
Interest expense	-1,465.6	-1,149.1	316.5	-21.6%
Net interest income	**2,490.7**	**2,511.4**	**20.7**	**0.8%**
Fee and commission income	1,399.6	1,434.0	34.4	2.5%
Fee and commission expense	-497.9	-536.8	-38.9	7.8%
Net fee and commission income	**901.7**	**897.2**	**-4.5**	**-0,5%**
Dividend income	20.0	17.5	-2.5	-12.5%
Net trading income	369.2	292.9	-76.3	-20.7%
Gains less losses from investment securities, investments in subsidiaries and associates	51.9	314.4	262.5	505.8%
The share in profits (losses) of investments in joint ventures	0.0	-0.1	-0.1	-
Other operating income	346.9	245.9	-101.0	-29.1%
Other operating expenses	-241.2	-185.9	55.3	-22.9%
Total income	**3,939.2**	**4,093.3**	**154.1**	**3.9%**

Similar to 2014, net interest income remained mBank Group's largest revenue source in 2015. It stood at PLN 2,511.4 million, compared with PLN 2,490.7 million in 2014 (+0.8%). Stable net interest income resulted mainly from a decrease in interest expense and a drop in interest income triggered by low interest rates maintained by the Monetary Policy Council.

Net interest margin, calculated as a relation between net interest income and average interest-earning assets, stood at 2.1% compared with 2.3% in 2014.

The average interest rate of mBank's deposits and loans is presented in the table below:

Average interest rate at mBank

		Retail Banking (Poland and foreign branches)			Corporate and Investment Banking			mBank total		
		2013	2014	2015	2013	2014	2015	2013	2014	2015
Deposits	PLN	2.5%	1.6%	1.1%	2.4%	1.9%	1.3%	2.5%	1.7%	1.2%
	FX	0.9%	0.5%	0.3%	0.2%	0.2%	0.1%	0.6%	0.4%	0.2%
Total loans	PLN	8.8%	8.1%	6.6%	4.5%	3.9%	3.3%	6.3%	5.8%	5.0%
	FX	2.0%	2.1%	1.4%	2.3%	2.3%	2.4%	2.1%	2.1%	1.6%
Mortgage loans	PLN	4.6%	4.3%	3.6%						
	FX	2.0%	1.9%	1.3%						

Similar to 2014, loans and advances to customers remained the main source of the Group's interest income (70.6%). Due to lower annual average market interest rates in 2015, total interest income decreased year on year and stood at PLN 3,660.5 million. Interest income from investment securities decreased by PLN 85.9 million, i.e. 10.3% in 2015 due to lower average Treasury bond yields in 2015. Interest income from debt securities held for trading increased by PLN 3.2 million, i.e. 6.7%, Interest income on derivatives concluded under the fair value hedge increased by 153.3%, compared with 2014, to PLN 46.6 million due to an increase in the volume of such transactions. Interest income from cash and short-term deposits decreased in 2015 (-PLN 23.4 million, i.e. 31.9%).

PLN M	2014	2015	Change in PLN M	Change in %
Loans and advances including the unwind of the impairment provision discount	2,833.2	2,584.6	-248.6	-8.8%
Investment securities	836.6	750.7	-85.9	-10.3%
Cash and short-term placements	73.3	49.9	-23.4	-31.9%
Trading debt securities	47.9	51.1	3.2	6.7%
Interest income on derivatives classified into banking book	138.1	157.5	19.4	14.0%
Interest income on derivatives concluded under the fair value hedge	18.4	46.6	28.2	153.3%
Interest income on derivatives concluded under the cash flow hedge	1.4	14.1	12.7	907.1%
Other	7.4	6.0	-1.4	-18.9%
Total interest income	**3,956.3**	**3,660.5**	**-295.8**	**-7.5%**

The decrease in interest expenses in 2015 was mainly driven by lower costs of settlements with clients (a decrease by PLN 196.1 million, i.e. 22.0%) due to lower interest rates on deposits resulting from a decrease in average annual market interest rates and the consequent changes in the prices of deposit products. Interest expenses paid to banks decreased by PLN 95.3 million, i.e. 50.0% mainly due to the repayment of some of mBank's loans granted by Commerzbank Group for the total amount of CHF 850 million and lower average market interest rates, in particular lower CHF LIBOR. Interest expenses on issued debt securities increased by PLN 35.7 million, i.e. 15.6% in 2015, mainly driven by diversification of funding sources and increased activity on the covered bond market. Interest expenses on subordinated debt remained almost unchanged compared with the level reported in 2014 (an increase by PLN 1.7 million, i.e. 2.2%).

Net fee and commission income, accounting for 21.9% of mBank Group's total income, dropped slightly year on year. In the discussed period it stood at PLN 897.2 million, which represents a drop by PLN 4.5 million, i.e. 0.5%.

PLN M	2014	2015	Change in PLN M	Change in %
Payment cards-related fees	413.6	342.3	-71.3	-17.2%
Credit-related fees and commissions	254.3	287.3	33.0	13.0%
Commissions for agency service regarding sale of products of external financial entities	116.7	149.7	33.0	28.3%
Commissions for brokerage services and for organising issues	119.5	123.0	3.5	2.9%
Commissions from bank accounts	157.5	165.8	8.3	5.3%
Commissions from money transfers	97.7	102.8	5.1	5.2%
Commissions due to guarantees granted and trade finance commissions	46.6	49.0	2.4	5.2%
Commissions for agency service regarding sale of products of external financial entities	88.3	114.0	25.7	29.1%
Commissions on trust and fiduciary activities	21.1	22.3	1.2	5.7%
Fees from portfolio management services and other management-related fees	13.4	14.9	1.5	11.2%
Fees from cash services	38.6	39.7	1.1	2.8%
Other	32.3	23.1	-9.2	-28.5%
Total fee and commission income	**1,399.6**	**1,433.9**	**34.3**	**2.5%**

Commission income increased by PLN 34.3 million, i.e. 2.5% year on year. Payment card-related commission income decreased by PLN 71.3 million, i.e. 17.2% year on year. The decrease was driven by two reductions in interchange fees: on July 1, 2014 and January 29, 2015. Fees and commissions on loans increased by PLN 33.0 million, i.e. 13.0% mainly due to bigger sales of mortgage loans. In 2015, commissions from insurance activity increased by 28.3% year on year (an increase of PLN 33.0 million). Commissions from Bank accounts increased (by PLN 8.3 million, i.e. 5.3%) driven by a growing client base. Development of transactional banking and a higher number of transactions translated into an increase in commissions from money transfers (+5.2%). Commissions for agency service regarding sale of products of external financial entities increased by 29.1%, in connection with the growth in the number and value of sold financial products. In 2015, commission income from the brokerage business and debt securities issues increased (an increase by PLN 3.5 million, i.e. 2.9%). It was mainly driven by a growth in commission income generated by Dom Maklerski mBanku and the Bank's activity in the scope of issuing Non-Treasury debt securities for corporate customers.

Dividend income amounted to PLN 17.5 million in 2015, compared with PLN 20.0 million in 2014. The decrease was due to lower dividend payments received from PZU.

Net trading income amounted to PLN 292.9 million in 2015 and was lower by PLN 76.3 million, i.e. 20.7% compared with 2014. The decrease was caused by a drop in other trading income and net income on hedge

accounting (PLN 4.2 million compared with PLN 136.1 million in 2014). It was mainly driven by the valuation of interest rate derivatives.

Gains less losses on investment securities in 2015 amounted to PLN 314.4 million (PLN 51.9 million in 2014). In 2015, mBank Group reported gains on the sale of BRE Ubezpieczenia TUiR and signing of agreements accompanying the sale with AXA Group companies amounting to PLN 194.3 million and on the sale of PZU shares totalling PLN 125.0 million. The result also covers gains on the sale of minority interests in two companies listed on the Warsaw Stock Exchange, which was related to the Bank's management of its non-strategic assets.

Other operating result (other operating income net of other operating expenses) amounted to PLN 60.0 million in 2015, representing a decrease by PLN 45.7 million, i.e. 43.2% year on year. In 2015, mBank Group reported lower income from insurance activity compared with 2014, generated until the sale of BRE Ubezpieczenia TUiR (i.e. only in Q1 2015), and lower income from the sale of apartments by mLocum.

Net impairment losses on loans and advances

Net impairment losses on loans and advances in mBank Group amounted to PLN 421.2 million in 2015, compared with PLN 515.9 million in 2014, which represents a decrease by PLN 94.7 million, i.e. 18.4%. The cost of risk in 2015 was 54 basis points in 2015, compared with 72 basis points in 2014.

PLN M	2014	2015	Change in PLN M	Change in %
Retail Banking	303.3	224.3	-79.0	-26.0%
Corporates and Financial Markets	212.6	178.5	-34.1	-16.0%
Other	0.0	18.4	18.4	-
Total net impairment losses on loans and advances	**515.9**	**421.2**	**-94.7**	**-18.4%**

Net impairment losses on loans and advances in Corporates and Financial Markets stood at PLN 178.5 million in 2015, compared with PLN 212.6 million in 2014. The drop in provisions reported in 2015 was caused by a release of credit risk provisions in K1 segment. On the other hand, provisions in K3 and K2 segments, mFactoring and mLeasing rose in the analysed period.

Net impairment losses on loans and advances in Retail Banking stood at PLN 224.3 million in 2015, compared with PLN 303.3 million in 2014. The coverage ratio increased slightly in the reporting period.

Costs of mBank Group

Total overhead costs of mBank Group (including amortisation) stood at PLN 2,054.2 million, representing an increase by 16.0% year on year. The increase was driven predominantly by one-off costs related to a PLN 141.7 million payment of guaranteed funds to the deposit holders of Spółdzielczy Bank Rzemiosła i Rolnictwa in Wołomin and by a PLN 52.1 million contribution to the Borrowers Support Fund.

PLN M	2014	2015	Change in PLN M	Change in %
Staff-related expenses	844.1	854.8	10.7	1.3%
Material costs	627.6	633.9	6.3	1.0%
Taxes and fees	29.8	28.3	-1.5	-5.0%
Contributions and transfers to the Bank Guarantee Fund	70.8	278.2	207.4	292.9%
Contributions to the Borrowers Support Fund	0.0	52.1	52.1	-
Contributions to the Social Benefits Fund	7.0	7.2	0.2	2.9%
Other	1.3	0.0	-1.3	-100.0%
Amortization	190.0	199.7	9.7	5.1%
Total overhead costs and amortization	**1,770.6**	**2,054.2**	**283.6**	**16.0%**
Cost / Income ratio	44.9%	50.2%	-	-
Employment (FTE)	6,318	6,540	222	3.5%

Personnel costs increased by PLN 10.7 million, i.e. 1.3% in 2015. The change was driven by higher remuneration costs as a consequence of an increased headcount of mBank Group, which increased from 6,318 as at the end of 2014 to 6,540 as at the end of 2015. The increase took place mainly in the area of Retail Banking, due to the implementation of new strategy in foreign branches as well as in call center and IT area.

Material costs remained relatively stable and increased by PLN 6.3 million, i.e. 1.0% in the period under review. mBank Group reported higher material costs in the IT area in 2015, among others due to the implementation of innovative mobile banking solutions.

The contribution to the Bank Guarantee Fund (BFG) paid by mBank Group increased from PLN 70.8 million in 2014 to PLN 278.2 million in 2015. The rise was driven by higher annual premium and prudential levy paid in 2015 and one-off obligatory payment related to bankruptcy of Spółdzielczy Bank Rzemiosła i Rolnictwa in Wołomin.

Amortisation charges increased in 2015 due to higher amortisation of intangible assets.

Changes to the income and costs of mBank Group contributed to an increase in the cost/income ratio which stood at 50.2% at the end of 2015, compared with 44.9% in 2014. Excluding the one-off costs in 2015 and gains on the sale of shares in BRE TUiR Ubezpieczenia and PZU, the cost/income ratio stood at 49.3%.

Contribution of business lines and segments to the financial results

Data based on internal management information of mBank Group.

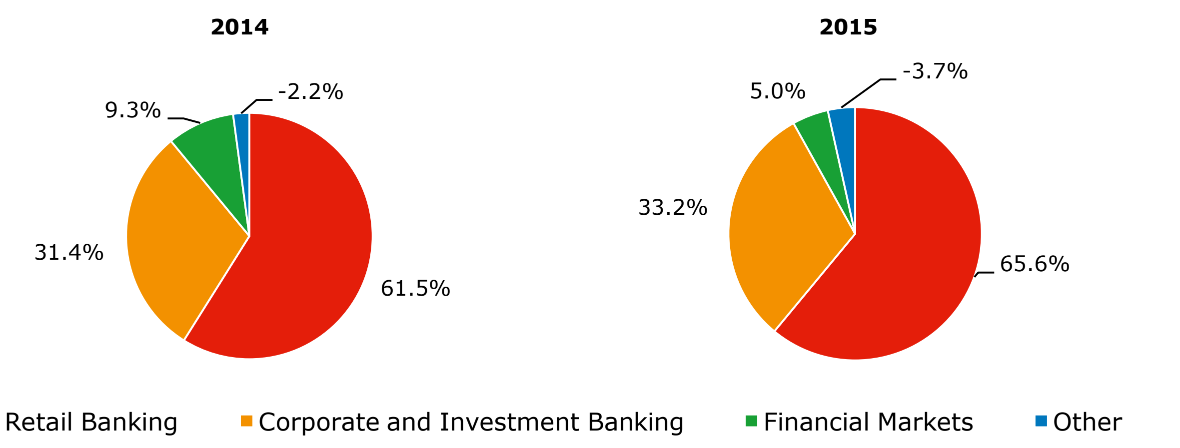
Financial results of mBank Group's business lines

PLN M	2014	2015	Change in PLN M	Change in %
Retail Banking	1,016.9	1,060.7	43.8	4.3%
Corporate and Investment Banking	519.5	537.4	17.9	3.4%
Financial Markets	152.9	80.2	-72.7	-47.5%
Other	-36.6	-60.4	-23.8	65.0%
Profit before tax of mBank Group	**1,652.7**	**1,617.9**	**-34.8**	**-2.1%**

The Retail Banking segment made the highest contribution to the profit before tax of mBank Group at 65.6%, compared with 38.2% for the Corporates and Financial Markets segment including Corporate and Investment Banking (33.2%) and Financial Markets (5.0%).

The charts below present gross profit contribution by business segments:

Gross profit contribution by business segments



5.2. Changes in the consolidated statement of financial position

Changes in assets of mBank Group

The assets of mBank Group increased by PLN 5,537.2 million, i.e. 4.7% in 2015. Total assets stood at PLN 123,523.0 million as at December 31, 2015.

The table below presents the year-on-year change in the asset lines of mBank Group.

PLN M	2014	2015	Change in PLN M	change in %
Cash and balances with Central Bank	3,054.5	5,938.1	2,883.6	94.4%
Loans and advances to banks	3,751.4	1,897.3	-1,854.1	-49.4%
Trading securities	1,163.9	557.5	-606.4	-52.1%
Derivative financial instruments	4,865.5	3,349.3	-1,516.2	-31.2%
Net loans and advances to customers	74,582.4	78,433.5	3,851.1	5.2%
Investment securities	27,678.6	30,736.9	3,058.3	11.0%
Intangible assets	465.6	519.0	53.4	11.5%
Tangible fixed assets	717.4	744.5	27.1	3.8%
Other assets	1,706.5	1,346.9	-359.6	-21.1%
Total assets	**117,985.8**	**123,523.0**	**5,537.2**	**4.7%**

Loans and advances to customers retained the largest share in the balance sheet of the Group at the end of 2015. They represented 63.5% of total assets at December 31, 2015, compared with 63.2% at the end of 2014.

PLN M	2014	2015	Change in PLN M	Change in %
Loans and advances to individuals	41,560.5	46,258.7	4,698.2	11.3%
Loans and advances to corporate entities	32,841.0	33,446.6	605.6	1.8%
Loans and advances to public sector	1,924.4	1,520.7	-403.7	-21.0%
Other receivables	1,047.3	183.4	-863.9	-82.5%
Total (gross) loans and advances to customers	**77,373.2**	**81,409.4**	**4,036.2**	**5.2%**
Provisions for loans and advances to customers (negative amount)	-2,790.8	-2,975.9	-185.1	6.6%
Total (net) loans and advances to customers	**74,582.4**	**78,433.5**	**3,851.1**	**5.2%**

The net volume of loans and advances to customers increased by PLN 3,851.1 million, i.e. 5.2% year on year.

Gross loans and advances to retail customers increased by PLN 4,698.2 million, i.e. 11.3%. The volume of mortgage and housing loans increased by PLN 3,673.7 million, i.e. 12.0% year on year, mainly due to active sales of new loans. In 2015, mBank Group sold PLN 4,503.0 million of mortgage loans, which implies an increase in the volume of sales by 41.8% compared with 2014. mBank Group continued its strategic support for mBank Hipoteczny and the development of Poland's covered bond market in 2015 as it increased sales of mortgage loans directly by mBank Hipoteczny. In 2015, mBank Hipoteczny sold PLN

1,457.0 million of mortgage loans. In addition, the Group granted PLN 4,866.5 million of non-mortgage loans, representing an 8.5% increase in sales. Net of the FX effect, loans and advances to retail customers grew by ca. 6.3%.

At the same time, gross loans and advances to corporate customers increased by PLN 605.6 million, i.e. 1.8%. Net of reverse repo/buy sell back transactions and the FX effect, loans and advances to corporate customers increased by ca. 11.2% year on year. The volume of gross loans and advances to the public sector decreased by PLN 403.7 million, i.e. 21.0%.

Investment securities constituted mBank Group's second largest asset category (24.9%). In 2015, their value increased by PLN 3,058.3 million, i.e. 11.0%. The government bond portfolio decreased by 1.5% year on year while the portfolio of debt instruments issued by the central bank increased by 66.1%.

The other asset lines on mBank Group's balance sheet represented 11.6% of total assets in aggregate.

Changes in liabilities and equity of mBank Group

The table below presents changes in liabilities and equity of the Group in 2015.

PLN M	2014	2015	Change in PLN M	Change in %
Amounts due to other banks	13,383.8	12,019.3	-1,364.5	-10.2%
Derivative financial instruments and other trading liabilities	4,719.1	3,173.6	-1,545.5	-32.7%
Amounts due to customers	72,422.5	81,140.9	8,718.4	12.0%
Debt securities in issue	10,341.7	8,946.2	-1,395.5	-13.5%
Subordinated liabilities	4,127.7	3,827.3	-300.4	-7.3%
Other liabilities	1,918.0	2,140.7	222.7	11.6%
Total Liabilities	**106,912.8**	**111,248.0**	**4,335.2**	**4.1%**
Total Equity	**11,073.0**	**12,275.0**	**1,202.0**	**10.9%**
Total liabilities and equity of mBank Group	**117,985.8**	**123,523.0**	**5,537.2**	**4.7%**

Amounts due to customers remained the dominant funding source of mBank Group. They accounted for 65.7% of liabilities and equity at the end of 2015, compared with 61.4% at the end of 2014.

Amounts due to customers increased by PLN 8,718.4 million, i.e. 12.0% to PLN 81,140.9 million in 2015. The change was driven by an increase of amounts due to both retail and corporate customers.

PLN M	2014	2015	Change in PLN M	Change in %
Individual customers	39,284.8	46,117.1	6,832.3	17.4%
Corporate customers	32,237.1	34,423.9	2,186.8	6.8%
Public sector customers	900.6	599.9	-300.7	-33.4%
Total amounts due to customers	**72,422.5**	**81,140.9**	**8,718.4**	**12.0%**

Amounts due to retail customers rose by PLN 6,832.3 million, i.e. 17.4%. Current accounts increased by 16.1%. Term deposits of retail customers increased by 21.4% year on year.

Amounts due to corporate customers increased by PLN 2,186.8 million, i.e. 6.8%.

Amounts due to other banks decreased by PLN 1,364.5 million, i.e. 10.2% year on year to PLN 12,019.3 million at the end of 2015. The change was mainly driven by the repayment of CHF 850 million of loans granted by Commerzbank Group.

The share of debt securities in issue in mBank Group's total liabilities and equity decreased from 8.8% at the end of 2014 to 7.2% at the end of 2015. The change was driven mainly by the lack of euro note issues in 2015 compared with 2014 and reduction of EUR 500 million eurobonds.

At the end of 2015, the share of equity in liabilities and equity of mBank Group was 9.9% compared with 9.4% at the end of December 2014 due to full retention of 2014 earnings.

5.3. Prudential consolidation

According to the Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 ("CRR Regulation"), mBank ("the Bank") is a significant subsidiary of EU parent institution, responsible for the preparation of the consolidated prudentially financial data to fulfil the requirement of disclosures described in IAS 1.135 *Presentation of Financial Statements*.

Financial information presented below does not represent IFRS measures as defined by the standards.

mBank S.A. Group ("the Group") consists of entities defined in accordance with the rules of prudential consolidation, specified by the CRR Regulation.

Basis of the preparation of the consolidated financial data

mBank S.A. Group consolidated financial data based on the rules of prudential consolidation specified by the CRR Regulation ("Consolidated prudentially financial data") have been prepared for the 12-month period ended December 31, 2015 and for the 12-month period ended December 31, 2014.

The consolidated profit presented in the consolidated prudentially financial data may be included in consolidated Common Equity Tier 1 for the purpose of the calculation of consolidated Common Equity Tier 1 capital ratio, consolidated Tier 1 capital ratio and consolidated total capital ratio with the prior permission of the Polish Financial Supervisory Authority or after approval by the General Meeting of shareholders.

The accounting policies applied for the preparation of the Group consolidated prudentially financial data are identical to those, which have been applied to the mBank S.A Group consolidated financial data for the year 2015, prepared in compliance with International Financial Reporting Standard ("IFRS"), except for the consolidation standards presented below.

Consolidation

The consolidated prudentially financial data includes the Bank and the following entities:

Company	31.12.2015		31.12.2014	
	Share in voting rights (directly and indirectly)	Consolidation method	Share in voting rights (directly and indirectly)	Consolidation method
Aspiro S.A.	100%	full	-	-
Dom Maklerski mBanku S.A.	100%	full	100%	full
mBank Hipoteczny S.A.	100%	full	100%	full
mCentrum Operacji Sp. z o.o.	100%	full	100%	full
mFaktoring S.A.	100%	full	100%	full
mLeasing Sp. z o.o.	100%	full	100%	full
MLV 45 Sp. z o.o. spółka komandytowa	-	-	100%	full
mWealth Management S.A.	100%	full	-	-
Tele-Tech Investment Sp. z o.o.	100%	full	-	-
Transfinance a.s.	-	-	100.00%	full
mFinance France S.A.	99.998%	full	99.98%	full

Entities included in the scope of prudential consolidation are defined in the Regulation CRR – institutions, financial institutions or ancillary services undertakings, which are subsidiaries or undertakings in which a participation is held, except for entities in which the total amount of assets and off-balance sheet items of the undertaking concerned is less than the smaller of the following two amounts:

- EUR 10 million;
- 1% of the total amount of assets and off-balance sheet items of the parent undertaking or the undertaking that holds the participation.

The consolidated financial data combine items of assets, liabilities, equity, income and expenses of the parent with those of its subsidiaries eliminating the carrying amount of the parent's investment in each subsidiary and the parent's portion of equity of each subsidiary. Thus arises goodwill. If goodwill has negative value, it is recognised directly in the income statement. The profit or loss and each component of other comprehensive income is attributed to the Group's owners and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. If the Group loses control of a subsidiary, it shall account for all amounts previously recognised in other comprehensive income in relation to that subsidiary on the same basis as would be required if the Group had directly disposed of the related assets or liabilities

Intra-group transactions, balances and unrealised gains on transactions between companies of the Group are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In 2015 the income of the Group, calculated as the sum of net interest income, net fee and commission income, dividend income, net trading income, gains less losses from investment securities, investments in subsidiaries and associates, other operating income and other operating expenses, amounted to PLN 4,086,739 thousand (2014 – PLN 3,759,919 thousand). This income relates in whole to the activity conducted within the European Union.

In 2015, the rate of return on assets of the Group, calculated as net profit divided by the average total assets, amounted to 1.07%.

In 2015, the Group did not received any public subsidies, in particular on the basis of the Act on the Government support for the financial institutions dated February 12, 2009 (Journal of Laws of 2014, No 158).

As at December 31, 2015 the employment in the Group was 6,483 FTEs and 8,529 persons (December 31, 2014 respectively: 6,043 FTEs and 7,284 persons).

Consolidated prudentially income statement

	Period from 01.01.2015 to 31.12.2015	Period from 01.01.2014 to 31.12.2014
Interest income	3,655,896	3,930,574
Interest expense	(1,149,114)	(1,468,315)
Net interest income	**2,506,782**	**2,462,259**
Fee and commission income	1,448,741	1,358,468
Fee and commission expense	(535,835)	(482,126)
Net fee and commission income	**912,906**	**876,342**
Dividend income	17,540	30,133
Net trading income, including:	292,020	366,232
Foreign exchange result	*288,558*	*233,341*
Other net trading income and result on hedge accounting	*3,462*	*132,891*
Gains less losses from investment securities, investments in subsidiaries and associates, including:	348,898	29,205
Gains less losses from investment securities	*133,213*	*55,373*
Gains less losses from investments in subsidiaries and associates	*215,685*	*(26,168)*
Other operating income	107,338	137,734
Net impairment losses on loans and advances	(421,222)	(515,903)
Overhead costs	(1,837,816)	(1,500,946)
Amortisation	(199,146)	(186,251)
Other operating expenses	(99,105)	(141,986)
Operating profit	**1,628,195**	**1,556,819**
Profit before income tax	**1,628,195**	**1,556,819**
Income tax expense	**(307,887)**	**(333,587)**
Net profit	**1,320,308**	**1,223,232**
Net profit attributable to:		
- Owners of mBank S.A.	1,320,308	1,223,232

Consolidated prudentially statement of financial position

ASSETS	31.12.2015	31.12.2014
Cash and balances with the Central Bank	5,938,132	3,054,548
Loans and advances to banks	1,897,233	3,727,309
Trading securities	557,541	1,156,450
Derivative financial instruments	3,349,328	4,865,517
Loans and advances to customers	78,464,673	74,697,423
Hedge accounting adjustments related to fair value of hedged items	130	461
Investment securities	30,980,449	27,906,260
Non-current assets held for sale	-	291,829
Intangible assets, including:	519,049	456,522
- goodwill	*3,532*	-
Tangible assets	739,978	708,103
Current income tax assets	1,721	61,336
Deferred income tax assets	357,207	238,980
Other assets	702,967	509,114
Total assets	**123,508,408**	**117,673,852**

LIABILITIES AND EQUITY		
Liabilities		
Amounts due to the Central Bank	-	-
Amounts due to other banks	12,019,331	13,383,829
Derivative financial instruments	3,173,638	4,719,056
Amounts due to customers	81,185,025	72,615,316
Debt securities in issue	8,946,195	10,341,742
Hedge accounting adjustments related to fair value of hedged items	100,098	103,382
Liabilities held for sale	-	91,793
Other liabilities	1,708,139	1,301,051
Current income tax liabilities	50,126	1,441
Provisions for deferred income tax	981	1,980
Provisions	225,416	176,881
Subordinated liabilities	3,827,315	4,127,724
Total liabilities	**111,236,264**	**106,864,195**

Equity		
Equity attributable to Owners of mBank S.A.	**12,272,144**	**10,809,655**
Share capital:	**3,535,758**	**3,523,903**
- Registered share capital	168,956	168,840
- Share premium	3,366,802	3,355,063
Retained earnings:	**8,303,580**	**6,736,229**
- Profit from the previous years	6,983,272	5,512,997
- Profit for the current year	1,320,308	1,223,232
Other components of equity	**432,806**	**549,523**
Non-controlling interests	**-**	**2**
Total equity	**12,272,144**	**10,809,657**
Total liabilities and equity	**123,508,408**	**117,673,852**

6. mBank Group capital and funding

6.1. mBank Group capital base

Structure of own funds including CET 1 and Tier 2 capital

The amount of capital maintained by mBank Group meets the regulatory requirements and allows for the planned business expansion at a defined risk appetite level. This is reflected in the Common Equity Tier 1 (CET 1) capital ratio (14.29% at the end of 2015) and the Total Capital Ratio (TCR, 17.25% at the end of 2015), which are safely above the levels recommended in 2015 by the Polish Financial Supervision Authority (KNF), According to general the KNF requirements in 2015 banks' CET 1 Ratio shouldn't be below 9% and TCR shouldn't be below 12%. Since January 1, 2016, the KNF increased abovementioned requirements by 1.25 percentage point due to introduction of the conservation buffer. Accordingly, a minimal level for CET 1 and TCR should stand at 10.25% for and 13.25%, respectively.

Moreover, in October 2015, the KNF introduced for 14 banks additional capital requirements, resulting from risk related to foreign exchange mortgage loans. mBank Group was recommended to maintain own funds to cover the additional capital requirement at the level of 4.39 percentage points, in order to secure the risk resulting from foreign exchange mortgage loans for households, which should include at least 75% of Tier I equity (which corresponds to 3.29 percentage points).

In February 2016, the KNF explained, that recommended levels regarding capital ratios (addressed to the whole banking sector and those addressed to the selected banks in October 2015 concerning risk resulting from foreign exchange mortgage loans for households) should be applied both on an individual and consolidated basis.

Taking into account the above described additional capital requirement as well as the conservation buffer of 1.25% enforced on January 1, 2016 on the basis of the Act on Macro-prudential Supervision over the Financial System and Crisis Management in the Financial System, starting from January 1, 2016 the Bank as well as mBank Group should maintain, on the stand alone and consolidated level respectively, the Common Equity Tier 1 ratio on the level not lower than 13.54% and the total capital ratio on the level not lower than 17.64%, which compares against 14.29% and 17.25% respectively reported by mBank Group as of December 31, 2015. As of January 31, 2016 on consolidated level the reported total capital ratio was below the afore-mentioned target ratio of 17.64%, whereas consolidated Common Equity Tier 1 ratio remained to well exceed the new target ratio, similar to the respective ratios on mBank stand alone level. The Management Board of mBank believes that with the decisions to be made by the upcoming mBank Ordinary General Meeting (planned on March 24, 2016) the Group will exceed the total capital ratio target level of 17.64%.

mBank Group has a strong capital base, as reflected in its capital structure. Own funds stood at PLN 12.0 billion at the end of 2015, of which PLN 9.9 billion (83%) constituted CET 1 capital. The main components of CET 1 capital include: share premium, other reserve capital and general risk fund. Tier 1 capital is strengthened mainly through retained earnings.

Tier 2 capital stood at PLN 2.1 billion at the end of 2015, which represents an increase year on year. The rise in Tier II capital was caused mainly by the inclusion of funds raised in a new issue. On December 17, 2014 mBank successfully completed an issue of subordinated bonds in the nominal amount of PLN 750 million maturing on January 17, 2025. Following KNF's approval granted on January 8, 2015, the amount was added to the supplementary capital of mBank.

A decrease in Tier 2 capital denominated in CHF was driven by an early repayment of a subordinated debt with a limited capital credit and a gradual withdrawal of bonds without a fixed maturity in accordance with CRR.

On June 18, 2015, the Bank made an early repayment of a subordinated debt issue amounting to CHF 70 million. As a result of the early repayment, the instrument with nil capital credit was redeemed in whole. Moreover, on June 24, 2015 the Bank made an early repayment of a subordinated debt issue with a limited capital credit of CHF 90 million.

The Bank plans to successively increase the share of instruments denominated in PLN in the structure of Tier 2 instruments. In 2016-2018 the Bank plans additional issues of subordinated debt in PLN.

The table below presents the balances of mBank Group's subordinated debt as at December 31, 2015:

Type	Nominal Value	Currency	Maturity Date	Tier 2 Capital
Bond	400 million	CHF	08.03.2017	No
Bond	170 million	CHF	perpetual	partly
Bond	80 million	CHF	perpetual	partly
Bond	500 million	PLN	20.12.2023	Yes
Bond	750 million	PLN	17.01.2025	Yes

Subordinated debt with a fixed maturity included in own funds is subject to amortisation on a daily basis over five years prior to final maturity. In addition, subordinated debt without a fixed maturity in the table above is being gradually withdrawn starting from 2014 and is included in own funds according to the percentage rate set by the Polish Financial Supervision Authority (KNF) for each year until the end of 2021. The percentage was 70% in 2015 and is set at 60% in 2016.

The current structure of the Bank's capital base derives from prior decisions regarding retained earnings and additional capital increases. Between 2002 and 2011 mBank retained all of its earnings by decision of the General Shareholders' Meeting, while the 2012 dividend constituted 35% of mBank's net profit followed by a 67% dividend payment in 2013. The profit for 2014 was included in whole in the Bank's own funds.

Capital and liquidity norms under Basel 3 and EU regulations

The recommendations of the Basel Committee put forward in the new capital accord Basel 3 form the basis for strengthening the capital base, tightening liquidity requirements, and maintaining the acceptable level of leverage in financial institutions. The primary objective of Basel 3 is to ensure such levels of own funds as are necessary to effectively manage an institution, even in financial distress, without the need for a bailout with taxpayers' money.

The recommendations of Basel 3 have been introduced into the European Union legislation in the CRD IV / CRR package, which took effect on January 1, 2014, subject to respective transitional periods. Moreover, the European Banking Authority (EBA) gradually issues technical standards for CRD IV and CRR, i.e. detailed descriptions of procedures, instruments, indicators, rules, and their calibration, making it possible for financial institutions to fully implement the requirements imposed on their capital, liquidity, as well as corporate governance and management standards. As a regulation, CRR directly applicable in the EU member states without the need to implement legislative amendments in their jurisdictions. CRD IV was transposed into Polish law in 2015 by the Act on Macro-prudential Supervision on the Financial System and Crisis Management in the Financial System whereby the regulations applicable so far were amended accordingly. One of the most important requirements laid down in the Act concerns capital buffers which can be imposed on banks in Poland. These include:

- Capital conservation buffer – designed to ensure that banks build up capital buffers outside periods of stress which can be drawn down as losses are incurred. Target for this buffer is set at the level of 1.25% of total risk exposure amount (TREA) starting from January 1, 2016, rising to 1.875% from 2017 and finally reaching CRD IV level of 2.5% by 2019.
- Buffer for Globally Systematically Important Institution (G-SII) or Other Systematically Important Institution (O-SII) – kept by institutions characterized by particular scale of activities and institution's contribution to systemic risk. Basel III indicates on maximum level of 2% for O-SII buffer and maximum limit for G-SII set at the level of 3.5%.
- Systemic risk buffer – set out in order to prevent and limit long-term non-cyclical systemic or macroprudential risk. Buffer can be set at the level up to 5% by means of Resolution of Minister of Finance.

- Countercyclical buffer - maintained to counteract the effects of the economic cycle on banks' lending activity, thus making the supply of credit less volatile. Maximum level of this buffer is 2.5%, also to be set by MF's resolution.

Dividend

In 2012, after ten years, mBank resumed the payment of the dividend to its shareholders. In its decision recommending the dividend payment to the Supervisory Board, the Management Board of mBank mainly considers current recommendations of the Polish Financial Supervision Authority concerning dividend payments by banks. In 2015, the PFSA issued the recommendation that a dividend could be paid only by banks meeting the criteria below:

- the bank is not subject to a restructuring programme;
- in case of banks where non-financial client deposits on the bank's balance sheet represent more than 5% of the aggregate non-financial client deposits in the banking sector: where the Tier 1 ratio (CET1) increased by the security capital is higher than 13.25% plus 75% of possible offset capital on the risk of FX loans individually imposed by the KNF on October 23, 2015
- in case of other banks: where the Tier 1 ratio (CET1) increased by the security capital is higher than 11.25% plus 75% of possible offset capital on the risk of FX loans individually imposed by the KNF on October 23, 2015
- with financial leverage (LR) level higher than 5%
- with the overall SREP (supervisory review and evaluation made by KNF) capital score of at least 2.5

It is recommended that a dividend up to 50% of the profit generated in 2015 may be paid:

- when the Total Capital Ratio is higher than 13.25% plus 100% of additional capital requirement related to the risk of FX loans, individually imposed by the KNF on October 23, 2015

It is recommended that a dividend up to 100% of the profit generated in 2015 may be paid:

- in case of banks where non-financial client deposits on the bank's balance sheet represent more than 5% of the aggregate non-financial client deposits in the banking sector: in case the Total Capital ratio is higher than 16.25% plus 100% of possible additional capital requirement related to the risk of FX loans, individually imposed by the KNF on October 23, 2015
- in case of other banks: when the Total Capital Ratio is higher than 14.25% plus 100% of possible possible additional capital requirement related to the risk of FX loans, individually imposed by the KNF on October 23, 2015

Based on the financial results of banks as at December 31, 2015, the banks will receive individual recommendations on the dividend policy in form of a letter of the KNF Chairman.

Notwithstanding the foregoing, the PFSA will ask the Financial Stability Committee (KSF), as macroprudential supervision in the understanding of the Act of August 5, 2015 on macroprudential supervision over the financial system and crisis management in the financial system for a possible indication of the assessment of the KSF about the capital position and the dividend policy of banks where non-financial client deposits on the bank's balance sheet represent more than 5% of the aggregate non-financial client deposits in the banking sector.

The table below presents information on mBank's dividend payments since 2012.

Year	Dividend per share	Total dividend volume PLN M	Dividend as a % of net profit*
2012	10	421.4	35
2013	17	717.0	67

** The ratio of the total amount of dividends paid to mBank's net profit in the financial year*

MREL and TLAC and their potential impact on mBank

Apart from requirements set on institutions' capital base, there are also regulations concerning other elements of potentially loss absorbing liabilities: MREL (the minimum requirement of own funds and eligible liabilities) and TLAC (the Total Loss Absorbing Capacity). Both of these ratios address the need to ensure adequate level of funding, which can be converted into capital in case of financial distress and consequently enable its recovery of resolution without use of taxpayers' money.

The minimum requirement of own funds and eligible liabilities, MREL, stipulated in the Banking Recovery and Resolution Directive and has been described in details in the respective EBA Technical Standard (EBA/RTS/2015/05). MREL requirement constitutes a regulatory tool aiming at structuring institution's liabilities in a way allowing for effective bail-in of sufficient amount of liabilities avoiding contagion or bank run. It will be set for each institution on case-by-case basis by a resolution authority (in Poland BFG), taking into account both common criteria stipulated in regulations and resolution authority's assessment. Principally bail-inable liabilities kept by an institution should provide for capacity to absorb losses and contribute to recapitalization to the extent determined by the resolution authority towards this institution. MREL-eligible liabilities are going to be limited to issued and fully paid up instruments, which are not secured or guaranteed by the institution itself, with maturity of at least one year. Covered deposits are excluded from the ratio calculation. MREL applies to all banks in the EU and refers to the total balance sheet volume. The requirement will become binding from January 1, 2016, but the transitional phase can be devised by resolution authorities, no longer than 24 months. MREL is going to be domestically implemented by the Act on the Bank Guarantee Fund, the deposit guarantee scheme and resolution (the "Act on the BFG "). Due to the delay in the local transposition of the BRRD the implementation of the ratio is likely be postponed as well.

The Total Loss Absorbing Capacity (TLAC) serves the same purpose as MREL, but it applies to global systematically important banks (G-SIB) obliging them to maintain an adequate loss-absorbing and recapitalization capacity allowing to perform critical functions in case of institution's resolution. The eligible liabilities, including paid in, unsecured instruments of residual maturity over one year must constitute at least 16% of risk weighted assets and 6% of the Basel III leverage ratio denominator starting from January 1, 2019, and 18% and 6,75% respectively since the beginning of 2022. In 2014 Commerzbank was assessed by FSB as the G-SIB, afterwards it was removed from the G-SIB list due to a declining systemic importance. Nevertheless, if Commerzbank returns on the list, mBank will inherit some requirements like TLAC which is going to influence also G-SIB's material subsidiaries (The FSB provides the following quantitative criteria as determinants of 'material' subsidiary: (a) has more than 5% of the G-SIB's consolidated RWA, (b) generates more than 5% of the G-SIB's consolidated revenues, or (c) has total leverage exposure that is more than 5% of the G-SIB's total leverage exposure) through internal TLAC requirement, in line with distribution of loss-absorbing capacity within entities located in various jurisdictions.

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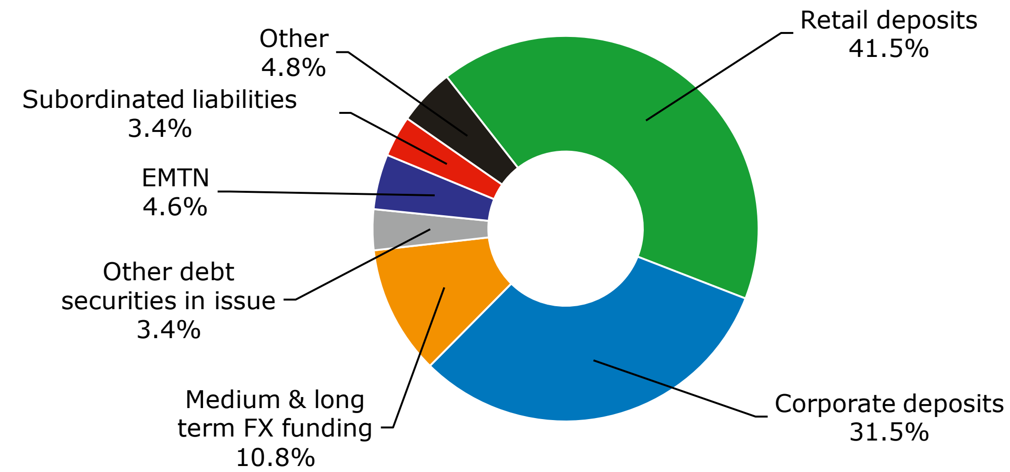
6.2. mBank Group funding

The One Bank Strategy for 2012-2016 provides for optimisation of the Bank's balance sheet in terms of its profitability and structure by increasing the share of client deposits in funding, further diversification of the funding base, and a bigger share of high-yield assets.

The graph below presents the structure of mBank Group's sources of funding at the end of 2015.



Bonds issued under the EMTN Programme

After the successful first eurobond issue in October 2012 and issue of CHF bonds in October 2013, mBank Group completed further issues under the EUR 3 billion EMTN Programme in 2014.

On October 12, 2015 a tranche on EUR 500 million was redeemed.

Following table presents a summary of outstanding tranches:

Date of issue	Nominal value	Maturity date	Coupon
September 5, 2013	CHF 200 million	October 8, 2018	2.500%
November 22, 2013	CZK 500 million	December 6, 2018	2.320%
March 24, 2014	EUR 500 million	April 1, 2019	2.375%
November 20, 2014	EUR 500 million	November 26, 2021	2.000%

mBank continues its efforts aimed to diversify the sources of funding and to ensure stable refinancing on attractive terms.

Activity on the covered bond market

mBank Hipoteczny (mBH) is one of three mortgage banks currently active on the Polish market (next to Pekao Bank Hipoteczny and PKO Bank Hipoteczny) and the leader in covered bond issues with a market share of 75.6% at the end of December 2015.

In 2015, mBank Hipoteczny became an even more active player on the debt securities market. mBH placed seven series of covered bonds during the year. The total nominal value of the covered bonds in issue exceeded PLN 1.5 billion. Consequently, mBH successfully achieved its target for 2015.

It was the best year in the fifteen-year history of mBank Hipoteczny as measured by the scale of issuing activity. It was the best year in the fifteen-year history of mBank Hipoteczny as measured by the scale of issuing activity. In 2015, mBH conducted a record-breaking single issue of covered bonds worth PLN 500 million (in September), while the value of new and outstanding covered bonds issued by mBH crossed the mark of PLN 4 billion in the end of 2015.

The scale of mBH's issuing activity in 2015 and the parameters of individual issues mark a significant change in the Bank's policy, whose main function is to raise funding and refinance long-term mortgage loans through the issue of covered bonds. The main focus is on narrowing the maturity gap of assets and liabilities, reducing the currency gap, and cutting the cost of new funding.

When analysing the series issued in 2015, attention should be paid to long maturities of the covered bonds issued by mBH (minimum maturity - 5 years, maximum maturity - 10 years) and the relatively high nominal values of the covered bonds issued in PLN, as compared with the previous years (minimum transaction value - PLN 200 million, maximum transaction value - PLN 500 million).

As far as PLN issues are concerned, it is especially worth mentioning the PLN 0.5 billion issue of mortgage bonds conducted in mid-September 2015. Not only was it a record-breaking transaction for mBH, which proved its potential for refinancing mortgage loans through the issue of covered bonds, but also it was the highest issue of covered bonds in terms of volume in the entire history of mortgage banking in Poland.

Taking advantage of the positive foreign investor sentiment, mBH additionally raised EUR 81 million in three transactions in 2015.

A summary of mBH issue activity in 2015 is presented in the following table.

Volume	Currency	Date of issue	Maturity	Tenor (in years)	Coupon
200 M	PLN	20.02.2015	28.04.2022	7.2	WIBOR 6M + 78 bps
20 M	EUR	25.02.2015	25.02.2022	7.0	Fixed (1.135%)
250 M	PLN	15.04.2015	16.10.2023	8.5	WIBOR 6M + 87 bps
11 M	EUR	24.04.2015	24.04.2025	10.0	Fixed (1.285%)
50 M	EUR	24.06.2015	24.06.2020	5.0	EURIBOR 3M + 69 bps
500 M	PLN	17.09.2015	10.09.2020	5.0	WIBOR 3M + 110 bps
255 M	PLN	02.12.2015	20.09.2021	5.8	WIBOR 3M + 115 bps

Legislative changes concerning covered bonds

On August 4, 2015, the President of the Republic of Poland signed into law the Bill on Amending the Act on Covered Bonds and Mortgage Banks and Certain Other Acts. The new law, which entered into force on 1 January 2016, aims at improving the security of investments in covered bonds and the protection offered to covered bond holders, reducing the cost of bond issues, and narrowing the maturity gap of assets and liabilities on the balance sheets of mortgage banks.

The amendment outlines the bankruptcy process of mortgage banks and sets out detailed rules of satisfying claims under covered bonds and using assets in the collateral register. In accordance with the amended act, each covered bond creditor will have the same rights to a separate pool of bankruptcy assets. Moreover, the legislator envisaged also a *soft bullet* mechanism (the maturity of all outstanding covered bonds is extended by twelve months, provided that coupon payments are continued on a regular basis) and a *conditional pass through* mechanism (partial repayments of covered bonds are made in relation to inflows from the cover assets) triggered by a shortage of collateral in the register. The clarification of the rules of satisfying creditors' claims under covered bonds issued by a bankrupt bank will largely increase the safety of investors and the certainty of trading.

Starting from 2016, mortgage banks will be subject to the requirement to hold statutory over-collateralisation of covered bonds equal to at least 10% of the value of issue and to hold a liquidity buffer necessary to cover interest on covered bonds for a period of 6 months. In accordance with the amended regulations, mortgage banks will also be in a position to increase the value of issued covered bonds to 80% of the mortgage lending value of property for retail mortgage loans, up from the previous cap of 60% (which remains in force for commercial mortgage loans), which will allow banks to increase the value of their mortgage bond issues.

The amendments will certainly improve credit ratings of mortgage banks and ratings assigned by rating agencies to covered banks, thus reducing the cost of refinancing mortgage banks' operations.

In addition, covered bonds will become more attractive to investors, in particular foreign investors, thanks to a package of tax-related amendments proposed to the Act on Corporate Income Tax. In accordance with the amended regulations, interest on covered bonds will be exempted from taxation at source, while the status of loans granted by mortgage banks will be equal to the status of purchased loans. In turn, the amendments to the Act on Organisation and Operation of Pension Funds and the Act on Co-operative Savings and Loan Associations will expand the opportunities for pension funds and co-operative savings and loan associations to invest in covered bonds.

7. mBank Group in the financial services market in 2015

7.1. Market share of mBank Group segments

At the end of 2015, mBank was among the largest Polish banks across all relevant market segments.

Most of the Group subsidiaries also rank high in their respective market segments. The table below presents the market share and the position of mBank and of selected subsidiaries at the end of 2015 compared to 2014:

Business category	Market position in 2015*	Market Share	
		2014	**2015**
Corporate Banking			
Corporate loans		6.3%	6.3%
Corporate deposits		8.8%	9.8%
Leasing	2	7.4%	7.6%
Factoring	7	7.9%	7.8%
Retail Banking in Poland			
Total loans		6.3%	6.5%
Of which mortgage loans		7.4%	7.7%
Non-mortgage loans		4.6%	4.7%
Deposits		5.3%	5.7%
Retail Banking in the Czech Republic			
Total loans		1.2%	1.4%
Of which mortgage loans		1.6%	1.8%
Non-mortgage loans		0.5%	0.6%
Deposits		1.3%	1.4%
Retail Banking in Slovakia			
Total loans		0.7%	0.8%
Of which mortgage loans		0.8%	1.0%
Non-mortgage loans		0.3%	0.4%
Deposits		1.5%	1.4%
Investment Banking			
Financial markets			
Treasury bills and bonds		14.8%	12.8%
IRS/FRA		27.3%	15.4%
FX spot and forward		10.9%	12.1%
Non-Treasury securities			
Short-term debt securities	7	8.1%	6.8%
Corporate bonds	4	12.9%	12.4%
Bank debt securities**	1	34.3%	36.4%
Brokerage			
Equities trading	9	3.9%	5.0%
Futures	2	18.0%	16.1%
Options	3	17.9%	12.8%

Source: Own calculations based on data from mBank, NBP, WSE, CNB, NBS, Fitch Polska, Polish Factors Association, Polish Leasing Association, press reports

** where determinable*

*** excluding "road bonds" issued by Bank Gospodarstwa Krajowego (BGK)*

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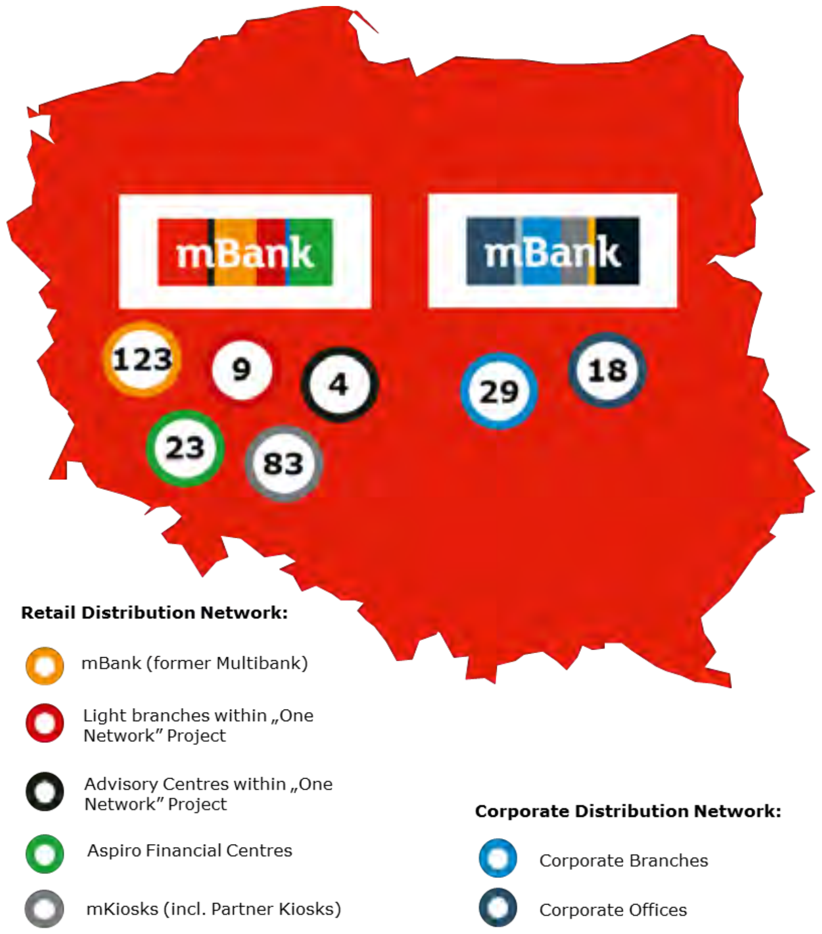
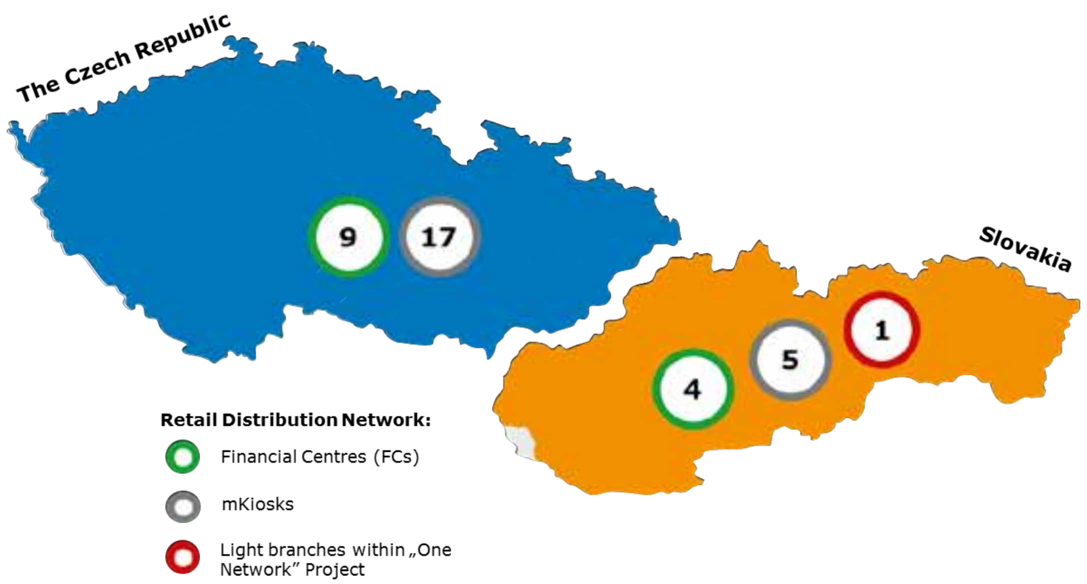
7.2. mBank Group geographical presence

mBank Group operates successfully not only in Poland, but also in the Czech Republic and Slovakia.

In Poland, retail distribution network consists of 242 branches. Corporate distribution network amounts to 29 corporate branches and 18 corporate offices.



In the Czech Republic, retail distribution network consists of 9 financial centres and 17 mKiosks. In Slovakia there are 4 financial centres, 5 mKiosks and 1 light branch in Bratislava.



7.3. Headquarters of mBank in Poland, the Czech Republic and Slovakia

Four main premises of mBank are located in Warsaw, Łódź, Praha and Bratislava. The headquarters are located on Senatorska Street in Warsaw, including most of departments of Finance, Corporate and Financial Markets Divisions. Łódź is the traditional headquarter of mBank's retail operations. Headquarters in the Czech Republic and Slovakia deal with day-to-day management of foreign operations.

Headquarters and the Management Board of mBank S.A.
Senatorska 18
00-950 Warsaw

Red Tower
Piotrkowska 148/150
90-063 Łódź

New headquarters of mBank in Łódź will be constructed on Kiliński Street 70/76, close to the train station Łódź Fabryczna. The premises of more than 20 thousand m2 are expected to be inaugurated at the turn of 2017 and 2018

mBank SK
Pribinova 10
811 09 Bratislava

mBank CZK
Sokolovská 668/136d
186 00 Praha 8

8. Corporates and Financial Markets

The Corporates and Financial Markets segment serves 19,562 corporate clients including large enterprises (K1 - annual sales exceeding PLN 500 million), mid-sized enterprises (K2 - annual sales of PLN 30 – 500 million) and small enterprises (K3 - annual sales below PLN 30 million) through a network of dedicated 47 branches. mBank Group's offer of products and services for corporate clients focuses on traditional banking products and services (including corporate accounts, domestic and international money transfers, payment cards, cash services, and liquidity management products), corporate finance products, hedging instruments, equity capital market (ECM) services, debt capital market (DCM) instruments, mergers and acquisitions (M&A), leasing and factoring. The segment comprises two areas: Corporates and Investment Banking, and Financial Markets.

8.1. Corporate and Investment Banking

Summary of Corporate and Investment Banking segment activity (mBank only)

	31.12.2013	31.12.2014	31.12.2015	YoY change
Number of corporate clients	**16,333**	**17,787**	**19,562**	**10.0%**
K1	1,255	1,838	1,983	**7.9%**
K2	5,022	5,144	5,748	**11.7%**
K3	10,056	10,805	11,831	**9.5%**
PLN M				
Loans to corporate clients, including	**26,281**	**30,113**	**22,103**	**-26.6%**
K1	6,237	6,379	6,163	**-3.4%**
K2	9,425	10,633	11,838	**11.3%**
K3	2,773	2,811	3,050	**8.5%**
Reverse repo/buy sell back transactions	3,285	3,840	1,031	**-73.2%**
Other	16	17	22	**29.4%**
Deposits of corporate clients, including	**24,555**	**29,203**	**30,236**	**3.5%**
K1	7,189	12,111	14,019	**15.8%**
K2	9,507	9,455	11,260	**19.1%**
K3	3,514	4,177	4,856	**16.2%**
Repo transactions	4,290	3,751	1,094	**-70.8%**
Other	56	63	68	**7.9%**

Distribution network	31.12.2013	31.12.2014	31.12.2015	YoY change
Advisory Centres within "One Network" Project	-	1	4	
Corporate branches	29	29	29	
Corporated offices	18	18	18	

Summary of Corporate and Investment Banking segment financial results

The Corporate and Investment Banking segment generated a profit before tax of PLN 537.4 million in 2015, which represents a rise by PLN 17.9 million, i.e. 3.4% year on year.

Corporate and Investment Banking - decomposition of profit before tax

PLN M	2014	2015	Change in PLN M	YoY change
Net interest income	746.5	755.2	8.7	1.2%
Net fee and commission income	387.9	376.7	-11.2	-2.9%
Dividend income	17.2	14.2	-3.0	-17.4%
Net trading income	184.1	215.8	31.7	17.2%
Gains less losses from investment securities, investments in subsidiaries and associates	10.1	19.1	9.0	89.1%
Net other operating income	57.5	29.9	-27.6	-48.0%
Total income	1,403.3	1,410.9	7.6	0.5%
Net impairment losses on loans and advances	-211.6	-177.8	33.8	-16.0%
Overhead costs and amortization	-672.2	-695.7	-23.5	3.5%
Profit before tax of Corporate and Investment Banking	**519.5**	**537.4**	**17.9**	**3.4%**

The profit before tax of Corporate and Investment Banking in 2015 was driven by the following factors:

- **Increase in total income** by PLN 7.6 million (+0.5%) year on year to PLN 1,410.9 million. Net interest income rose by PLN 8.7 million, i.e. 1.2% while net fee and commission income fell by PLN 11.2 million, i.e. 2.9% year on year. Dividend income decreased due to a lower dividend paid by PZU.
- **Increase in operating costs (including amortisation)** to PLN 695.7 million in 2015 (increase by PLN 23.5 million, i.e. 3.5%).
- **Decrease in net impairment losses on loans and advances** by PLN 33.8 million, i.e. 16.0% year on year. The drop in provisions reported in 2015 was caused by a release of credit risk provisions in K1 segment. On the other hand, provisions in K3 and K2 segments, mFactoring and mLeasing rose in the analysed period.

Activity of Corporate and Investment Banking segment in 2015

2015 was a time of reasonable and stable economic growth, which translated into stronger business activity of large enterprises. On the other hand, banks had to continue their activity in an environment of record-low interest rates, reduced interchange fees, increased contributions to the Bank Guarantee Fund (BFG), and uncertainty about the size of the potential financial burden arising from the banking tax, CHF loans and additional contributions to the BFG as well as to the Borrowers Support Fund.

Economic conditions in Poland positively impacted the volume of corporate loans and deposits. The corporate loans market grew by 7.4% year on year while the corporate deposits market grew by 10.5%. mBank grew at a higher rate than the market, resulting in an increase of its market shares to 6.3% in loans and 9.8% in deposits, compared to 6.3% and 8.8% in 2014, respectively.

In 2015, the Bank intensified its efforts to atract new corporate clients, which resulted in record-high acquisition of companies – the corporate client base increased by 1,775 companies year on year to 19,562 clients.

The acquisition of new clients boosted the balances deposited on current accounts, which stood at PLN 8,467 million at the end of 2015, representing an increase of 26.2% year on year. The high volume of current deposits is a springboard for further growth of transactional banking, which is of special relevance to the Bank with respect to the growth potential and forging of closer relations with clients.

In 2015, the Bank continued to pursue its strategy of increasing its share in the sector of small and medium-sized enterprises (SME). One of the key factors of success in this segment is client acquisition - steady development of the client base as a potential for growth of profitable and long-term relationships. 2015 was record-breaking in terms of acquisition, when over 2,500 new clients started cooperation with mBank. At the same time, as part of implementation of the strategy of building long-term business relationships with clients and providing opportunities for smooth development of cooperation along with a company's growth, nearly 200 SMEs (K3 client segment), to whom advanced corporate banking solutions were made available, were transferred to K2 segment.

High level of acquisition resulted mainly from a number of initiatives improving service quality, including initiatives aimed at streamlining the process of opening an account, faster access to funding and increasing its flexibility.

Following the consolidation of Corporate and Investment Banking activities in 2014, the Bank became more active on the corporate debt origination market. At the end of December 2015, the Bank held an 12.4% market share on the corporate bond market. The low yield environment provided an additional support to market growth. The segment increasingly focused on closer relations with non-bank financial institutions as well as clients from the agricultural and food industry.

Special focus on relations with the clients in the segment was mirrored in levels of customer satisfaction, measured by NPS (Net Promoter Score). Net Promoter Score, a recommendation indicator, is the key indicator on which mBank continuously focuses in satisfaction surveys. For corporate clients who indicated mBank as their main bank, NPS in 2015 reached 30, and was higher by 4 percentage points year on year.

Sound level of NPS in the Corporate and Investment Banking segment was caused by the implementation of NPS programme - mSatysfakcja project. The main goal of the project is to increase the level of genuine satisfaction of corporate clients resulting from mBank's offer and service, focusing on clients feedback and improving relationships with them in the context of promoting one of the most significant values of mBank – client-centricity.

The most important element of the NPS programme developed in previous year was the *closed loop* process - conversations held between mBank's advisors and representatives of a corporate client, directly following the survey, aimed at collecting customer feedback and identifying the reasons behind low recommendations of detractors and the reasons for which promoters willingly recommend mBank to their business partners.

The NPS survey for corporate clients has been conducted at mBank since 2010.

Products and services on offer

Corporate loans

The value of loans granted by mBank to corporate clients (excluding repo transactions) stood at PLN 21,072 million at the end of 2015, representing an increase of 6.2% year on year (PLN 19,840 million at the end of 2014).

The value of loans to enterprises (NBP category, enabling comparison with the banking sector results) stood at PLN 19,442 million at the end of 2015, which represents an increase of 8.8% year on year (PLN 17,874 million at the end of 2014). The market of loans granted to enterprises grew by 7.4% year on year. The market share of mBank's loans to enterprises in total loans of the sector was 6.3% at the end of 2015, compared to the same level at the end of 2014. The loan-to-deposit ratio of enterprises in mBank stood at 75.9% at the end of 2015, which was much below the market benchmark of 118.1%.

The value of loans granted to local governments stood at PLN 931 million at the end of 2015, compared to PLN 1,324 million at the end of 2014.

Corporate deposits

The value of corporate client deposits gathered at mBank (excluding repo transactions) stood at PLN 30,203 million at the end of 2015, representing an increase of 17.0% year on year (PLN 25,807 million at the end of 2014).

The value of mBank's current corporate deposits amounted to PLN 8,467 million at the end of 2015, an increase of 26.2% year on year (PLN 6,709 million at the end of 2014).

The value of corporate client deposits (NBP category, enabling a comparison to banking sector results) stood at PLN 25,629 million at the end of 2015, representing an increase of 23.8% year on year (PLN 20,709 million at the end of 2014). The market of deposits of enterprises grew by 10.5% in that period. The market share of deposits of enterprises at mBank in the total deposits of enterprises was 9.8% at the end of 2015, compared to 8.8% at the end of 2014.

The value of deposits of local governments stood at PLN 193 million at the end of 2015, compared to PLN 213 million at the end of 2014.

Structured finance, project finance, syndicated loans

As part of the Corporate and Investment Banking segment, the Structured Finance area offers the following types of financing: M&A finance, project finance, mezzanine finance and syndicated finance. In 2015, the Bank was a major market player and participated in 72 syndicated and bilateral products. mBank's total exposure under syndicated and bilateral products stood at PLN 4,300 million.

BGK guarantee

The Bank maintained its commitment to the government's "Supporting Entrepreneurship through BGK Sureties and Guarantees" program with allocated limit for guarantees at PLN 1,300 million (the limit was increased by PLN 400 million based on an Annex dated May 11, 2015). As at December 31, 2015, the amount drawn under the limit reached PLN 1,081 million.

Moreover, on October 29, 2015, mBank signed an agreement with Bank Gospodarstwa Krajowego on the basis of which it may offer loans secured with BGK guarantees to clients as part of the Portfolio Guarantee Line with counter-guarantee provided by EIB (European Investment Bank) under the COSME (Competitiveness of SMEs) programme. The BGK guarantee limit for mBank stands at PLN 120 million. COSME is the European Union programme for the competitiveness of enterprises running in 2014-2020. The budget of the programme is EUR 2.3 billion and its main objective is to stimulate lending and capital investments among SME.

European Union financing

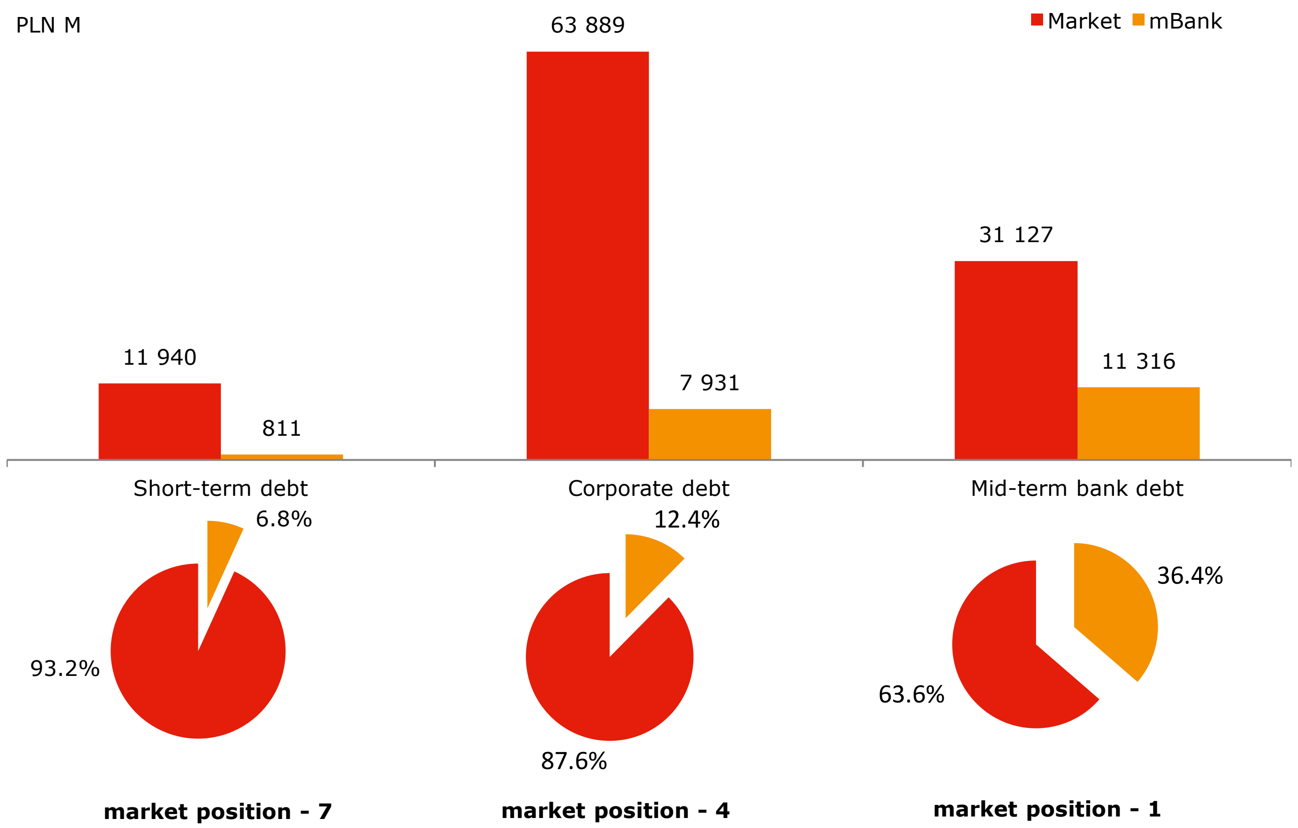
On November 3, 2015, mBank concluded a cooperation agreement with Bank Gospodardstwa Krajowego on Smart Growth Operational Programme for the years between 2014 and 2020, called Action 3.2.2. Loan for technological innovations. Projects consisting of implementation of technological innovations will be supported as part of the effort. Total value of funds for funding innovative projects is EUR 422 million.

Issuing debt securities for corporate clients

The share of mBank in the non-treasury debt market at the end of December 2015 is presented in the chart below.

mBank in the Non-Treasury Debt Market

as at December 31, 2015



The value of debt securities issued by banks but not kept on primary books (excluding „road" bonds issued by Bank Gospodarstwa Krajowego) arranged by mBank amounted to circa PLN 11.3 billion, compared to PLN 9.9 billion at the end of 2014, which makes mBank the leader with a market share of 35.8%. The largest issue arranged by mBank in 2015 included a PLN 1,205 million and EUR 81 million of Bank Hipoteczny covered bond issues and PLN 696 million bonds for BGK.

Other relevant transactions on bonds issued by banking institutions included a PLN 240 million bond issue by Eurobank, a PLN 180 million bond issue by BOS Bank, and a PLN 145 million bond issue by Bank Pocztowy S.A.

In the growing corporate bond market, mBank ranked fourth with a market share of 12.4%.

Development of transactional banking

Cash management is an area of Corporate and Investment Banking, which offers state-of-the-art solutions to facilitate planning, monitoring and management of the most liquid assets, cash processing, as well as electronic banking. The solutions facilitate daily financial operations, enhance effective cash flow management, and optimise interest income and costs.

The balances of corporate current accounts crossed the mark of PLN 8 billion for the first time in history in 2015. The year on year growth rate of transactional products in 2015 was as follows:

Number of outgoing domestic transfers	+11.3%
Number of mass transfer transactions	+28.2%
Number of payment identification transactions	+6.4%
Number of corporate cards	+7.1%
Cash service turnovers	+7.3%
Number of foreign and SEPA transfers sent	+19.0%
Number of foreign and SEPA transfers received	+18.8%

In addition, attractive transactional products were added to mBank offer in 2015, including:

- **New module at mBank CompanyNet - Housing Escrow Accounts**

As part of the Internet platform mBank CompanyNet a new module was added. It enables the service of Housing Escrow Accounts combined with identification of payments (collect service). The new module allows property developers to manage the collection of receivables related to particular investments (developer undertakings):

- Ensures quick access to data on investments,
- Presents information on payments made by individual buyers,
- Presents the history of turnovers on virtual accounts assigned to individual buyers,
- Presents the overdue amounts that should have been paid to the property developer by the buyers (according to the works schedule of a given investment),
- Generates detailed reports and imports deposit-related data from external systems concerning individual investments.

As part of the module detailed personal data of buyers can be collected.

- **Touch ID technology at mBank CompanyMobile** - since July 2015 mBank has offered its corporate clients a new version of mBank CompanyMobile application, allowing faster authentication via the Touch ID solution. The new authentication method requires scanning the user's fingerprint, which eliminates the need to remember a number of complicated access passwords. Therefore, it is more comfortable to use the application, when at the same time top security standards are met - Touch ID is even an additional guarantee of security. mBank CompanyMobile is the first mobile banking application in Poland and the second in Europe which allows to log in with the use of biometrics of the fingertip.

- Offering a new functionality of **outgoing SWIFT MT101 messages** in MultiCash electronic banking system (active role of the Bank). The new service allows mBank to serve global corporate clients having their accounting and treasury centres in Poland, who need tools enabling them to manage their accounts held with domestic and foreign banks via a single electronic banking system offered by mBank.

- Bearing international clients in mind, mBank launched a solution enabling the mutual clients of Commerzbank and mBank to directly access their mBank accounts via Commerzbank systems.
- **Open cash withdrawal in Poczta Polska (the Polish Post) branches** – a service enabling a person indicated by mBank's corporate client to withdraw cash in a Poczta Polska branch. At present, Poczta Polska operates approximately 9,000 branches.
- The *customer experience* area was improved considerably, including:
  - Optimisation of operational processes in the scope of improving system integration with outsourcers of banking services,
  - Completion of foreign payments automation project.

In the scope of transactional banking mBank strengthened its position in the area of cash service of large retail sales networks. The Group also started the service of large volumes of receivables for companies from the utilities sector, and consequently increased its market share. In 2015 mBank entered the market of servicing lenders, increased its exposure to the sector of courier companies. mBank remains a strong leader in servicing Housing Escrow Accounts and escrow accounts.

8.2. Financial Markets

Summary of Financial Markets segment results

The Financial Markets segment generated a profit before tax of PLN 80.2 million in 2015, compared with PLN 152.9 million posted in 2014.

Financial Markets - decomposition of profit before tax

PLN M	2014	2015	Change in PLN M	YoY change
Net interest income	139.7	191.7	52.0	37.2%
Net fee and commission income	-6.0	-1.8	4.2	-70.0%
Dividend income	0.2	0.1	-0.1	-50.0%
Net trading income	69.7	-17.4	-87.1	-125.0%
Gains less losses from investment securities, investments in subsidiaries and associates	45.3	5.8	-39.5	-87.2%
Net other operating income	1.2	0,7	-0.5	-41.7%
Total income	250.1	179.1	-71.0	-28.4%
Net impairment losses on loans and advances	-1.1	-0.8	0.3	27.3%
Overhead costs and amortization	-96.1	-98.1	-2.0	2.1%
Profit before tax of Financial Markets	**152.9**	**80.2**	**-72.7**	**-47.5%**

The profit before tax of Financial Markets in 2015 was driven by the following factors:

- **Decrease in total income** by PLN 71.0 million (-28.4%) year on year to PLN 80.2 million. Net interest income increased by PLN 52.0 million and net trading income dropped by PLN 87.1 million, mainly due to a loss on interest rate instruments.
- **Increase in operating costs (including amortisation)** to PLN 98.1 million (by PLN 2.0 million, i.e. 2.1%) due to higher material costs.

Financial Markets segment activity in 2015

Financial Markets area covers:

- Direct sale of financial market products to Corporate Banking clients and non-banking financial institutions (such as insurance companies, pension and investment funds and asset management companies) as well as selected Private Banking clients;
- Management of mBank's liquidity as well as its assets and liabilities (including deposit and credit portfolio interest risk management). Liquidity management involves money market transactions, currency swaps, interest rate derivative transactions, T-bill, T-bond and NBP bill purchase transactions, repo transactions etc.;
- Management of mBank's interest rate and currency risk, trading in FX instruments on the interbank market (spot transactions and derivatives), trading in interest rate instruments (T-bills and T-bonds, interest rate derivatives), commodity derivatives, shares, equity and stock index derivatives, trading in non-Treasury securities;
- Offering the service of a depositary and a trustee in particular to non-banking financial institutions;
- Supervision over brokerage house operations with regard to its cooperation with financial institutions.

In 2014, activities connected with arranging issues of debt securities for Corporate Banking clients and banks, as well as trading in and sales of these securities were transferred to the Corporate and Investment Banking Line (previously Corporates and Institutions). For more information please see section 8.1. Corporate and Investment Banking.

2015 in the financial markets area was characterised by a dynamic increase in recurring transactions turnover and in the number of active clients, both in respect of recurring transactions and derivative transactions. The development of the currency platform enabled access to a broader group of clients, also in the areas where dealer service has not been available before.

As far as derivative transactions are concerned, increase in margins and turnover was reported in every product category helped by valid client demand.

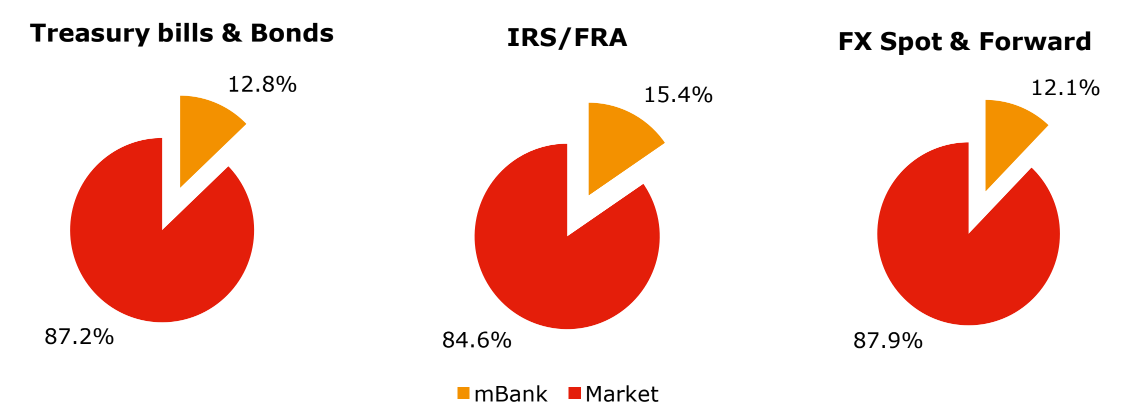
In H2 2015, the dealer-developer project was launched in the segment with the purpose to further acquire clients for recurring transactions and activate the bank's client base.

The number of active clients almost doubled, which caused the growth of margins on transactions in 2015.

The individual, biggest derivative transactions include:

- Transaction with Andels
- Transaction with Wirtualna Polska
- Transaction with Wagony Świdnica

Market shares of mBank in specific financial instrument markets as at the end of December 2015 are presented below:



Financial Institutions

Relations with financial institutions are managed by Financial Markets business line. The activities include, among others, funding from other banks and placements with other banks.

At December 31, 2015, the Bank had 18 active loans amounting to the equivalent of PLN 23,349 million, of which PLN 12,973 million were drawn. In 2015, two subordinated loans denominated in CHF and one loan in EUR, amounting to PLN 870 million in total, were repaid at maturity. Additionally, the Bank took out one new loan in EUR amounting to PLN 426 million and one new loan in USD amounting to PLN 195 million. The Bank's total exposure under loans from other banks was by PLN 2,103 million lower than at the end of 2014. At 2014 exchange rates the decrease would amount to PLN 1,933 million.

At the end of December 2015, mBank's exposure under loans granted to other banks reached the equivalent of PLN 2.9 billion. The Bank's portfolio included 44 short-term and medium-term active loans granted to other financial institutions from Poland and abroad.

Main highlights of the activities of the Financial Institutions Department in 2015 include:

- Obtaining further, considerable funding from the European Investment Bank (EIB). Taking into account the current portfolio, mBank ranks first as EIB's largest borrower in the Polish banking sector.
- 2015 was also marked by further acquisition of loro accounts. The Bank managed to maintain its position as one of the leading Polish banks in handling settlements in PLN.

Moreover, in 2015 the Financial Institutions Department continued to actively support trade transactions concluded by Polish exporters by offering short-term financing to financial institutions, mainly from Belarus. At the same time, the Bank was still serving banks from the Commonwealth of Independent States and offering them medium-term loans secured with KUKE insurance policies.

mBank's Custody Services

mBank's custody clients are mainly local and foreign financial institutions, banks which offer custodian and investment services, pension funds and investment funds, insurance companies, asset management institutions, and non-financial institutions.

mBank provides services including settlement of transactions in securities registered in local and foreign markets, safe-keeping of clients' assets, maintenance of securities accounts and registers of securities in non-public trading, and processing corporate actions. As a depositary bank mBank maintains registers of pension funds' and investment funds' assets and monitors valuations of those assets. 2015 was a record-breaking year in terms of growth in the number of offered investment funds and in the value of registered assets. The number of investment funds for which mBank acts as depositary rose by 54.0% compared with the end of 2014, while the total value of assets of investment and pension funds increased by 65.0%.

9. Retail Banking

mBank's Retail Banking segment serves 4,947.3 thousand individual clients and microenterprises in Poland, the Czech Republic and Slovakia online, directly through the call centre, via mobile banking and other state-of-the-art technological solutions, as well as in a network of 278 branches. The Bank offers a broad range of products and services including current and savings accounts, accounts for microenterprises, credit products, deposit products, payment cards, investment products, insurance products, brokerage services, and leasing for microenterprises. In 2013, the Bank launched a modern, user-friendly online platform (New mBank) designed from scratch, which provides more than 200 new functionalities, solutions and improvements.

Summary of the activity of Retail Banking (mBank and mBank Hipoteczny)

thou.	31.12.2013	31.12.2014	31.12.2015	YoY change
Number of retail clients, including:	**4,229.4**	**4,551.5**	**4,947.3**	**8.7%**
Poland	3,556.3	3,789.4	4,127.7	**8.9%**
Foreign branches	673.1	762.1	819.6	**7.5%**
The Czech Republic	486.4	534.2	573.1	**7.3%**
Slovakia	186.7	227.9	246.5	**8.2%**
PLN M				
Loans to retail clients, including:	**38,233.8**	**41,444.0**	**46,168.7**	**11.4%**
Poland	36,104.7	38,526.0	42,344.7	**9.9%**
mortgage loans	29,185.3	30,540.1	33,473.4	**9.6%**
non-mortgage loans	6,919.4	7,985.9	8,871.3	**11.1%**
Foreign branches	2,129.1	2,918.0	3,824.0	**31.0%**
The Czech Republic	1,712.0	2,250.5	2,899.6	**28.8%**
Slovakia	417.1	667.5	924.4	**38.5%**
Deposits of retail clients, including:	**33,897.9**	**38,999.4**	**45,645.4**	**17.0%**
Poland	29,047.7	33,381.0	39,273.6	**17.7%**
Foreign branches	4,850.2	5,618.4	6,371.8	**13.4%**
The Czech Republic	3,076.8	3,788.6	4,488.0	**18.5%**
Slovakia	1,773.4	1,829.8	1,883.8	**3.0%**
Investment funds (Poland)	**4,489.3**	**5,252.1**	**5,736.2**	**9.2%**
Distribution network				
Advisory Centres within "One Network" Project	-	1	4	
Light branches within "One Network" Project	-	2	9	
mBank (former Multibank)	133	131	123	
mKiosks (incl. Partner Kiosks)	68	67	83	
Aspiro Financial Centres	24	23	23	
Czech Republic and Slovakia	35	35	36	

Data in the table based on internal management system.

Summary of Retail Banking segment financial results

The Retail Banking segment generated a profit before tax of PLN 1,060.7 million in 2015, which represents an increase by PLN 43.8 million, i.e. 4.3% year on year.

Retail Banking - decomposition of profit before tax

PLN M	2014	2015	Change in PLN M	YoY change
Net interest income	1,611.3	1,565.6	-45.7	-2.8%
Net fee and commission income	506.1	507.3	1.2	0.2%
Dividend income	0.1	0.1	0.0	0.0%
Net trading income	115.1	95.7	-19.4	-16.9%
Gains less losses from investment securities, investments in subsidiaries and associates	-0.7	194.0	194.7	-27,814.3%
Net other operating income	51.2	3.4	-47.8	-93.4%
Total income	2,283.1	2,366.1	83.0	3.6%
Net impairment losses on loans and advances	-303.3	-224.3	79.0	-26.0%
Overhead costs and amortization	-962.9	-1,081.1	-118.2	12.3%
Profit before tax of Retail Banking	**1,016.9**	**1,060.7**	**43.8**	**4.3%**

The profit before tax of Retail Banking in 2015 was driven by the following factors:

- **Increase in total income** by PLN 83.0 million, i.e. 3.6% year on year to PLN 2,366.1 million. Net interest income fell by PLN 45.7 million, i.e. 2.8% due to a decline in average interest rate in the segment of mortgage and non-mortgage loans, while net fee and commission income remained stable and rose by 0.2%, i.e. PLN 1.2 million year on year. Moreover, the rise in income was helped by the sale of BRE Ubezpieczenia TUiR, a subsidiary, and by the signing of agreements accompanying the sale with AXA Group companies.
- **Increase in operating expenses (including amortisation)** by PLN 118.2 million, i.e. 12.3% year on year, driven mainly by personnel and material costs and by higher contribution to the Bank Guarantee Fund (BFG), as well as the contribution to the Borrower Support Fund.
- **Decrease in net impairment losses on loans and advances** by PLN 79.0 million, i.e. 26.0% year on year.

9.1. Retail Banking in Poland

Retail Banking (including Private Banking) in Poland in 2015

In 2015, the efforts in the Retail Banking segment were strongly focused on better understanding of clients' needs. New solutions were introduced and existing ones were used more effectively. Among others, clients were offered new attractive financial and functional benefits, and the Bank continued the development of its mobile application, which, starting from 2015, allows clients to make mobile BLIK payments. For more information on BLIK payments, see chapter 2.4. Innovations at mBank Group.

The quality-based approach to building customer relations has already produced tangible effects, which are reflected in particular in the number of newly acquired accounts, which rose by 15.0% compared with 2014. According to a ranking compiled by Bankier.pl portal, mBank came second in terms of acquisition in the banking sector.

In 2015, mBank's marketing and acquisition efforts in the credit cards area were focused mainly on growing the portfolio of Miles & More credit cards, offered primarily to affluent clients.

In the area of mBank's Retail Banking, 2015 was a period of continued cooperation on the strategic project related to the alliance with Orange, one of the largest telecom operators in Poland, and with fine tuning the product offer as part of the Orange Finanse project launched in October 2014.

The offer, which has been unique on the market since the project's launch, was devised by a team of employees representing both organisations, drawing from the experience of the global telecom operator and one of the best mobile and transactional banks in Poland.

The basic offer covers personal account and complementary products such as deposits, unsecured loans, products dedicated to micro-enterprises and a package of benefits for the clients of Orange. Moreover, clients can also use NFC debit cards allowing them to pay by their mobiles without the need to install any additional applications (the card is integrated directly with the mobile application of Orange Finanse) and a new form of mobile payments offered by Polski System Płatności - BLIK (Orange Finanse was one of the first banks to introduce this functionality). For more information on NFC payments and BLIK service, see chapter 2.4. Innovations at mBank Group.

Thanks to its innovative offer, after only a year upon its launch, Orange Finanse became mBank's important acquisition channel. By the end of 2015, more than 250,000 accounts were opened via Orange Finanse, including almost 210,000 in 2015.

H2 2015 was a period of mobile finance development with a number of improvements being introduced, such as adding Windows Phone to the list of operating systems compatible with the mobile application of Orange Finanse or enabling the payment of invoices using QR codes, which takes only seconds to complete and requires no transfer data to be entered manually, and starting the sale of cash loans in Orange stores. It was also a period when a new joint offer for Orange clients was presented, promoting active users of Orange Finanse.

The activities outlined above gained recognition, which was reflected in the awards won by Orange Finanse in 2015. For example, the Savings Account offered by Orange Finanse won the September ranking of savings accounts compiled by TotalMoney.pl portal.

In October 2015, Orange Finanse brand was ranked among the top global players participating in the contest for the best banking projects organised by Efma (organization formed by bankers and insurers, which specialises in financial marketing and distribution) and came second in the Best New Product and Service category. Efma is an organisation associating more than 3.3 thousand financial institutions from over 130 countries, including 80% of Europe's largest retail financial institutions. The purpose of the competition is to award the most interesting and innovative projects of financial institutions worldwide, addressed to retail clients. In 2015, 211 financial institutions from 59 countries entered the competition with 500 innovations. For more information on awards won by mBank Group, see chapter 2.6. Awards and distinctions. For more on cooperation with Orange, see chapter 2.5 Strategic partnerships.

In 2015, mBank Group continued to develop its long-term cooperation with AXA Group, which translated into enhanced product offer and top quality service. mBank's clients were offered a full range of insurance products available via electronic and mobile platform and in brick-and-mortar branches. The following products were for the first time added to the joint offer:

- mBrave insurance, which provides financial support to a client diagnosed with cancer
- Term Life Insurance 24h

The following products were redesigned and upgraded:

- Life insurance offered together with mortgage loans
- mHealth package covering healthcare benefits and their costs (private healthcare)
- Commercial real property insurance for borrowers

For more information on mBank Group's cooperation with AXA Group, see chapter 2.5. Strategic partnerships.

Activity in the SME (Small and Medium-Sized Enterprises) segment

In 2015, mBank pursued its growth strategy in the small and medium-sized (SME) enterprises sector, focusing on better understanding of clients' needs, which was achieved, among others, by numerous face-to-face meetings with clients. As a result, specific initiatives were launched and enhanced products were offered to micro-enterprises as part of the offer of Orange Finanse, such as Account for Companies with an option to receive a limit of up to PLN 10 thousand, debit cards, savings account and Auxiliary Accounts.

Moreover, the quality of the offer dedicated to SMEs was improved by enhanced functionalities of the transaction service, such as multi-person transfer authorisation, company book of recipients or implementation of daily and monthly statements. These services are dedicated to the most profitable and active segment of companies served by the Bank's Retail segment.

The development of functionalities of the transfers basket in the application was yet another improvement identified based on surveys conducted among SME clients. Further development of the mobile channel is the key area of mBank's strategy, which fully addresses the needs of business clients.

mBank was also actively involved in building a cooperation with innovative start-up companies to seek and implement new, value-adding ideas for clients. The mBank StartUP Challenge contest organised together with Polska Przedsiębiorcza (owner of a network of Business Link entrepreneurship incubators) fits into the strategy of meeting clients' expectations. mBank's experts assessed the best new business ideas, and the winner will work in cooperation with the bank on implementing his concept in the banking industry. By entering into cooperation with start-ups, mBank wants to secure its position of a leader of technological change. For more information about the contest, see chapter 2.5. Innovations at mBank Group.

The initiatives outlined above resulted in a dynamic growth in acquisition in the SME sector. Proactive approach to the market and the use of multiple channels, such as synergistic cross sell activities in cooperation with mLeasing, boosted the number of new accounts by 27.6%, compared with 2014.

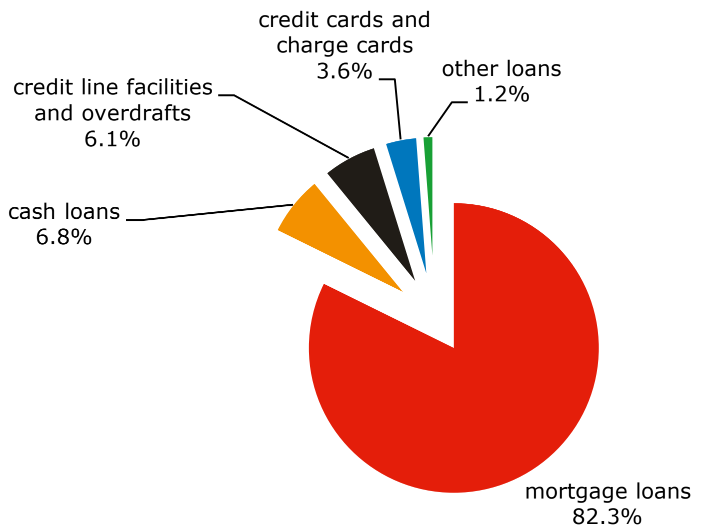
Intensive efforts on forging long-term relations with retail clients were also confirmed by a number of prizes awarded to mBank. In particular, the bank was appreciated by *Forbes* magazine, which named mBank the Best Bank in Poland in the category "direct contact channels" and by Bankier.pl portal, which awarded the Golden Banker prize to mBank for the best corporate account. For more information on awards granted to mBank Group, see chapter 2.6. Awards and distinctions.

Development of the retail banking offer in Poland

Loans

The loan portfolio structure of Retail Banking in Poland (household loans) at the end of December 2015 was as follows:

The loan portfolio structure of Retail Banking in Poland (household loans)



mBank S.A. Group
Management Board Report on the Performance of mBank Group in 2015

As far as non-mortgage loans are concerned, in line with the Bank's strategy concentrated around meeting clients' needs, mBank has been implementing a programme focused primarily on providing clients with access to reliable and precise information. At the same time, the style and language of mBank's banking documentation addressed to clients underwent a major overhaul, which is expected to help build honest and solid relations with clients based on full understanding of agreements being signed. Moreover, the strategy provides also for offering support to the clients whose credit applications were rejected. In addition, the policy aims to ensure high quality service of applications submitted by clients in direct channels.

The sales of non-mortgage loans increased by 8.5% year on year to PLN 4,866.6 million in 2015.

Furthermore, in 2015, mBank in co-operation with mBank Hipoteczny pursued a long-term project designed to issue covered bonds secured with liabilities backed by mortgage loans. As part of the project, mBank Hipoteczny grants loans to individuals through mBank. Another important milestone of the project was completed in 2015 with the transfer of a PLN 338 million loan portfolio from mBank to mBank Hipoteczny. The transfer will allow for issuing covered bonds secured with the loans transferred to mBH.

Mortgage loans are among key products in the mBank offer because they strengthen the relationship of mBank with clients. The value of mortgage loans sold in 2015 reached PLN 3,443.7 million, which represents an increase by 50.0% compared with 2014.

The key characteristics of the portfolio of mortgage loans for individuals (excluding Private Banking clients) are summarised below:

	31.12.2014	31.12.2015
Balance sheet value (PLN billion)	27.6	**30.4**
Average maturity (years)	20.3	**20.0**
Average value (PLN thousand)	275.4	**284.7**
Average LtV (%)	80.7%	**82.2%**
NPL* (%)	4.9%	**3.8%**

** The NPL ratio calculated in accordance with a more strict client perspective methodology; data based on internal management system.*

Deposits and investment funds

In 2015, the balance of savings products (term deposits and savings accounts) grew by PLN 3,846 million, which represents a 16.0% rise compared with the end of 2014. The strong sales results generated in the area of savings products were possible thanks to a number of initiatives taken, including focused management of the product offer, smart pricing of deposits targeting selected client segments, as well as the implementation and use of behavioral segmentation of clients. The balances of deposit products increased while the financial discipline was maintained.

The growth in clients' deposit base was accompanied by a rise in spending on investment products. In H1 2015, mBank reported a significant rise in assets allocated to higher-risk investment funds, while in H2 clients were offered new solutions eliminating (in the case of structured deposits) or reducing the risk of losses (in the case of structured certificates and certain investment funds).

2015 was yet another important year in which mBank worked towards strengthening its position in savings and investments. A major increase in balances was helped, among others, by new products, in particular:

- Promotional offer of term deposits aimed at acquiring new clients and attracting new funds
- The first Deposit Lottery in the Bank's history
- Special offers supporting cross-selling - promotional offer of Open-end Investment Funds combined with term deposits

- Introduction of subscriptions for investment certificates of Closed-end Investment Funds and structured certificates
- Enabling clients to invest in new subscriptions for structured deposits
- Introduction of public offering of bonds for retail clients

Cards

In 2015, the value of payment card transactions carried out by mBank's retail banking clients exceeded PLN 21.6 billion, which represents a rise by 22.9% year on year. As the frequency of card transactions made by mBank's clients increased by some 36% year on year in combination with smaller average amount of card payments, mBank managed to maintain its market share in non-cash transactions at 12%. The average amount of card payments in mBank reached almost PLN 71, which represents a decline compared with the end of 2014, as clients became more willing to use their cards for smaller payments.

As part of its payment development strategy, mBank implemented new payment instruments:

- BLIK mobile payments for the clients of Orange Finanse (for more information on BLIK payments, see chapter 2.4. Innovations at mBank Group)
- NFC mobile payments for the clients of Orange Finanse (for more information on NFC mobile, see chapter 2.4. Innovations at mBank Group)

9.2. Retail Banking in the Czech Republic and Slovakia

Economy and banking sector in the Czech Republic

Key macroeconomic parameters	2015	Banking sector indicators	2015
Real GDP growth rate (forecast)	4.5%	Base interest rate	0.05%
Nominal GDP per capita (EUR)	14,100*	Loan to Deposit ratio	79.0%
GDP per capita in PPS (EU-28=100)	85%*	Non-performing loans ratio	5.8%
Average annual inflation rate	0.3%	Total Capital Ratio (TCR)	17.3%*
Unemployment rate	5.1%	Return on Assets (ROA)	1.3%*
Population	10.5 M	Return on Equity (ROE)	14.3%*

Source: Eurostat, Česká národní banka (ČNB).

** Cumulative 9 month data (as of September 30, 2015) or latest available*

GDP, inflation, interest and FX rates

Economic growth in the Czech Republic is expected to have risen to 4.5% in 2015 on the back of strong domestic demand, after it recorded 2.0% in 2014. As an exceptional boost to growth from EU co-financed investment fades, growth is forecasted to slow to 2.3% in 2016 before picking up again to 2.7% in 2017.

Household consumption probably rose by 2.9% in real terms in 2015, amid rising wages and employment as well as low inflation. Also, investment contributed strongly to real GDP growth, particularly due to a high increase in public investment, which was driven by a greater use of EU funds. In contrast, net exports are likely to have contributed negatively to real GDP growth in 2015, reflecting the high import intensity of rising consumption.

On November 7, 2013, the Czech National Bank (CNB) committed to sell the Czech crowns and buy euros as needed in order to prevent the crown from appreciating beyond the historically low rate of CZK 27 per euro, while the currency floats freely on the weaker side of this threshold. In February 2016, the CNB repeated that it was ready to intervene on the foreign exchange market in case of prolonged strengthening of pressures for a price fall or if inflation expectations decrease and risks of deflationary development in the domestic economy are renewed. The crown exchange rate commitment is not a monetary policy objective, but an instrument the central bank has been using to fulfil the inflation target. The CNB may

intervene automatically for an unlimited period of time and there is no limit on the amount of the purchases of foreign currency.

In 2013-2015, interest rates remained unchanged and the repo rate was maintained at 0.05%.

The year on year growth of consumer prices amounted to 0.1% in December 2015, remaining stable compared to the end of 2014. The average inflation rate reached 0.3% for 2015, dropping by 0.1 percentage point from the preceding year level of 0.4%, and was the lowest since 2003. While labour market conditions are expected to contribute to domestic inflationary pressures, particularly in the services sector, inflation is forecasted to average at only 0.4% in 2016, mainly due to further declines in commodity prices, particularly oil.

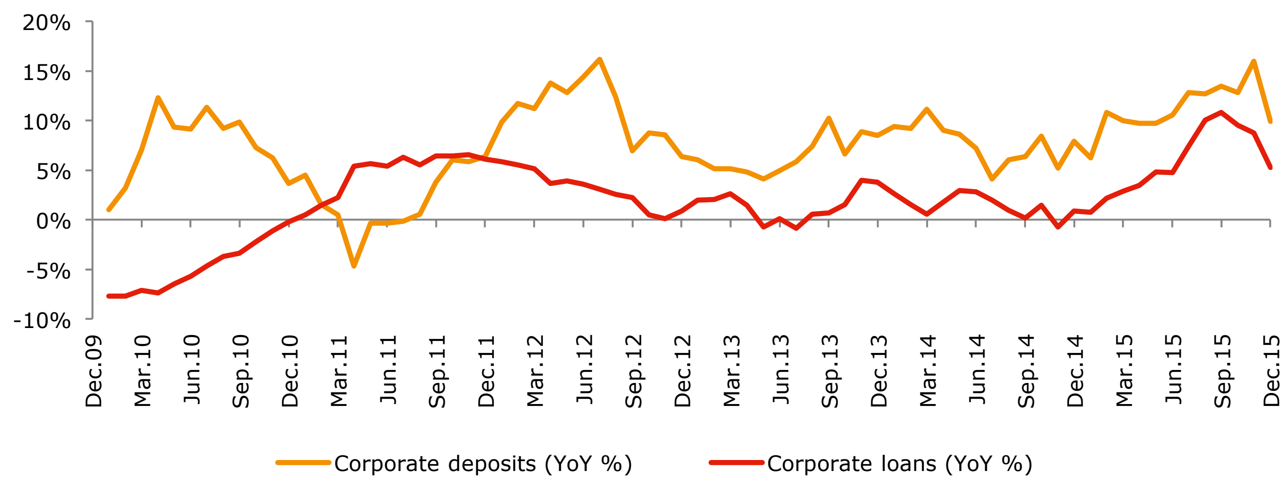
The strengthening of the Czech economy is reflected in improving labour market parameters. The country's unemployment rate has stabilised at the lowest level in the Central and Eastern Europe (CEE) region. The seasonally adjusted unemployment rate reached 5.1% in December 2015 and decreased by 1.0 percentage point year on year. Compensation per employee is expected to have grown by 2.4% in 2015 and the overall wage bill by 4.1%, due to strong employment growth.

Banking sector

The developments recorded in the Czech financial sector in 2015 were mostly positive. In an environment of economic recovery, banks increased their profitability and strengthened their capital adequacy. Funding and liquidity profiles continued to be solid with the sector's loan to deposit ratio of 79.0%. Asset quality remained resilient as demonstrated by a slight decrease of NPL ratio to 5.8% at the end of 2015 from 6.1% observed a year earlier. The relatively contained levels of NPL ratios in the Czech Republic reflect the country's relatively strong industrial base, and limited foreign-currency lending (predominantly to corporate customers and almost non-existent in retail segment) compared to some other countries in the CEE region. The main challenge for Czech banks is a permanent low interest rate environment. Loan yields have continued to decline, causing pressure on net interest margins.

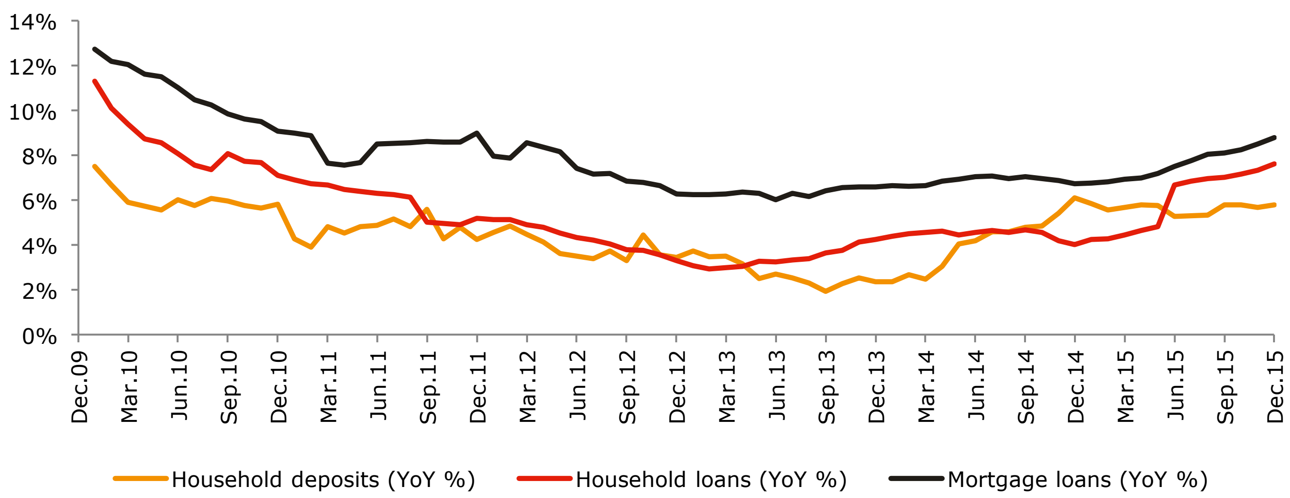
Overall, the profitability of the Czech banking sector is among the highest in the CEE region, as measured by a return on equity of 14.3% and a return on assets of 1.3%. It is expected to stabilise at current levels, as robust capital buffers will enable Czech banks to take advantage of the growth in mortgage lending and those corporate sectors which are more favourably affected by the strong economic activity.

The Czech Republic: Corporate Loans and Deposits



After subdued growth in corporate loan volume in 2014, the year on year dynamics accelerated visibly during 2015, exceeding in December 5.2%. The share of non-performing loans in the total volume of loans to non-financial corporations has been constantly declining since 2011 and amounted to 5.7% at the end of 2015. Following better business perspectives the growth pace of corporate deposits showed gradual improvement and oscillated on average above 10% in 2015.

The Czech Republic: Household Loans and Deposits



The growth in total retail lending was predominantly driven by mortgage loans, which expanded by 8.8% in 2015, while the volume of consumer and other loans showed a slower increase of 5.4% during the same period. The share of non-performing loans in the total volume of loans to households was 4.1% in December 2015, declining from 4.7% at the end of 2014. The annual growth pace of household deposits remained stable in 2015 and reached in December 5.8%. However, the maturity structure of deposit base has been evolving significantly over the last two years, with demand deposits rising at double-digit rate and term deposits falling by around 5% annually. Thanks to a high volume of residents' deposits, the Czech banking sector has been independent of foreign funding sources.

Economy and banking sector in Slovakia

Key macroeconomic parameters	2015	Banking sector indicators	2015
Real GDP growth rate (forecast)	3.5%	Base interest rate	0.05%
Nominal GDP per capita (EUR)	13,500*	Loan to Deposit ratio	95.6%
GDP per capita in PPS (EU-28=100)	77%*	Non-performing loans ratio	4.2%
Average annual inflation rate	-0.3%	Total Capital Ratio (TCR)	17.4%*
Unemployment rate	11.5%	Return on Assets (ROA)	1.0%
Population	5.4 M	Return on Equity (ROE)	8.5%

Source: Eurostat, Národná banka Slovenska (NBS).
** Cumulative 9 month data (as of September 30, 2015) or latest available*

GDP, inflation and interest rates

Economic growth in Slovakia is expected to have strengthened to 3.5% in 2015, due to a substantial rise in domestic demand. Investment benefited from intensified drawing of EU funds, as the possibility to make use of funding available under the 2007-2013 programming period came to an end. Household consumption was supported by positive labour market developments, sound wage growth, continued low inflation and favourable credit conditions. However, net exports are expected to have contributed negatively to growth, as imports were boosted by elevated investment activity.

Slovakia's recovery is forecasted to continue in both 2016 and 2017, with real GDP growth of more than 3% per year. Accelerating household expenditure looks set to become the strongest driver of growth in 2016 and thereafter. Private consumption is expected to expand by 3.4% in 2016, buttressed by steady gains in employment. The continued fall in energy prices also strengthens household budgets.

In Slovakia, as a member of euro zone, the key interest rate, set by the European Central Bank (ECB), was kept unchanged at 0.05% in 2015. The last reduction by 0.1 percentage point was decided on September 10, 2014, following the earlier cut from 0.25% taken on June 11, 2014.

In December 2015, annual inflation stood at -0.5%, compared to a contraction of consumer prices at 0.1% recorded at the end of 2014. The drop was mainly driven by the sharp fall in energy prices. The average annual inflation rate for 2015 reached -0.3%, dropping from -0.1% in 2014. Deflationary pressures observed in 2015 are expected to slowly dissipate, mirroring the pickup in consumer spending. Headline inflation is set to turn positive but remain close to zero in 2016, with the ongoing decline in energy prices being offset by a recovery in the prices of services.

Throughout 2014 and 2015 unemployment in Slovakia was gradually decreasing in line with the improvement in economic activity. The seasonally adjusted unemployment rate reached 11.5% in December 2015 and was lower by 1.7 percentage point year on year. The unemployment rate is expected to further decline to around 9.3% in 2017 on the back of robust economic expansion. The activity rate increased substantially in 2015, but long-term unemployment remained elevated. Nominal wage growth picked up in 2015 and is expected to rise to 3% in 2016, providing a substantial boost to household purchasing power in a low-inflation environment.

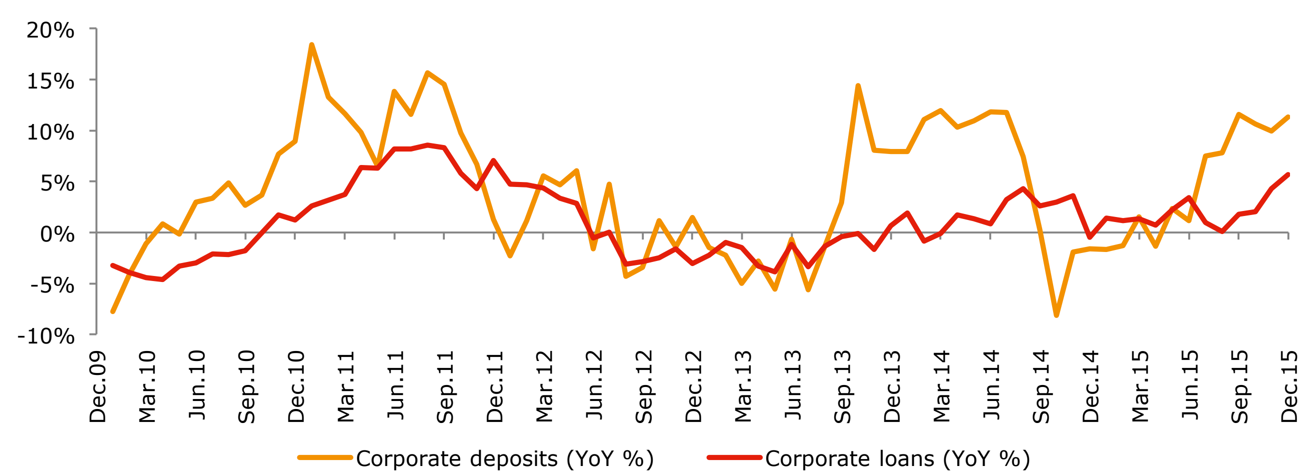
Banking sector

Slovak banks have seen a stronger operating environment as economic growth rebounded. Even with slightly stronger loan growth, the overall loan to deposit ratio in the sector is expected to be kept close to its current level of 95%, as banks remain keen to use deposits to fund their lending activity and the reliance on wholesale funding sources is very low. The Slovak banking sector's capital adequacy is among the highest in the CEE region, along with the Czech Republic.

The overall improvement of the NPL ratio was mainly the result of the high growth in mortgage loans and stabilisation in the stock of non-performing loans. The NPL ratio for Slovakia is the lowest in the CEE region at 4.2% at the end of December 2015. The asset quality can potentially improve further mainly due to strengthening business activities and raising household income.

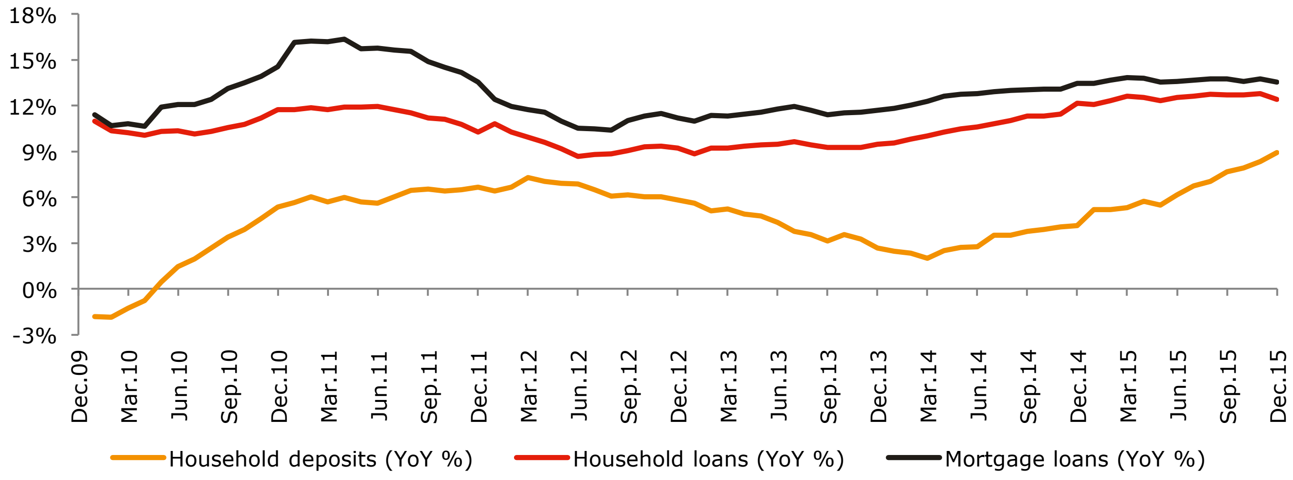
The profitability of the Slovak banking sector improved slightly in 2015 and some further upside potential for the current level of return on equity of 8.5% and return on assets of around 1.0% is seen. While a pressure on net interest margin persists, a sound credit growth, especially in the higher-yielding retail business, accompanied by lower credit costs position the banks to generate decent profits. On the other hand, the recent requirement to pay contributions to the resolution fund is expected to weigh negatively on the performance of Slovak banking sector.

Slovakia: Corporate Loans and Deposits



Accelerating economic recovery and low interest rates provided banks with favourable lending opportunities. Total loans grew by 9.3% in 2015, compared with 7.7% in 2014. After only moderate expansion in corporate loan volume observed in 2014 and until Autumn 2015, the commercial books of banks recorded a higher growth of 5.7% at the end of 2015. The share of non-performing loans in the total volume of loans to non-financial corporations decreased to 6.9% at the end of 2015 from 7.9% in 2014. The corporate deposit base showed rapid growth in H2 2015 and the annual growth pace accelerated to 11.3% at the end of the year. The negative trends in corporate deposits recorded at the turn of 2014 and 2015 partially resulted from the high base effect.

Slovakia: Household Loans and Deposits



The improving economy and low credit costs have promoted strong development of household loans in Slovakia. Retail lending has continued to rise rapidly over the recent years, mainly due to housing loan acceleration, with the year on year growth pace exceeding 13% in 2015. The share of non-performing loans in the total volume of loans to households declined to 3.9% in December 2015 from 4.3% at the end of 2014. Development of retail deposits have shown clearly increasing trend since Q1 2014, with the annual dynamics reaching 8.9% in 2015, compared to 4.1% a year earlier. Since the mid-2013 the opposite trends within the structure of household deposit base have been observed. The volume of term deposits has been decreasing over the past quarters, what is more than compensated by continuously accelerating retail demand deposits, which expanded by 17.9% in 2015.

<u>Summary of foreign operations of mBank</u>

mBank provides retail banking services to individuals in both the Czech Republic and Slovakia, being the only Polish bank, which successfully replicated its Polish business model on foreign markets - in 2007 it started its retail operations in the Czech Republic and Slovakia. The Bank offers products such as current accounts, savings accounts, payment and credit cards, overdrafts or housing loans. Additionally, clients of mBank in the Czech Republic are provided with financial advisory services. During the period between 2007 and 2015, mBank in the Czech Republic and Slovakia acquired 819.7 thousand retail customers (individuals and microfirms).

As at December 31, 2015, total loan portfolio of mBank's foreign branches stood at PLN 3,824.0 million and increased by 31.1% year on year. The volume of mortgage loans reached PLN 3,319.9 million, while non-mortgage loans amounted to PLN 504.1 million. Focus on lending acceleration resulted in growth of credit products, in particular sales of mortgage loans increased by 20.2% to PLN 1,059.3 million in 2015. Total deposits in both markets stood at PLN 6,371.8 million and rose by 13.4% year on year. The fastest growth of 26.2% was recorded on current accounts, reflecting both strong acquisition of new clients and rising transactionality of existing customer base. In 2015, number of mBank's clients in the Czech Republic increased by 39.0 thousand to 573.1 thousand, while in Slovakia it expanded by 18.9 thousand and reached 246.5 thousand at the end of 2015. This dynamic growth in volumes and the number of accounts indicates possibilities of further development of mBank in the foreign markets.

The activity of mBank in the Czech Republic and Slovakia in 2015 was focused on building the position of a mobile bank and intensifying its lending efforts, especially in the area of unsecured loans.

The new mobile application launched at the turn of 2014 and 2015 was enhanced with a QR reader feature in 2015. In Q4 2015, a version dedicated to Windows Phone mobile devices was made available to users. The marketing campaign "Mobility Icon" and other promotional activities encouraging clients to switch to

mobile devices resulted in the mobile application having been installed on 165 thousand devices in the Czech Republic and Slovakia (data as oDecember 31, 2015). mBank's mobile application was considered the most client-friendly solution among mobile applications offered by the leading Czech banks in a survey conducted by Tyinternety.cz, a website dealing with new technologies and innovations. mBank ranked second in the innovation category of the Zlata Koruna contest with its new mobile application.

In 2015, the foreign branches expanded their credit offer with cash loan refinancing and consolidation. Q4 2015 was also marked by the introduction of three new innovative credit cards. In 2015, for the first time in the history of the foreign branches, two promotional campaigns advertising cash loans were launched.

Another major event from the viewpoint of building client relations was the implementation of CRM tools enabling, among others, real-time communication (real-time marketing).

In 2015, the foreign branches did not only develop their own, remote distribution channels, but also started the cooperation with one of the largest financial brokers on the market - Broker Consulting running a network of 70 outlets and 1,200 agents in the Czech Republic. The new partner will support the distribution of accounts as well as non-mortgage and mortgage loans of mBank.

10. Business activity of mBank Group subsidiaries

10.1. Summary of financial results of mBank Group subsidiaries

Total profit before tax of the subsidiaries of mBank Group stood at PLN 258.0 million in 2015, compared with PLN 183.0 million in 2014 (net of dividend paid by BRE Ubezpieczenia TUiR S.A. to Aspiro S.A. in 2014 and gains on the sale of BRE Agent Ubezpieczeniowy Sp. z o.o. and BRE Ubezpieczenia Sp. z o.o. by BRE Ubezpieczenia TUiR S.A. in 2015).

The table below presents profit before tax posted by individual subsidiaries in 2015 compared with 2014:

PLN M	2014	2015	Change in PLN M	Change in %
mLeasing	45.9	57.2	11.3	24.6%
mBank Hipoteczny	29.5	26.8	-2.7	-9.2%
mFaktoring	20.0	-22.2	-42.2	+/-
Dom Maklerski mBanku	19.5	28.2	8.7	44.6%
mWealth Management	18.5	27.4	8.9	48.1%
mLocum	16.7	17.9	1.2	7.2%
Aspiro	16.3	122.6	106.3	652.1%
BRE Ubezpieczenia TUiR*	53.5	7.1	-46.4	-86.7%
Other#	-32.9	-7.0	25.9	78.7%
Profit before tax of mBank Group subsidiaries	**183.0**	**258.0**	**75.0**	**41.0%**

* *The company was sold to AXA Group at the end of Q1 2015*
\# *Other subsidiaries include mFinanceFrance, MLV-45, mCentrumOperacji, BDH Development, Garbary, and Transfinance in 2014; Tele-Tech Investment has been consolidated since Q3/15*

In particular, the following subsidiaries improved their results in comparison with 2014: mLeasing, Dom Maklerski mBanku, mWealth Management and Aspiro.

10.2. Business activity of selected subsidiaries

mBank Hipoteczny

The largest mortgage bank in Poland

Focusing on financing of commercial projects, the public sector and individual clients, market analysis and advisory services for investors and operators of commercial real estate industry

The largest issuer of covered bonds in Poland – 76% market share; almost PLN 4 billion securities outstanding

The gross loan portfolio of mBank Hipoteczny (mBH) reached PLN 7.5 billion at the end of 2015 compared to 5.4 billion a year before. The change was driven mainly by implementation of the Strategy of mBank Group, i.e. by a steady increase in the portfolio of new mortgage loans for retail clients of mBank Group, where sales reached PLN 1.5 billion at the end of 2015. In addition mBank Hipoteczny acquired from mBank PLN 468.7 million retail receivables and PLN 218.5 million corporate receivables in loan pooling.

In 2015, profit before income tax of mBank Hipoteczny amounted to PLN 26.8 million compared to PLN 29.5 million a year before, with a decrease by 9.2%. The decrease was caused mainly by higher provisions created on loans and advances to customers under individual valuation, together with changes in methodology of estimating the value of commercial portfolio provisions as well as in an increase of operational costs.

In 2015 mBank Hipoteczny became an even more active player on the debt securities market. mBH placed seven series of covered bonds during the year. The total nominal value of the covered bonds in issue exceeded PLN 1.5 billion. Consequently, mBH successfully achieved its target for 2015.

It was the best year in the fifteen-year history of mBank Hipoteczny as measured by the scale of issuing activity. In 2015 mBH conducted a record-breaking single issue of covered bonds worth PLN 0.5 biillion (in September), while the value of new and outstanding covered bonds issued by mBH crossed the mark of PLN 4 billion in the end of 2015.

The scale of mBH's issuing activity in 2015 and the parameters of individual issues mark a significant change in the Bank's policy, whose main function is to raise funding and refinance long-term mortgage loans through the issue of covered bonds. The main focus is on narrowing the maturity gap of assets and liabilities, reducing the currency gap, and cutting the cost of new funding.

When analysing the series issued in 2015, attention should be paid to long maturities of the covered bonds issued by mBH (minimum maturity - 5 years, maximum maturity - 10 years) and the relatively high nominal values of the covered bonds issued in PLN, as compared with the previous years (minimum transaction value - PLN 200 million, maximum transaction value - PLN 500 million).

As far as PLN issues are concerned, it is especially worth mentioning the abovementioned PLN 0.5 billion issue of mortgage bonds conducted in mid-September 2015. Not only was it a record-breaking transaction for mBH, which proved its potential for refinancing mortgage loans through the issue of covered bonds, but also it was the highest issue of covered bonds in terms of volume in the entire history of mortgage banking in Poland.

Taking advantage of the positive foreign investor sentiment, mBH additionally raised EUR 81 million in three transactions in 2015.

Table with detailed information on mBH covered bonds issues can be found in the chapter 6.2. mBank Group funding.

mLeasing

Financing offer in the form of leasing or rent, and car fleet management

1st position on the real estate market

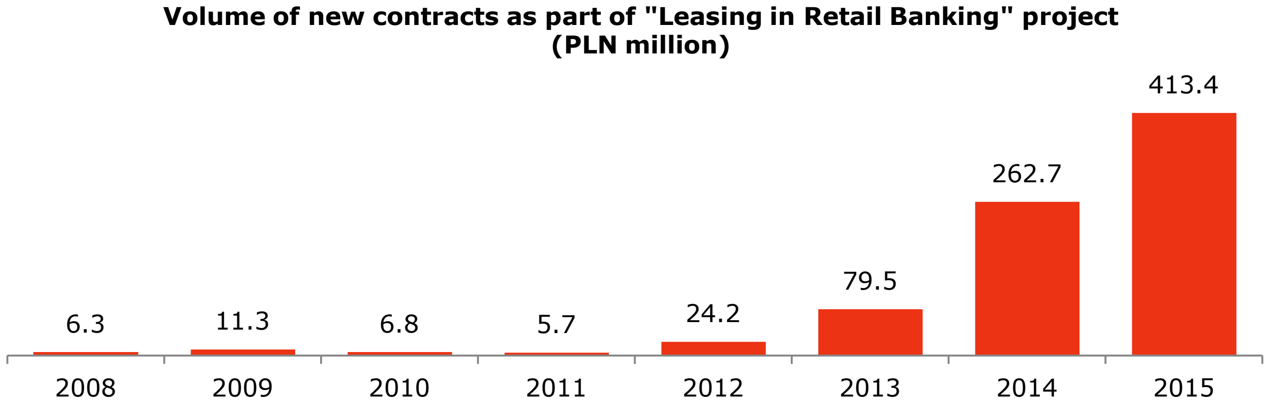
2rd position on the leasing market in Poland by the values of contracts executed in 2015

The value of contracts executed by mLeasing in 2015 reached PLN 3.8 billion, compared to PLN 3.2 billion in 2014 (+19.9% year on year). As demand increased in 2015, the sales grew year on year, mainly driven by an increase in the sales of vehicles, machinery and equipment. In 2015, the company ranked second by aggregate volume of executed contracts (movables and real estate), including the five position in movables and the first position in real estate. The value of contracts on movables concluded in 2015 amounted to PLN 3.3 billion compared to PLN 2.9 billion a year before (+13.8% year on year), while the value of contracts executed on real estate stood at PLN 0.5 billion compared to PLN 0.3 billion in 2014 (+66.7% year on year).

The profit before tax of mLeasing in 2015 was PLN 57.2 million, representing an increase of 24.6% year on year.

The "Leasing in Retail" project continued in 2015 pursuant to the "One Bank" Strategy geared to developing a comprehensive offer for clients. The initiative is dedicated to SME clients who can conclude a leasing agreement using special leasing processes. Thanks to the combined efforts of Retail Banking and mLeasing, the company financed PLN 413.4 million of fixed assets, estimated by the price of buy.

The chart below presents the value of leasing contracts executed under the "Leasing in Retail" project:



mFaktoring

Domestic and export factoring with recourse, non-recourse factoring, import guarantees
21 years on the market, one of the pioneers of factoring in Poland
7th position on the factoring market in Poland, with 7.8% market share

mFaktoring holds second position on the factoring market in Poland, with 7.8% market share. The turnover in the sector increased by 17.4% in 2015 (according to the Polish Factors Association) and the value of financed invoices was PLN 134.3 billion.

The company generated a loss before tax of PLN 22.2 million compared to a profit of PLN 20.0 million at the end of 2014. The negative result was caused due to provisions created on a defaulted exposure. The operating profit was PLN 40.0 million, representing an increase of 8.6% year on year.

Turnover (the value of purchased invoices) was at PLN 10.4 billion in 2015, with an increase of 15.1% year on year. The limits under new contracts increased to PLN 622 million, compared to PLN 556 million in 2014.

mDom Maklerski

Comprehensive brokerage and capital market services for individuals and institutions as well as issues
The largest number of brokerage accounts on the Polish market, handling nearly 300 thousand customers
Equities trading market share – 5.0% and 9th position on the market
Futures trading market share – 16.1% and 2nd position on the market
Options trading market share – 12.8% and 4th position on the market

Dom Maklerski mBanku (mDM) provides brokerage services to the largest Polish institutional investors (pension funds, investment funds, asset managers), foreign funds, and retail clients. mDM enables clients to trade on regulated markets in Poland and abroad as well as on the FOREX/CFD market.

At the end of 2015, mDM had 299.0 thousand clients (including 4.9 thousand forex-related accounts), representing an increase by 2.7 thousand year on year.

mBank S.A. Group
Management Board Report on the Performance of mBank Group in 2015

In 2015, mDM arranged IPOs of two companies: Uniwheels AG (PLN 504 million, acting as Global Coordinator), Wirtualna Polska Holding S.A. (PLN 294 million, acting as Co-manager); two ABB transactions: PZU S.A. (PLN 178 million, acting as Global Co-coordinator), Prime Car Management S.A. (PLN 300 million, acting as Co-manager); SPO of Pfleiderer Grajewo S.A. (PLN 561 million, acting as Co-manager), private placement of Ursus S.A. (PLN 22 million, as Bookrunner), two public bond issues: BEST S.A. (PLN 35 million, acting as Lead Manager/Issue Agent), Polnord S.A. (PLN 50 million, acting as Lead Manager/Issue Agent), and two public issues of investment certificates of Medyczny Publiczny FIZ (PLN 29 million in total, acting as Lead Manager/Issue Agent).

In 2015, the market share of mDM in equity trading on the WSE was 5.0%, which ranks the company as the ninth biggest player on the market. mDM had the second position in the market of futures with a market share of 16.1% and the fourth position on the market of options with a market share of 12.8%.

mDM generated a profit before tax of PLN 28.2 million in 2015, representing a 44.6% increase year on year (PLN 19.5 million in 2014), primarily as a result of higher income from commissions on IPO transactions, improved turnover on Forex/CFD market and foreign markets, and rising income from proprietary transactions (market maker, issuer's market maker).

Aspiro

An open platform for financial services sale
The offer comprises loans, account, insurance products, investments and savings for both individual customers and companies

As at the end of 2015, Aspiro offered products of 22 financial service providers, including mBank. The offer comprised 41 products, including, among others, mortgage loans, cash loans, insurance products, investment products, leasing and factoring.

The company reported an increase of the volume of mortgage loan sales in 2015 (+47.4% year on year) mainly achieved through sales of the mortgage loan offer of mBank and mBank Hipoteczny.

The company's profit before tax in 2015 was at PLN 122.6 million compared to a profit before tax of PLN 16.3 million in 2014 (+652.1% year on year), excluding the dividend paid by BRE Ubezpieczenia TUiR S.A. to Aspiro S.A. in 2014 and gains on the sale of BRE Agent Ubezpieczeniowy Sp. z o.o. and BRE Ubezpieczenia Sp. z o.o. by BRE Ubezpieczenia TUiR S.A. The increase results from adjusted allocation of responsibilities within the Group introduced in March 2015, and recognition of results generated by BRE Ubezpieczenia Sp. z o.o. and BRE Agent Ubezpieczeniowy Sp. z o.o., whose operations were merged with those of Aspiro on March 2, 2015.

In 2015, the company continued dynamic growth of car loans market share (+105% year on year). In December 2015, it became the only sales agent for Volvo car loans. It is the second premium brand, after BMW, in which the company exclusively offers this kind of financing.

In March 2015, Aspiro SA broadened its operations by acquisition of BRE Ubezpieczenia Sp. z o.o. and BRE Agent Ubezpieczeniowy Sp. z o.o., which influenced profits of the company. Since March 2, 2015, Aspiro operates as insurance agent in the scope of mortgage, cash, account, cards and leasing loans insurances within mBank Group.

mWealth Management

Private Banking & Wealth Management services
Comprehensive asset management by the company's experts and specialists from cooperating companies
mBank's private banking was ranked the best in Poland by Euromoney Magazine for the eight time

In 2015, the company continued to develop comprehensive wealth management services, including investment advisory and asset management. Assets under management reached PLN 5.3 billion at the end of 2015, representing an increase of 3.0% year on year.

As far as financial performance is concerned, 2015 was a record-breaking year for the company. The company generated an operating profit of PLN 47.1 million, which represents an increase by 28.7% year on year. Profit before tax reached PLN 27.4 million, up from PLN 18.5 million reported in 2014.

In acknowledgement of the company's success and top quality services, mWM received the Euromoney award for the best private banking and wealth management offer in Poland for the eighth time.

mCentrum Operacji

Back-office processes for mBank Group
Settlements servicing and database administration
Documentation storage in electronic and paper form, confidential data protection

In 2015 the company together with other subsidiaries from mBank Group actively participated in research and development projects in the area of system migrations and new mobile solutions, of which the most important was participation in the project of migration of former Multibank clients to mBank. Additionally, the company took part in Orange Finanse project in the field of services offered to mBank customers and continued partnership with mBank Hipoteczny in terms of mMove Mortgage process optimisation.

The company's profit before tax in 2015 stood at PLN 50.3 thousand compared to a profit before tax of PLN 5,793.6 thousand in 2014, which was caused by impairment on fixed assets owned by mCentrum Operacji.

mLocum

A leading real estate developer
Activities in Kraków, Łódź, Wrocław, Warszawa, Poznań and Sopot
Member of Polish Developers Association (Polski Związek Firm Deweloperskich)

mLocum is a property developer active on the primary real estate market. The company is engaged in housing development projects in Poland's biggest cities including Kraków, Łódź, Warszawa, Wrocław, Poznań and Sopot. The company sold 278 apartments in 2015, compared to 240 apartments in 2014.

The profit before tax generated by the company in 2015 was PLN 17.9 million, compared to PLN 16.7 million in 2014. The increase of the profit was owed to improved conditions on the primary market of housing real estate, resulting in higher sales margins.

mFinance France S.A.

The core business of mFinance France (mFF) is to raise funds for mBank in international markets through Eurobond issues. The Eurobond programme (EMTN) was relaunched in 2012. In 2014, mFF issued two tranches of bonds, EUR 500 million each, maturing in 2019 and 2021. In 2015, no bonds were issued due to the less favourable market conditions.

mFF generated a loss before tax of PLN 10 thousand in 2015, compared to a profit of PLN 36 thousand posted in 2014, due to the provision created on FX loss resulting from differences in methods of valuation in French system accounting.

Garbary Sp. z o.o.

The company is part of the Bank's portfolio since May 2004. The only asset of Garbary is a plot of land situated at Garbary st. 101/111 in Poznań with a meat plant development (currently not in operation) subject to strict urban heritage conservation.

BDH Development Sp. z o.o.

mBank acquired 100% of BDH Development Sp. z o.o. in November 2013. The core business of the company is to implement and complete property development projects using housing real estate taken over by mBank Group companies in debt restructuring and enforcement of investment loans in order to recover the biggest possible value from properties taken over.

The company posted a loss before tax of PLN 4.6 million in 2015, in part due to a revaluation of properties held by the company.

Tele-Tech Investment Sp. z o. o.

In Q3 2015, the company Tele-Tech Investment Sp. z o. o was consolidated. It deals with securities transactions and trade in receivables, management of subsidiaries and advisory with regard to business and management.

11. Information for investors

The table below present the key share price data for mBank:

Share price data	2014	2015
Share price	498.0	314.0
Total number of shares	42,210,057	42,238,924
P/E ratio	16.3	10.2
P/BV ratio	1.9	1.1
Max. share price	545.0	505.0
Min. share price	442.1	294.7
Market capitalization (PLN B)	21.0	13.3
Average traded volume (PLN M)	12.8	12.2
Dividend per share	17.0	-

11.1. mBank shareholders and share prices on the WSE

mBank shareholders

Commerzbank AG has been the strategic shareholder of mBank since 1994. The stake of Commerzbank has been increasing gradually, from 21.0% in 1995 to 50.0% in 2000 and 72.2% in 2003. Starting from 2005, Commerzbank's stake has declined slightly due to the implementation of the managerial options programme at the Bank. As at the end of 2015, Commerzbank AG held 69.5% of shares and votes at the General Meeting.

The remaining 30.5% of mBank shares in free float are held mainly by financial investors (Polish pension funds, Polish and foreign investment funds). In 2015, the biggest of them was ING Otwarty Fundusz Emerytalny (ING OFE). According to the notification of March 18, 2015, ING OFE held 5.05% of the total number of shares and votes at the General Meeting. Aviva Group is also a significant shareholder of mBank, with a 4.9% stake (according to Bloomberg data as at December 31, 2015)

Performance of mBank shares in 2015

Key characteristics of mBank shares:

- Nominal value per share: PLN 4.00.
- Registered share capital: PLN 168,956 thousand, paid-up in full.
- mBank shares have been listed on the Warsaw Stock Exchange (WSE) since 1992.
- mBank shares are part of the following WSE indices: WIG, WIG-Poland, WIG20, WIG30 and WIG-Banks; the shares are also included in derivative indices based on WIG20.

In 2015, the total number of mBank shares increased by 28,867 shares issued as part of an incentive programme. Consequently, the registered share capital increased by PLN 115.5 thousand.

Performance of mBank shares in 2015 should be analysed in the context of the situation on the Warsaw Stock Exchange and stock market performance of other banks.

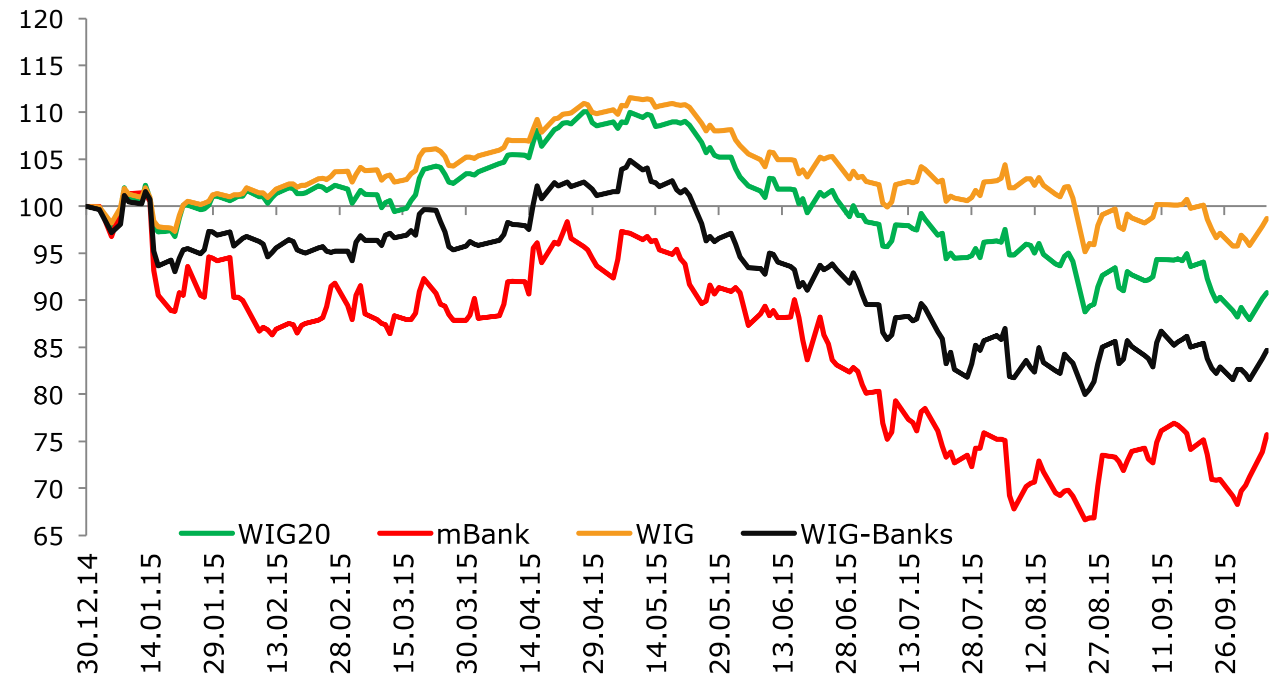
2015 was a difficult year for investors present on the Warsaw Stock Exchange. The share prices of listed companies were badly affected by adverse global and local factors related to the political and economic situation in Poland. Investors' had become less prone to investments on the WSE due to decreasing confidence, especially from foreign investors, and rising investment risk. This coupled with the political changes and shrinking investment capabilities of open-ended pension funds following the 2014 reform had pushed the WIG20 index down to its lowest level in 6 years.

The weak performance in early 2015 was followed by a rebound which fuelled analysts' May forecasts of the broad-based index breaking the 60,000 mark. The beginning of the election campaign and politicians' pledges which were especially damaging to the banking sector and the energy industry took a heavy toll on the stock market. The outcome of the presidential vote and subsequent parliamentary elections increased the likelihood of controversial projects being turned into law, reinforcing the downward trend and triggering a stock sell-off in Q4 2015. As a result, WIG slumped much below the 50,000 mark.

In 2015, WIG and WIG20 went down by 9.6% and 19.7%, respectively. While blue chips came under considerable pressure from sellers, the small and medium-sized enterprises listed in Warsaw were performing much better. Throughout the year mWIG40 and sWIG80 rose by 2.4% and 9.11%, respectively.

Most affected by the falling share prices were banks, especially those holding major portfolios denominated in Swiss francs, among them mBank. The slide in banks' share prices was driven by investors' fears about the proposed conversion of the Swiss-franc mortgage loans into the zloty at an exchange rate lower than the market rate and refund of amounts resulting from the currency spread the banks applied with regard to FX loans. The year-on-year decrease in WIG-Banks reached 23.5%. The closing price of mBank's stocks on the last trading day in 2015 stood at PLN 314 and was by 36.9% lower than a year before. mBank's capitalization amounted to PLN 13.3 billion (EUR 3.1 billion) at the end of 2015 compared with PLN 21.0 billion (EUR 4.9 billion) a year earlier.

mBank stock performance on the WSE - relative changes vs. WIG, WIG20



Performance of mBank's shares compared with WIG-Banks and EURO STOXX Banks

Change	2013	2014	2015
mBank	+53.4%	-0.4%	**-36.9%**
WIG-Banks Index	+20.5%	-0.7%	**-23.5%**
EURO STOXX Banks Index	+25.9%	-4.9%	**-4.9%**

11.2. Ratings of mBank and mBank Hipoteczny

mBank's ratings

mBank signed rating agreements with Fitch Ratings (Fitch) and Standard & Poor's Ratings Services (S&P's). Ratings assigned by these agencies are presented in the table below.

Fitch - mBank's rating as at December 31, 2015	
Long–term IDR	BBB-
Short-term IDR	F3
Viability rating	bbb-
Support rating	2
Outlook for long-term rating	positive
Rating of senior unsecured debt issued under the Euro Medium Term Note Programme (EMTN)	BBB-; F3
Bond tranches issued by mFinance France	*BBB-*
S&P's - mBank's rating as at December 31, 2015	
Long-term rating	BBB
Short-term rating	A-2
Stand Alone Credit Profile	bbb-
Outlook for long-term rating	stable
Rating of senior unsecured debt issued under the Euro Medium Term Note Programme (EMTN)	BBB
Bond tranches issued by mFinance France	*BBB*

On May 19, 2015, Fitch Ratings downgraded mBank's long-term IDR (Issuer Default Rating) from "A" to "BBB-" as a result of the downgrade of Commerzbank's IDR from "A+" to "BBB". Consequently, mBank's short-term rating was changed from "F1" to "F3". The support rating was cut from "1" to "2". Similarly, ratings of unsecured debt were reduced to "BBB-" for long-term senior unsecured debt and "F3" for short-term senior unsecured debt.

Fitch's decision to cut Commerzbank's and, consequently, mBank's rating was triggered by the agency's assessment of the effects of implementation of the Bank Recovery and Resolution Directive (BRRD) which dramatically reduced the scope of potential state aid provided to banks.

Before the downgrade in May 2015, Commerzbank's long-term IDR was higher than the bank's viability rating as it could potentially receive help from the German government. Following a verification of the support rating arising from the implementation of the BRRD, Commerzbank's long-term rating was cut to the level of the entity's viability rating. This, in turn, was reflected in Fitch's verification of Commerzbank's ability to provide mBank with potential support.

mBank's viability rating assessing mBank's creditworthiness based on factors such as business profile, management and strategy, risk profile, financial results and external environment had not changed and remained at "bbb-".

On June 9, 2015 Standard & Poor's Ratings Services (S&P) downgraded mBank's long-term counterparty credit rating from "BBB+" to "BBB" following the downgrade of Commerzbank's rating from "A-" to "BBB+". As a consequence, the rating of bonds issued by mFinance France under the Euro Medium Term Note Programme was cut to "BBB". mBank's short-term rating remained unchanged at "A2".

The reduction of Commerzbank's long-term rating and the resulting downgrade of mBank's rating by S&P were driven by a verification of the probability of German state support for Commerzbank (due to BRRD implementation) and the consideration of the criteria determining the additional loss-absorbing capacity (ALAC).

On February 3, 2016, S&P changed the outlook on mBank's rating from stable to negative following the change of Polish Banking Industry Risk from stable to negative. S&P's negative view of the industry risk trend reflects the opinion that the banking sector's ability to absorb losses and to withstand shocks could weaken over the next two years. According to S&P's operating conditions for Polish banks remain difficult as a new bank levy, increased regulatory costs, and costs related to potential foreign-currency loan conversions will put further pressure on the sector's profitability in the low interest rate environment.

Apart from the ratings assigned by Fitch and S&P, mBank was also rated by Moody's Investors Service as a non-participant in the rating process based on information available in the public domain.

Moody's - mBank's rating as at December 31, 2015	
Long-term deposit rating	Baa2 (stable outlook)
Short-term rating	Prime-2
Unsecured debt rating	Baa3
Counterparty risk assessment	Baa1 (cr)/ P-2 (cr)

On May 21, 2015, Moody's upgraded the long-term deposit rating of mBank from "Baa3" to "Baa2", and the short-term rating from "Prime-3" to "Prime-2". The upgrade of the long-term rating of the Bank resulted from the application of an advanced LGF analysis (Loss Given Failure). The application of the LGF analysis compensated the effects of downgrading the assessment of government support, resulting from the implementation of the regulations on recovery and resolution of credit institutions.

In May 2015, Moody's introduced a new assessment for banks – the Counterparty Risk Assessment (CR). CR shows how liabilities to counterparties will be treated if a bank is in default. mBank was given Baa1 (cr)/ P-2 (cr).

Ratings of mBank Hipoteczny S.A.

As at December 31, 2015, mBank Hipoteczny was assigned the following Fitch ratings:

Fitch Ratings - mBank Hipoteczny's rating as at December 31, 2015	
Long–term IDR	BBB- (positive outlook)
Short-term IDR	F3
Support rating	2
Rating for mortgage covered bonds	*BBB*
Rating for public covered bonds	*BBB*

Fitch's assessment of mBank of May 19, 2015 also covered mBank Hipoteczny. mBank Hipoteczny's long-term rating was downgraded from "A" to "BBB-", the short-term rating from "F1" to "F3", and the support rating from "1" to "2". The rating of mBank Hipoteczny corresponds to the rating of mBank, which proves the meaning of this subsidiary to mBank.

On January 7, 2016, following the entry into force of the amended Act on Covered Bonds and Mortgage Banks as of 2016, the mortgage bonds issued by mBank Hipoteczny were put on Fitch's watch list with a positive outlook (watch positive rating).

11.3. Ratings of Poland, mBank and Commerzbank – comparison

The table below compares the long-term ratings of Poland, mBank and Commerzbank as of December 31, 2015.

Rating agency	Poland	mBank S.A.	Commerzbank AG
Fitch Ratings	A- (stab.)	BBB- (pos.)	BBB (pos.)
Standard & Poor's	A- (pos.) From 15 Jan. 2016 BBB+ (neg.)	BBB (stab.) From 3 Feb 2016 BBB (neg.)	BBB+ (neg.)
Moody's	A2 (stab.)	Baa2 (stab.)*	Baa1 (pos.) From 26 Jan. 2016 A2 (stab.)

Rating outlook in brackets: pos. – positive, stab. – stable, neg. – negative
** "Non-participating issuer", rating based solely on information available in the public domain.*

11.4. Investor Relations at mBank

mBank pays close attention to ensuring effective communication with its investors and analysts. Investment relations are part of the responsibilities of the Investor Relations and Group Strategy Department which, through cooperation with the Management Board and a number of units across the Bank, ensures that stakeholders receive correct and complete information about mBank Group.

In 2015, investors and stock market analysts participated in four conferences on mBank performance, both in person and via the Internet. All the meetings with the Management Board accompanying the announcement of quarterly financial figures were broadcast on the Internet in Polish and English and made available on the Bank's website. In addition, after the publication of the Group's quarterly results, institutional investors were invited to participate in individual and group meetings with the President of the Management Board to discuss issues related to the Group and its results.

Relations with analysts, shareholders and potential investors are also strengthened through meetings at conferences held in Poland and abroad. In 2015, mBank participated in three conferences in Warsaw, six conferences held abroad and organised three meetings with representatives of the Management Board for institutional investors. Moreover, the Bank organised two roadshows in the United States. There were about 140 meetings for investors and analysts with representatives of the Management Board and/or the Investment Relations team throughout the year.

Like every year, in 2015 two sessions were organised as part of regular meetings with the Bank's rating agencies and a number of video conferences with the rating agencies were held.

Analysts and investors of mBank are kept informed about important events related to mBank Group via monthly newsletters and e-mails.

The website of the Bank's investor relations (http://www.mbank.pl/relacje-inwestorskie/) was designed with Polish and English speaking investors and analysts in mind. It offers up-to-date and thematically grouped information on mBank Group's financial results, shareholding structure, Annual General Meetings, ratings and performance of mBank shares on the WSE. It also includes current and periodic reports and details on consensus estimates for the Group. A dedicated interactive business intelligence application called mBank Analyzer offers a quick and easy insight into mBank Group's financial results and business data.

Research analysts' recommendations

mBank Group and its performance are monitored by analysts representing various financial institutions, banks and brokers. mBank is on the watch lists of several domestic and foreign banks whose analysts issue their recommendations for mBank shares. These include the following: Citi Research (DM Banku Handlowego), Deutsche Bank, Goldman Sachs International, Haitong Securities, Millennium DM, BoA Merrill Lynch, Raiffeisen Centrobank, ING Securities, Wood & Company, J.P. Morgan, DM PKO BP, Pekao Investment Banking, DM BZ WBK, Ipopema Securities, Trigon DM, Erste Securities Polska, DM BOŚ, DM Banku BPS and Vestor DM.

As at December 31, 2015, the structure of recommendations for mBank's shares was as follows:

Recommendation	Buy	Hold	Sell
Number of recommendations	6	7	6
Share in %	31.6%	36.8%	31.6%

The current consensus of expected results of mBank Group for 2016-2017 is available at mBank's website: http://www.mbank.pl/relacje-inwestorskie/akcje-mbank/konsensus.html.

12. Risk management

12.1. Risk management foundations and challenges of 2015

mBank Group manages risk on the basis of regulatory requirements and best market practice by developing risk management strategies, policies and guidelines.

Lines of defence

Risk management roles and responsibilities in mBank Group are organised around three lines of defence model:

- The first line of defence is **Business** (business lines) responsible for risk and capital management. Its task is to take risk and capital aspects into consideration when making business decisions, within the risk appetite set for the Group.
- The second line of defence, mainly **Risk** (risk management area), **IT Security and Compliance function**, supports Business by creating strategies of managing particular risk types and relevant policies determining guidelines for Business with regard to decisions on taking risk by Business. The main purpose of the second line of defence is supporting Business in implementing strategies and policies as well as supervising the control functions in the Group and risk exposure.
- The third line of defence is **Internal Audit**, ensuring independent assessment of the first and the second line of defence.

Pillars of risk management

The framework for risk management at mBank Group derives from the concept of three pillars:

- **Customer Focus** – striving to understand and balance specific needs of the Risk's diverse stakeholders (Business, the Management Board, the Supervisory Board, shareholders, regulators).
- **One Risk** understood as an integrated approach to risk management and responsibility to the clients for all risks (defined in Risk Catalogue of mBank Group).
- **Risk vs Rate of Return** perspective – supporting business decision-making process on the basis of long-term relationship between risk and rate of return avoiding tail risks.

Risk is the key partner to business segments and the Management Board in creating lasting value for the Bank and ensuring a long-term balance between the expected rate of return for investors and the safety of the Bank. These strategic objectives require an integrated approach to risk, capital, financing and profitability management.

As a consequence of the foregoing, at the end of 2015 the Risk Management Strategy was updated taking into account new challenges to be faced by Risk in 2016.

Implementation of Customer Focus Integrated Risk initiative

The risk control and management process in mBank Group is subject to continuous improvement with emphasis on the improvement of customer-oriented integrated risk management.

The Customer Focus Integrated Risk initiative has been introduced within the One Bank Strategy. The initiative is realized in the following five key streams:

- strengthening the Business-Risk Dialogue,
- risk appetite,
- improvement of the credit process,
- improvement of Risk employees' competences,
- simplification and integration of the Risk IT architecture,

Selected projects implemented in 2015 are described below:

Internal Control System Self-assessment (ICS)

Implementation of ICS will allow for a comprehensive assessment of operational risk involved in the key processes of the Bank and the Group subsidiaries, in particular by:

- identification of material operational risks,

- inventory of control mechanisms dedicated to mitigate those risks,

- assessment of adequacy and effectiveness of control mechanisms,

- and assessment of the risk level and the development and implementation of the necessary corrective action plans.

ICS implementation was divided into two stages. In the middle of 2015, the second stage of ICS implementation was finalised; therefore, the ICS system covered the whole area of the Bank's operation. In Q4 2015, the implementation of the ICS process was launched in the subsidiaries of the Group.

Additionally, the implementation of the ICS process within the Bank will enable to optimize and integrate the existing operational risk controlling tools in order to better match the new risk and control self-assessment process to the Group's business profile.

CRE policy – modification of the "Credit policy of mBank Group concerning the financing of income-generating real properties within mBank Group" (the first common policy at the level of mBank Group). Determining in the form of a dialogue with Business of the framework for risk appetite and acquisition development of mBank Group on this market, in particular developing the definition of commercial income-generating real properties, risk identification and implementation of the mitigants of those risks, creating tools to monitor the CRE portfolio at the level of mBank Group.

Credit Committee of mBank Group established at the turn of 2014 and 2015 is mainly responsible for supervising the concentration risk and large exposures at the level of mBank Group by making decisions and issuing recommendations. The Committee also takes decisions at the Bank on converting debt into shares, interests, etc. and decisions on taking over properties in return for debts.

Mtm Migration (migration of former Multibank and Private Banking clients to mBank transactional platform). The risk management area was a key partner in the strategic project of migration of retail clients to the new transaction platform. The operation completed in October 2015 provides all clients with access to a modern platform and to the mobile solutions it offers.

mMove Project consisted in optimising the mortgage process for retail individual clients. Owing to the solutions implemented, the process is simpler, shorter and fully predictable.

Programme of continuous increase of work efficiency in the Risk Area based on the **Lean Management** rules, putting special emphasis on introducing the culture of responsibility and mechanisms for continuous process improvement. The purpose of the programme is to allow the growing number of tasks accompanying business growth and dramatically increasing number of regulatory requirements to be absorbed by more effective use of existing resources. The programme started in 2015 and will be continued in the following years.

Basel III regulatory standards

The new rules on prudential requirements for banks set out in the Capital Requirements Regulation (CRR) on prudential requirements for credit institutions and investment companies and the Capital Requirements Directive (CRD IV) on access to the activity of banks and the prudential supervision, implementing provisions of Basel III, have been effective in the European Union as of January 1, 2014. The amendments introduced under Basel III include:

- stricter capital requirements including a universal definition and components of the bank's capital as well as implementation of capital ratio specified in relation to the funds of the highest quality,
- introduction of own funds requirement associated with credit valuation adjustment,

- implementation of financial leverage ratio,
- introduction of additional capital buffers, including a capital conservation buffer, a countercyclical buffer, a global systemically important financial institutions buffer and systemic risk buffer,
- liquidity requirements, measured by the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR).

The implemented regulatory amendments are mainly designed to protect the capital of banks against adverse effects of financial crises.

The new regulatory provisions of CRD IV had to be implemented into national legislation, what was completed in 2015 by adopting the Act on Macroprudential Supervision over the Financial System and Crisis Management in the Financial System and relevant update of the Banking Law. CRR takes effect as of January 1, 2014 without harmonisation with national laws.

12.2. Main risks of mBank Group's business

The Management Board of mBank takes measures necessary to ensure that mBank manages all significant risks arising from the implementation of the adopted business strategy.

Within the Group's risk inventory process implemented under the principles of ICAAP (Internal Capital Adequacy Assessment Process), the following risks were inherent to the operations of the Group in 2015:

1. Credit risk
2. Operational risk
3. Market risk
4. Business risk (including strategic risk)
5. Liquidity risk
6. Reputation risk
7. Model risk
8. Capital risk (including risk of excessive leverage)

The Bank monitors all the aforementioned risks within ICAAP. Due to the specificity and characteristics of the portfolio, the section presents the rules of monitoring credit risk, operational risk, liquidity risk, market risk of the trading book as well as interest rate risk of the banking book in mBank Group using risk measures applied by mBank and taking into account differences in the profile and scale of business of the Group.

Moreover, as part of the process of reviewing and formulating risk appetite for 2015 and 2016, the bank verified a number of other risk types, taking into account the analysis result in the perspective for 2016 and onwards.

In particular the package of non-financial risks was subject to analysis, such as cyber risk, strategic risk, urban infrastructure failure risk, mis-selling risk, conduct risk, physical safety risk, long-term PR crisis risk, illegal transactions risk, model risk, social communication risk.

The aforementioned package of non-financial risks was assessed by the Management Board of the Bank in terms of the probability of an event and potential impact on the organisation, and then risk types mitigants were defined for selected. Conclusions from the analysis contribute to the update of strategic assumptions for 2016.

Business and Risk Forum of mBank Group

In the credit risk management process, the Bank attaches high importance to the communication between the Risk and the business segments. The Business and Risk Forum of mBank Group, established in 2014, is a formal decision and communication platform for the risk management area and business lines of the Group.

The Business and Risk Forum is constituted by the following bodies:

1. Retail Banking Risk Committee,
2. Corporate and Investment Banking Risk Committee,
3. Financial Markets Risk Committee.

The committees are composed of the representatives of business lines and respective risk management departments.

Each committee is responsible for the all types of risk generated by business activity of the given business line and performs the following tasks:

- **Discussing and taking decisions** concerning:
    - introduction of new products/instruments,
    - rules for managing the risk of products/instruments offered or planned to be offered by business lines,
    - risk appetite of the business lines, e.g. approval of risk limits imposed on the business lines,
    - approval of the risk policies applicable to particular client segments,
    - client segments desired from the point of view of the expected risk portfolio structure,
    - priorities and directions of changes in the organisation of processes and risk assessment tools,
    - risk models.
- **Exchange of information** about current and planned actions and projects, including sales plans and their implementation, sales campaigns, modifications to risk models, etc.
- **Monitoring of the following aspects on the basis of submitted reports and information:**
    - quality and effectiveness of the risk-bearing portfolios held by business lines,
    - operational risk and other non-financial risk types,
    - quality of data used in risk management processes,
    - early symptoms of risk,
    - agreeing on preventive or remedial measures.

Credit risk

The Bank organises credit risk management processes in line with the principles and requirements set out in the resolutions and recommendations of the Polish Financial Supervision Authority (in particular Recommendation S and T) and CRR/CRDIV, which address issues related to credit risk management.

Tools and measures

Credit risk inherent in financing of mBank Group clients is assessed based on shared statistical models developed for the AIRB (Advanced Internal Rating-Based) approach and uniform tools, and is based on common definitions of terms and parameters used in the credit risk management and rating process. The Bank ensures their cohesion at the Group level.

The Group uses different models for particular client segments. The rules governing clear assignment of clients to a system are defined in the Bank and Group subsidiaries internal regulations.

The Bank and Group subsidiaries in their credit risk management process use the core risk measures defined under the AIRB approach:

- PD – Probability of Default (%),
- LGD – Loss Given Default (%),
- EAD – Exposure at Default (amount),
- EL – Expected Loss (amount),

as well as related measures including:

- RD – Risk Density, which is defined as EL to EAD (%),

- LAD - Loss at Default (amount of LGD).

In the decision-making process, for reporting and communication with business units, PD and EL are expressed in the language of rating classes whose definitions (Masterscale) are uniform across the Commerzbank Group.

In its credit risk management process, the Bank also attaches great importance to the assessment of unexpected loss risk. Capital required to cover unexpected loss is estimated at a confidence level of 99.91%. For this purpose, the Bank uses the following measure:

- RWA – Risk Weighted Assets used under the AIRB approach to calculate regulatory capital required to cover credit risk (unexpected loss).

  In managing mortgage-secured credit exposures for different types of real estate and also for different products, the Group uses the LtV ratio (Loan to Value), i.e., the value of the loan to the market value (or mortgage banking calculated value) of the real estate which secures the loan.

Thanks to its simplicity, this measure is broadly used in communication with clients and in the construction of price matrices for credit products.

Stress testing is an additional tool of credit risk assessment which supplements CVaR (Credit Value at Risk) measurement of unexpected loss. Stress testing of the economic capital required to cover credit risk is measured quarterly.

Stress tests of credit risk are two-dimensional, analysed separately and jointly:

- The analysis of sensitivity of ECVaR model indications to assumptions concerning credit exposures (e.g., correlation) – i.e., parametric tests.

- The analysis of extreme credit losses on the assumption of an unfavourable macroeconomic situation – i.e., macroeconomic tests in which an econometrical model forecasts values of input parameters for the economic capital model (PD, LGD) based on assumptions of the Chief Economist about macro parameters in the case of the negative economic scenario. The risk parameters developed according to the above scenario form the basis for calculating economic capital both before and after the assumptions of parametric tests are taken into account.

In addition to the tools listed above, which are applied both in corporate and in retail credit risk measurement, the Group uses tools specific to these areas.

For corporate credit risk, the Group estimates maximum exposure to a client/group of related clients using the following credit risk mitigating measures:

- MBPZO – Maximum Safe Total Exposure, which defines the maximum level of financial debt of an entity from financial institutions calculated under the Bank's methodology, approved by the Bank's competent decision-making body.

- LG – General Limit, which defines the level of credit risk financial exposure to a client/group of related clients acceptable to the Group, approved by the Bank's competent decision-making body. LG includes a structured limit and products granted outside the structured limit, including exposures of both mBank and the Group's companies.

To minimise credit risk, the Group uses a broad range of collateral for credit products, also necessary to actively manage the capital requirement. In their assessment of the quality of risk products, mBank and mLeasing use the MRV ratio (Most Realistic Value), which reflects the worst-case scenario of debt enforcement through forced sale of collateral.

In addition, the decision-making process and the assessment of profitability per client in the CRM system use the RAROC ratio (Return on Risk Adjusted Capital), or return on the capital invested in risk products.

Retail credit risk measures are constructed to reflect the characteristics of this customer segment and, in the case of portfolio measures, the high granularity of the loan portfolio:

- DtI – Debt-to-Income, i.e. monthly credit payments to the net income of a household, used for individual customers.

- DPD – Days-Past-Due, a family of portfolio risk measures based on the number of days past due date (e.g. share of contracts which are from 31 to 90 days past due date in the total portfolio by number or by value).

- Vintage ratios, which represent the quality of cohorts of loans at a different phase of their lifetime taking into account disbursement time (e.g. each quarter), clients' characteristics etc., based on DPD.

- RC LLP – Risk Cost LLP, cost of risk for a loan portfolio (segment), i.e. increment in loan loss provisions to the performing loan portfolio balance,

- Roll-rates, which measure the migration of contracts between days-past-due brackets (1-30, 31-60, 61-90 DPD, etc.).

Strategy

<u>Corporate and Investment Banking</u>

The Strategy of the corporate credit risk management in mBank Group closely correlated with the One Bank Strategy was updated in H1 2015. The main goal of mBank Group in corporate credit risk management is to unlock potential synergies in the Group by integrating the offer of the Bank and Group subsidiaries in sales of risk-bearing products to mBank Group clients, ensuring closer co-operation in credit risk measurement and management, defining a safe level of integrated risk appetite. The Strategy is complemented by sector policies, the limit book, the credit process rules, decision-making powers and detailed banking procedures both in mBank and the Group subsidiaries which generate credit risk and impact the quality of corporate credit risk management. The implementation of uniform risk measures and risk controlling processes at the Group level takes into account the specificities of the Group entities. The Bank makes sure that the process does not affect client relations.

In order to structure and unify mBank Group's approach to financing commercial real estate (CRE), the mBank Group Credit Policy of Financing Commercial Real Estate was drafted and approved in H1 2015. A uniform approach to CRE finance was adopted in mBank and mBank Group subsidiaries including client service standards and CRE finance risk assessment. CRE finance competence centres were established in mBank Group, ensuring a clear scope of responsibilities. A framework was set up to safely build a CRE finance exposures portfolio by defining the preferred acquisition market and outlining the recommended terms of financing. Uniform definitions of commercial real estate and conditions of CRE finance transactions were put in place.

In May 2015, KRK approved the mBank Food & Agribusiness (F&A) Client Finance Policy which defines the F&A risks and the outlook of F&A segments that determines the F&A finance risk appetite. The finance rules will ensure the development of mBank's safe food and agribusiness loan portfolio with a special emphasis on agricultural production and processing.

During second half of 2015 the Bank concentrated its efforts on IT development of new process for F&A sector. The new worklow allows to manage, monitor and report credit applications dedicated to F&A corporate segment.

One of the key priorities was to adjust the organizational structure in corporate real estate valuation process to Recommendation S. The implemented solution includes the new list of documents, calculator valuations with the possibility of comparison with the market and the new decision-making paths taking into account definition of EKZH. Simultaneously Bank started extensive works on adjusting to Rek J. Retail & corpo process teams worked on mapping requirements for Recommendation J. Majority of matched data for New Real Estate Database is completed. Implementation is expected in 2016.

Bank also implemented checklist for verification of economically related companies and reviewed its portfolio based on the new CRR definition (CRR / Basel III). The final implementation of the new relation and full reporting is planned for 2016.

In regard to RWA proper management for small exposures, Bank signed the Agreement for new COSME Program with BGK. COSME is a successor of the BGK *de minimis* form of guarantees. The process was implemented by end of 2015.

The diversified approach to corporate clients is tied to the client's risk level as measured by PD and credit risk concentration measured with LAD of a client or group of related clients, taking into account the exposure of the Group subsidiaries.

The credit decision-making system is consistent with the Corporate Credit Risk Management Strategy and the approved principles of the Credit Risk Policy. The competent decision-making levels are defined in a decision-making matrix. On that basis, depending on the EL rating and the aggregate exposure for a client or group of related clients, the appropriate decision-making level responsible for the credit decision is assigned.

mBank follows a simplified credit decision-making procedure for a defined group of clients and transactions, in particular transactions under fast credit procedures (FCP), which enhances effectiveness while ensuring compliance with all legal and supervisory requirements and good practice of credit risk management.

The restructuring of the process also includes phased implementation of anti-fraud mechanism. The new strategy has enabled not only the development of a new workflow platform but also in accordance with the spirit of 'Client centric' simplified documentation, required and delivered to client, and its digitisation in credit process.

The Group actively manages credit risk aiming to optimise profitability in relation to return on risk. Analyses of the Group's risks are performed on an on-going basis. Risk management is supported by analyses of the Group's credit portfolio structure and the resulting formal limits, guidelines and recommendations on the Group's exposure to selected companies, sectors and geographic markets. In its current credit risk management and determination of concentration risk, the Bank performs quarterly portfolio analyses using a Steering Matrix which incorporates PD rating and LAD.

In order to mitigate the risk of lending and guarantees, the Bank classifies and monitors credit risk products. The Group uses write-offs and provisions under the International Financial Reporting Standards (IFRS). The Bank also monitors credit portfolio on a quarterly basis including an analysis of the dynamics of change in size and (sector) segmentation of the credit portfolio, client risk (PD rating), quality of collateral against credit exposures, the scale of change in EL, Risk Density, and default exposures.

In Corporate Banking, the Group avoids concentration in industries and sectors whose credit risk is considered excessively high. The acceptable risk level is defined taking into account market segmentation and sector concentration limits. In compliance with Recommendation S of the Polish Financial Supervision Authority, the Bank has identified a mortgage-secured credit exposure portfolio, not only in Retail Banking but also in Corporate Banking. The Bank manages the mortgage-secured credit exposure portfolio risk with a focus on defining an optimised portfolio structure in terms of quality (rating), currencies, country regions, tenors, and types of properties. The main principles of mortgage-secured credit exposure risk management in Corporate and Investment Banking, the risk profile, division of responsibilities, rules of determining internal limits, and rules of reporting are set out in the mBank Mortgage-Secured Credit Exposure Risk Management Policy.

mBank Group strives to unlock synergies with Commerzbank more broadly in syndicated finance of selected Group clients. For international companies, non-banking financial institutions and biggest corporate clients, mBank Group promotes innovative products which are low in capital consumption, in particular products of Investment Banking (ECM, DCM, M&A), Transactional Banking and Financial Markets, as well as arrangement of syndicated finance for selected big ticket clients to ensure satisfactory profitability and mitigate the risk of high concentration of individual clients/groups of related companies.

mBank promotes financing alternative to banking loans by arranging public and private programmes and club deals for bonds issued by clients with a stable financial position.

<u>Retail Banking</u>

Lending in Retail Banking is a key segment of the Group's business model, both in terms of the share in total assets and the contribution to its profits.

The Bank's retail credit offer covers a broad range of products financing the needs of individual customers (OF) and micro-companies (MF). The scope and construction of the offer derive from the One Bank Strategy, whereby credit products in combination with the state-of-the-art transactional platform, savings and insurance products address all financial needs of clients within the Group.

Apart from the Polish market, Retail Banking credit products are offered (since 2007) through the foreign branches (OZ) of the Bank in the Czech Republic and Slovakia in an online banking model similar to that operating in Poland since 2000. The share of the foreign branches' exposure portfolio was around 8% of the aggregate retail portfolio at the end of 2015 (by value). The Bank ensures the coherence of the credit risk management policy on all markets; any differences in specific rules or parameter values derive from the specificities of local markets or different goals of business strategies and are at each time subject to approval by the Retail Banking Risk Committee.

As credit exposures are highly granular (more than 2 million active loans), the Retail Banking credit risk management process is based on a portfolio approach. This is reflected in the statistical profile of risk rating models including the models which fulfil the regulatory requirements of the Advanced Internal Ratings-Based approach (AIRB). The AIRB parameters (PD, LGD and EL) are used widely in order to estimate credit requirements, to determine acceptance criteria and terms of transactions, and to report risks.

Furthermore, Retail Banking credit risk management has the following characteristics:

- high standardisation and automation of the credit process, including decision-making, both in acquisition, post-sale services, and debt collection;
- little (as compared to Corporate Banking) discretionary competences in the decision-making process (e.g. no discretionary adjustment of clients' ratings);
- alignment of decision-making endowment with mass acquisition, including automation of decision-making for selected transactions;
- extensive risk reporting system based on portfolio analysis of credit exposure quality, including vintage analysis and roll-rates analysis.

Under the portfolio approach, exposures are classified (separately for each market) as ML (mortgage-secured products) or NML (unsecured products or products with collateral other than mortgage). Furthermore, the segmentation includes products for individuals (ML OF, NML OF) and products for business clients (ML MF, NML MF). The segmentation serves two main functions:

- ensuring correct alignment of risk rating methods (models, procedures, required documentation) with the client's risk profile, exposure and business requirements,
- defining homogeneous transaction sub-portfolios to enable assessment of their quality in the context of the generated income margin.

The main point of reference in the Retail Banking credit risk management process is risk appetite defined in correlation with the One Bank Strategy which provides for:

- optimisation of the balance-sheet structure in terms of profitability and financing by reducing the growth rate of credit portfolios with long tenors (and low margins) while supporting growth of short-term loans (with high margins),
- developing long-term financing of the Group's lending with mortgage bonds issued against retail mortgage loans.

Taking into account the above assumptions, the general principle underlying the lending strategy of the Group is to address the offer to clients who have an established relationship with the Bank or to address it to new clients for whom the loan is a product initiating a long-term relationship of highly transactional nature. Consequently, the Bank continues to focus its NML policies on lending to existing clients with a high creditworthiness while systematically growing the acquisition of external clients.

These initiatives include lending to clients under a joint project of mBank and one of the biggest telecom operators (Orange Finanse Project). Furthermore, the Bank increasingly provides financing to clients who are shop online. To reduce operational risks of accepting new clients, the Bank develops its credit policy using, among others, credit testing and is actively developing its fraud prevention system.

For long-term loans (ML segment - mortgage loans), the Bank maintains a conservative policy of borrower creditworthiness and credit rating to offset the higher probability of systematic risk materialising within the lifetime of a loan. In view of the current historically low interest rate environment, in its creditworthiness rating the Bank focuses among others on long-term interest rate estimates.

In retail mortgage lending, in order to mitigate the risk of impairment of mortgage collateral in relation to the value of credit exposure, the Bank addresses its credit offer mainly to clients who buy properties within large urban areas.

As of 2015, the Bank implemented yet another reduction of the maximum LtV, which already meets requirements imposed by Recommendation S for 2017.

The modifications facilitate a programme of co-operation between mBank and mBank Hipoteczny which aims at sales of mortgage loans to retail clients. According to the assumptions, the retail mortgage loan portfolio of mBank Hipoteczny is financed with new issues of mortgage bonds.

In its credit risk management process, the Bank attaches great importance to communication between Risk and Retail Banking. The Retail Banking Risk Committee, established in 2010, is a platform of decision-making and dialogue between the two areas. As of 2014, the Committee covers both credit risk and all secondary risks derived from accepted credit risk (reputation risk, legal risk, operational risk, data quality risk, etc.).

Quality of the loan portfolio

As at end of 2015, the share of impaired exposures in the total (gross) amount of loans and advances granted to clients decreased from 6.4% at to 5.7%.

Provisions for loans and advances to customers decreased from PLN 2,790.8 million at the end of 2014 to PLN 2,975.9 million at the end of 2015. The IBNI (Incurred But Not Identified) loss provision increased from PLN 242.4 million to PLN 247.2 million in that period.

The ratio of provisions to non-performing loans increased from 51.9% at the end of 2014 to 58.9% at the end of 2015.

To assess impairment, the Bank applies credit risk parameters based on those derived from the A-IRB methodology.

The manner of identifying evidence of default is based on all available credit data of a given client and encompasses all of the client's liabilities towards the Bank.

At the end of 2015, the Group's loans and advances (net) to customers rose by almost 2%, where the increase was mainly driven by the rising exposure for SME customers.

The table below presents the quality of mBank Group's credit portfolio as at the end of 2014, June 2015 and end of 2015:

Quality of mBank Group's Loan Portfolio	31.12.2015 (in thousand PLN)	30.06.2015 (in thousand PLN)	31.12.2014 (in thousand PLN)
Loans and advances to individuals:	**46,258,683**	**45,328,730**	**41,560,477**
- current accounts	5,897,129	5,800,143	5,442,653
- term loans, including:	40,361,554	39,528,587	36,117,824
- housing and mortgage loans	34,184,208	33,521,442	30,510,513
- other	-	-	-
Loans and advances to corporate entities:	**33,446,644**	**32,226,547**	**32,841,046**
- current accounts	3,976,187	4,218,458	3,701,490
- term loans:	26,976,422	25,752,358	23,977,679
- corporate & institutional enterprises	5,825,318	5,843,425	5,751,583
- medium & small enterprises	21,151,104	19,908,933	18,226,096
- reverse repo / buy-sell back transactions	1,031,029	842,093	3,838,553
- other	1,463,006	1,413,638	1,323,324
Loans and advances to public sector	**1,520,728**	**1,661,475**	**1,924,395**
Other receivables	**183,355**	**1,043,880**	**1,047,273**
Total (gross) loans and advances to customers	**81,409,410**	**80,260,632**	**77,373,191**
Provisions for loans and advances to customers (negative amount)	(2,975,864)	(3,019,034)	(2,790,841)
Total (net) loans and advances to customers	**78,433,546**	**77,241,598**	**74,582,350**
Short-term (up to 1 year)	26,169,938	23,188,113	26,964,700
Long-term (over 1 year)	52,263,608	54,053,485	47,617,650
Incurred but not identifies losses			
Gross balance sheet exposure	76,777,938	75,411,743	72,458,578
Impairment provisions for exposures analysed according to portfolio approach	(247,198)	(261,858)	(242,401)
Net balance sheet exposure	**76,530,740**	**75,149,885**	**72,216,177**
Receivables with impairment			
Gross balance sheet exposure	4,631,472	4,848,889	4,914,613
Provisions for receivables with impairment	(2,728,666)	(2,757,176)	(2,548,440)
Net balance sheet exposure	**1,902,806**	**2,091,713**	**2,366,173**

Market risk

mBank organises market risk management processes in line with the principles and requirements set out in the resolutions and recommendations of the PFSA which address issues related to market risk management, in particular Recommendations A and I.

Tools and measures

In its business, mBank is exposed to market risk, i.e., the risk of unfavourable changes in the present value of financial instruments in the Bank's portfolios due to changes in market risk factors: interest rates, FX rates, prices of securities, the implied volatility of options, and credit spreads. The Bank identifies market risk related with positions of the trading book measured at fair value (using the direct measurement method or the model measurement method) which may materialise in the form of losses reflected in mBank's financial performance. Moreover, the Bank attributes market risk to the banking book positions, regardless of the methods for calculating earnings generated from those positions used for the purpose of accounting reporting. In particular, in order to measure the interest rate risk of Retail and Corporate Banking products without a fixed interest revaluation date or with rates administered by the Bank, the Bank uses replicating portfolio models. Since 2013, the Bank uses the capital modelling concept, which is reflected in market risk measurement at the level of the Bank's internal organisational structures. Market risk measures of the interest positions of the banking book are calculated with the use of net present value (NPV) models. Market risk exposure is quantified by measurement of Value at Risk (VaR) and by use of stress tests.

Stress testing reflects the hypothetical change in the present valuation of mBank's portfolios that would occur as a result of stress-test scenarios, i.e., specific stressed values of risk factors in a one-day time horizon.

Stress testing includes a standard stress test defined for standard risk factors: FX rates, interest rates, stock prices and their volatility, as well as a stress test including change of credit spreads. This addresses among others the requirement for stress tests to cover independent impact of underlying risk (spread between T-bond yields and IRS rates) to which the Bank is exposed by holding a portfolio of T-bonds.

Value at Risk measures the potential loss of market value (of a financial instrument, a portfolio, an institution) such that the probability of generating or exceeding it within a set time horizon is equal to the set tolerance (confidence) level assuming an unchanged portfolio structure within a defined period of time. mBank calculates and limits one-day Value at Risk at a 97.5% confidence level. In addition, VaR is calculated for the following risk factors: interest rates, FX rates and their volatility, stock prices and their volatility, and credit spreads.

Market risk, in particular interest rate risk of the banking book, is also quantified by measurement of Earnings at Risk (EaR) of the banking book.

Strategy

The implementation of market risk management strategy involves managing the Bank's positions in a way enabling to maintain market risk profile within the risk appetite defined by the Bank. The Bank is focused on meeting customers' business needs, while reducing trade in derivatives in terms of currency, currency pairs, nominal values and tenors of transactions, as well as applying the principle of lack of commodity open positions.

The market risk profile is derived from the strategic goals of business units, the policy of Committee (ALCO) in charge of shaping the structure of the Group's assets and liabilities and the limits on market risk exposure established by the Financial Markets Risk Committee (KRF) at the Bank level, and by the Management Board and Supervisory Board at the Group level. The system of limits reflects in a quantitative manner the defined risk appetite.

In accordance with the previously described general principles of risk management, market risk management is organized under so-called three lines of defence. The main principle of organisation of the market risk management process stipulates separation between the market risk monitoring and control function and the functions related with opening and maintaining open market risk positions. The market risk monitoring and control functions (assigned to the second line of defence) are performed by the Financial Markets Risk Department (DRR) in the Risk Area of the Bank supervised by the Vicepresident of the Management Board, Chief Risk Officer, whereas operational management of market risk positions (assigned to the first line of defence) takes place in the Financial Markets Department (DFM), the Brokerage Bureau (BM) and the Treasury Department (DS) supervised by the Vicepresident of the Management Board, Head of Financial Markets, as well as in the Debt Securities Issue Department (DCM) and Structured and Mezzanine Finance Department supervised by the Vicepresident of the Management Board, Head of Corporate and Investment Banking. BM is an organisational unit of mBank which was separated from the DFM structure and carries out its operations focusing on financial instruments traded on the Warsaw Stock Exchange (WSE). The Debt Securities Issue Department (DCM) is responsible for debt origination and management of positions in non-Treasury securities on the banking book. Investment positions sensitive to market risk factors are managed by the Structured and Mezzanine Finance Department (DFS). In addition, the Bank applies the rule of organizational separation between managing banking book operations (including portfolios of Treasury Department, Debt Securities Issue Department and Structured and Mezzanine Finance Department) and trading book operations (including portfolios of Financial Markets Department and Brokerage Bureau).

In order to limit the level of exposure to market risk, the Bank's Management Board (for the Bank portfolio) and the Financial Markets Risk Committee operating as part of the Risk and Business Forum (for portfolios of business units) set VaR limits, stress test limits, as well as maturity gap limits which are warning

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thresholds. These limits are cascaded to lower levels in accordance with the principles of the management of specific types of market risk and the internal procedures of the front-office units, which are dedicated to individual portfolios or risk positions. This is aimed at conscious development of the required market risk structure and acceptable level of exposure to individual type of market risk.

In Q1 2015, the Bank finalised a review of the mBank Group Market Risk Management Strategy. The modified Strategy was approved by the Bank's Management Board on 10 March 2015, received a positive opinion of the Risk Committee of the Supervisory Board, and was finally approved by the Supervisory Board on 30 March 2015.

Measuring mBank's risk

Value at Risk

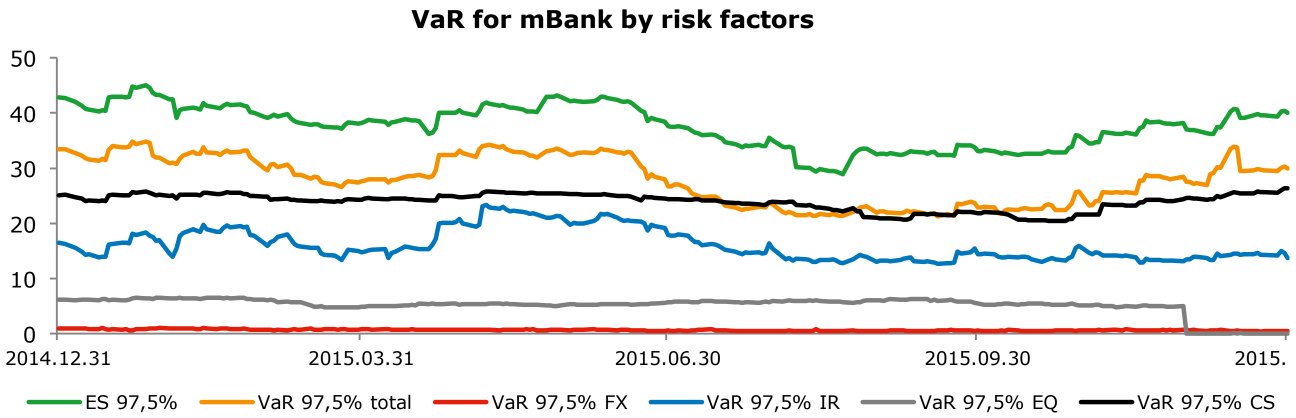
In 2015, the Bank's market risk exposure, measured by Value at Risk (VaR, for one day holding period, at 97.5% confidence level), was moderate in relation to the VaR limits. The average utilisation of VaR limits for the portfolio of the Financial Markets Department (DFM), whose positions consist primarily of trading book portfolios, amounted to 41% (PLN 2.3 million), for the Brokerage Bureau (BM) 13% (PLN 0.2 million), and for the Treasury Department (DS), whose positions are classified solely in the banking book, 64% (PLN 27.0 million) for the positions without capital modelling, and 56% (PLN 23.5 million) for the positions with capital modelling. The average utilisation of the VaR limit for the positions of the Debt Securities Issue Department (DCM) was 18% (PLN 0.4 million). The average utilisation of the VaR limit for the positions of the Structured and Mezzanine Finance Department (DFS) in shares listed on the Warsaw Stock Exchange was 57% (PLN 5.1 million). In 2015, the VaR figures for the Bank's portfolio were driven mainly by portfolios of instruments sensitive to interest rates and to selected credit spread – T-bonds portfolios managed by DS in the banking book and managed by DFM in the trading book including interest rate swap positions. The second major factor impacting the Bank's risk profile was the DFS equities portfolio, where the PZU share price is a significant risk due to the maintained material position in the company by the Bank. The DFM portfolios of instruments sensitive to changes in exchange rates, such as FX futures and options, and the exposure of the BM portfolios to equity price risk and the risk of implied variability of options traded on the WSE had a relatively low impact on the Bank's risk profile.

The table below presents VaR statistics of mBank's portfolio in 2015:

PLN thousand	2015				2014			
	31.12.15	average	max	min	31.12.2014	average	max	min
VaR IR	13,688	16,085	23,329	12,739	16,457	14,693	19,081	8,122
VaR FX	496	685	1,096	453	937	348	1,162	95
VaR EQ	79	5,170	6,588	67	6,243	6,507	7,647	5,836
VaR CS	26,320	23,916	26,345	20,426	25,142	27,245	31,279	25,049
VaR	**29,943**	**27,877**	**34,881**	**21,266**	**33,393**	**29,448**	**36,453**	**15,968**

VaR IR – interest rate risk
VaR FX - FX risk
VaR EQ – stock price risk
VaR CS – credit spread risk

The graph below presents changes in VaR for mBank in 2015 (PLN M):



VaR statisticks in deteriorating environment

Since the beginning of September 2015 a new VaR statisticks in deteriorating environment (it is a tracked measure). The table below presents VaR statistics in deteriorating environment for Q4 2015:

PLN thousand	2015			
	31.12.2015	average	max	min
Stressed VaR IR	37,742	35,742	39,293,	31,053
Stressed VaR FX	1,338	1,376	2,933	516
Stressed VaR EQ	4	8,721	13,074	4
Stressed VaR CS	73,992	75,255	77,899	73,530,
Stressed VaR	**103,060**	**111,038**	**116,945**	**102,035**

Stress testing

The utilisation of stress tests in 2015 is presented in the table below:

PLN M	2015				2014			
	31.12.2015	average	max	min	31.12.2014	average	max	min
Base stress test	78	111	139	72	89	85	134	43
CS stress test	647	691	772	613	701	699	762	634
Total stress test	**725**	**802**	**905**	**705**	**789**	**784**	**894**	**683**

Base stress test – standard stress test
CS stress test – stress test with scenarios including credit spread changes
Total stress test – total stress test (sum of the standard stress test and the stress test with scenarios including credit spread changes)

In 2015, the average utilisation of the stress test limits in mBank was 65% (PLN 856.3 million). The average utilisation of the stress test limits in 2015 was 70% (PLN 666.2 million) for the portfolio held by DS without capital modelling and 66% (PLN 629.8 million) with capital modelling. The average utilisation of the limit was 48% (PLN 120.8 million) for the DFM portfolio, 12% (PLN 0.9 million) for the BM portfolio, 63% (PLN 38.7 million) for the DCM portfolio, and 67% (PLN 33.7 million) for the DFS portfolio. The main part of the presented stress test results is the value of stress tests for change of the credit spread of T-bond portfolios because the stress test scenarios assume on average a 100 bps increase of interest rates.

Interest rate risk of the banking book

In 2015, the interest rate risk of the banking book as measured by EaR, i.e., potential decrease of interest income within 12 months assuming an unfavourable 100 bps change of market interest rates (parallel shift of the curve by 100 basis points) and based on a stable value of the portfolio over the period, was as presented in the table below:

PLN M	2015				2014			
	31.12.15	average	max	min	31.12.14	average	max	min
PLN	99.4	55.4	122.2	8.4	32.8	28.4	69.8	4.2
USD	3.7	2.4	7.5	0.7	1.0	1.4	4.0	0.2
EUR	52.5	37.3	63.1	0.0	4.5	6.6	12.6	1.4
CHF	2.4	8.1	38.8	0.0	13.3	0.8	15.7	0.0
CZK	2.7	2.3	4.8	1.3	2.3	4.2	8.5	2.2

Measuring mBank Group's market risk

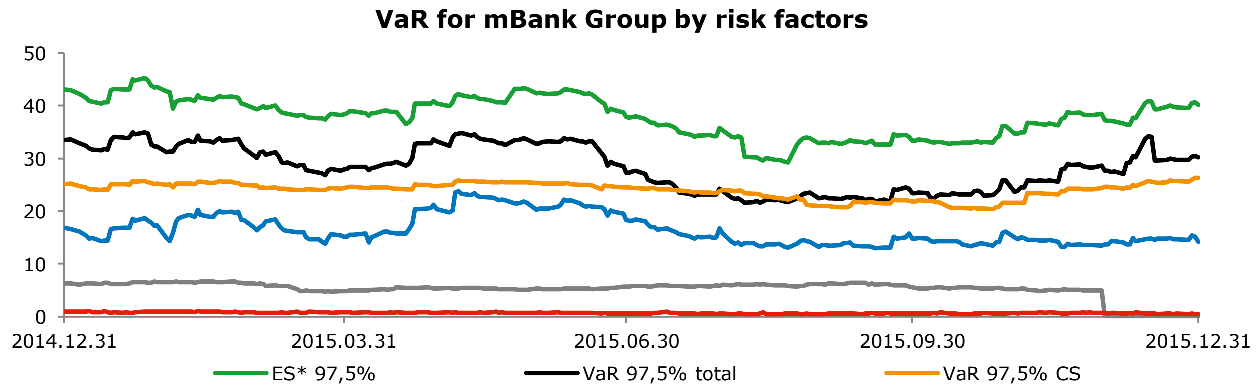
The main sources of market risk of the Group are mBank's positions. The table below shows VaR statistics (VaR at a 97.5% confidence level for a one-day holding period) for mBank Group in 2015 for individual members of the Group in which market risk positions were identified (i.e., portfolios of mBank, mBank Hipoteczny, mLeasing, Dom Maklerski mBanku) and their decomposition to the VaRs corresponding to the main risk factor types – interest rate risk (VaR IR), foreign exchange risk (VaR FX), stock prices/index value risk (VaR EQ), and credit spread risk (VaR CS).

The table below presents VaR statistics at the end of 2015.

PLN thousand	mBank Group	mBank	mBH	mLeasing	DM mBanku
VaR IR average	16,437	16,085	29	348	7
VaR FX average	687	685	23	17	22
VaR EQ average	5,192	5,170	0	0	98
VaR CS average	23,916	23,916	0	0	0
VaR average	28,265	27,877	40	349	100
VaR max	35,005	34,881	492	462	161
VaR min	21,591	21,266	12	241	47
VaR 31.12.2015	**30,158**	**29,943**	**99**	**273**	**56**

For comparison, at the end of 2014, VaR for mBank Group was PLN 33,513 thousand, including VaR of mBank at PLN 33,393 thousand, mBank Hipoteczny – PLN 53 thousand, mLeasing – PLN 424 thousand, Dom Maklerski mBanku – PLN 112 thousand.

The graph below presents changes in VaR for mBank Group in 2015 (PLN M):



Liquidity risk

mBank organises liquidity risk management processes in line with the principles and requirements defined in PFSA Resolution No. 258/2011 of 4 October 2011, PFSA Resolution No. 386/2008 of 17 December 2008 on establishing liquidity measures binding on banks, and best practice, in particular PFSA recommendations on liquidity risk management (Recommendation P).

Tools and measures

In its operations, mBank is exposed to liquidity risk, i.e., the risk of being unable to honour its payment obligations, arising from the Bank's balance-sheet and off-balance-sheet positions, on terms favourable to the Bank and at a reasonable price.

In terms of its sources, liquidity risk may result from internal factors (reputation risk resulting for instance in excessive withdrawal of cash by Bank clients, materialisation of credit risk) and external factors (turbulences and crises in the financial markets, country risk, turbulences in the operation of clearing systems).

For this purpose, the Bank has defined a set of liquidity risk measures and a system of limits and warning thresholds which protect the Bank's liquidity in the event of unfavourable internal or external conditions. Independent measurement, monitoring and controlling of liquidity risk is performed daily by the Financial Markets Risk Department. The main measures used in liquidity risk management of the Bank include ANL Stress (Available Net Liquidity), the regulatory measures (M1, M2, M3, M4), and LCR and NSFR for analysis only. ANL Stress reflects the projected future cash flow gap of assets, liabilities and off-balance-sheet commitments of the Bank, which represents potential risk of being unable to meet liabilities within a specific time horizon and under a certain scenario. ANL Stress cash flow projections are based on crisis scenarios which include excessive withdrawal of cash by the Bank's clients and being unable to liquidate some assets due to an external crisis.

In order to support the process of liquidity risk management, a system of early warnings indicators (EWI) was developed in the Bank in 2015. It is composed of indicators monitoring the level of regulatory and internal limits and additionally, indicators monitoring significant changes of market factors, as well as changes in the Bank's balance sheet.

In October 2015, came into force the Commission Delegated Regulation (EU) No 2015/61 of 10.10.2014 to supplement Regulation (EU) 575/2013. However, pending the publication of a new, final reporting standard for reporting the LCR ratio, the Bank reports to the NBP according to existing standards. In terms of the NSFR works have been carried out to adapt to the guidelines set out in the document BIS Basel III: the net stable funding.

Strategy

The liquidity strategy is pursued by active management of the balance sheet structure and future cash flows as well as maintenance of liquidity reserves adequate to liquidity needs depending on the activity of the Bank and the current market situation as well as funding needs of the Group subsidiaries.

The Bank manages liquidity risk at two levels: strategic (within committees of the Bank) and operational (Treasury Department).

Liquidity risk limiting covers supervisory and internal measures.

The first category includes four liquidity measures determined by the Polish Financial Supervision Authority: M1, M2, M3 and M4. Liquidity measures required by the CRD IV/CRR: LCR (Liquidity Coverage Ratio) and NSFR (Net Stable Funding Ratio) are monitored, and LCR is additionally reported to the National Bank of Poland.

The liquidity risk internal limit system is based mainly on defining acceptable level of gaps in defined tenors for ANL Stress measure in stress conditions in specific time horizons and for different liquidity risk profiles (for all currencies in aggregate converted to PLN) and for specific foreign currencies. In order to implement the requirements of amended Recommendation P new scenarios have been worked out.

The Bank has introduced a centralised approach to the Group's funding management in order to increase the efficiency of liquidity resources used. According to its principles, mBank Hipoteczny raises additional funding in the market by issuance of covered bonds and from mBank, while mLeasing and other subsidiaries raise almost all of their funding from mBank. Financing of subsidiaries is done via the Treasury Department.

The centralised approach to the financing of the Group subsidiaries enables to ensure better matching of the tenors of funding and a uniform treatment of particular subsidiaries within the unified system of transactional rates.

In Q1 2015, the Bank finalised a review of the mBank Group Liquidity Risk Management Strategy. The modified Strategy was approved by the Bank's Management Board on 10 March 2015, received a positive opinion of the Risk Committee of the Supervisory Board, and was finally approved by the Supervisory Board on 30 March 2015.

The Contingency Plan in case of the threat of losing financial liquidity is in place in the Bank, that sets the strategy and procedures in the event of a situation related to the threat of loss of liquidity by the Group of mBank to neutralize this. The regulation defines the division of responsibility for monitoring, identifying threats and actions during the emergency. Contingency Plan is tested annually. The testing of Contingency Plan was performed in 2015. The scope of the test covered the functioning of the process and raising funds.

Since early March 2015, a limit of the volume of foreign currency funding of mBank with FX-swaps and CIRS is set in order to determine the relevant risk appetite accepted by the Bank. In addition, the limit is decomposed into individual limits for CIRS and FX-swaps as well as limits for funding in EUR and CHF. The limit structure reflects the Bank's preference for currency funding with long tenors.

Moreover a draft law concerning the conversion of mortgage loans denominated in foreign currencies appeared in H2 2015. As a result the Bank made adjustment in its strategy of liquidity risk management until this issue is ultimately solved. The decision was made not to conclude long-term swap transactions and to replace them with short-term ones. Such strategy allows more flexibility in liquidity risk management as well as minimizes losses occurred in case of unwinds of long-term transactions in case of loans conversion. Adopted strategy is associated with increased risk of short term transactions concentration and their frequent rollovers. For this purpose the monitoring of concentration in fx-swap transactions with maturities below 12 months was introduced with MAT on concentration in particular terms. Moreover the requirement of Liquidity Reserves was increased by the component covering additional need for collateral resulting from unfavorable market factors influencing the valuation of fx-swap and CIRS transactions.

Measuring mBank's liquidity risk

The liquidity of mBank remained safe in 2015, as reflected in the high surplus of liquid assets over short-term liabilities in the ANL Stress tenors and in the regulatory measures.

The table below presents the ANL Stress gap for tenors up to 1M and 1Y in 2015 as well as the regulatory measures M1, M2, M3, M4 and LCR:

Measure *	2015			
	31.12.2015	average	max	min
ANL Stress 1M	8,933	8,355	13,968	3,442
ANL Stress 1Y	10,150	9,752	13,886	4,551
M1	13,388	9,655	14,789	4,657
M2	1.47	1.34	1.59	1.15
M3	4.68	5.22	6.08	4.29
M4	1.33	1.30	1.33	1.25
LCR mBank	144%	132%	154%	111%
LCR mBank Slovakia	338%	385%	428%	338%

** ANL Stress and M1 are shown in PLN million, M2 is a relative measure presented as a decimal.*

Measuring the Group's liquidity risk

The Group's liquidity risk measurement includes mBank Hipoteczny, mLeasing and, as of 1 August 2014, also Dom Maklerski mBanku. mBank monitors liquidity risk of the subsidiaries in the ANL Stress tenors so as to protect liquidity also at Group level in the event of adverse events (crises).

The Group's liquidity was safe in 2015, as reflected in the high surplus of liquid assets over short-term liabilities in the ANL Stress tenors calculated at Group level.

The table below presents the ANL Stress gap for tenors up to 1M and 1Y at mBank Group level:

PLN M	2015			
	31.12.2015	average	max	min
ANL Stress 1M	10,749	9,957	15,446	5,288
ANL Stress 1Y	11,901	11,721	15,721	6,963

Operational risk

mBank organises the operational risk management process taking into account the rules and requirements set out in the Resolution No. 76/2010 of the Polish Financial Supervision Authority of 10 March 2010 as well as in the Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013. The abovementioned regulations as well as recommendations of the Polish Financial Supervision Authority (including Recommendations M, H and D, in particular) constitute a starting point for developing the framework of the operational risk control and management system in mBank Group.

Tools and measures

The Bank understands operational risk as the possibility of incurring a loss arising from inadequate or defective internal processes, systems, errors or actions taken by the Bank's employee or from external events. In particular, operational risk includes legal risk.

Operational risk accompanies all processes at banks (inadequate or defective internal processes, systems, human errors or external events) and its consequences can be often very harmful. It is characterized by an asymmetric distribution of losses; overwhelmingly, these are small value losses. Large losses are rare but the size of such a loss may exceed the sum of all the remaining operational losses in a given reporting period.

In order to effectively manage operational risk (identification, monitoring, measurement, assessment, reporting as well as reduction, avoidance, transfer or acceptance of operational risk), the bank applies quantitative and qualitative methods and tools. The tools applied by the Bank intend to cause-oriented operational risk management.

The basic qualitative tool is the self-assessment of internal control system carried out by the Bank's organizational units. The Bank has just completed implementing the Internal Control System Self-assessment, which replaced formerly existing Risk Self-assessment Surveys and the functional control process. The Internal Control System Self-assessment includes assessment of key operational risks and control mechanisms applied for mitigating those risks, and then to develop corrective action plans for identified weaknesses. The process will be repeated periodically, once a year, and its results are accepted by the Management Board, and then presented to the Risk Committee of the Supervisory Board and the Audit Committee of the Supervisory Board. In Q4 2015 Bank starts implementation of ICS in the mBank Group companies.

Another tool - the key risk indicators (KRI) - enables identification and evaluation in particular areas of the Bank's operations, of operational risk factors that have an ongoing impact on that risk level in those areas and, therefore, also in the entire Bank.

The Bank prepares also scenario analyses describing risks associated with rare operational risk events with potentially very serious consequences. Quantitative tools of the operational risk methodology include mainly collection of data on operational incidents and effects. With the use of the database available at the mBank Group, data on operational risk losses are recorded with an emphasis on the cause. Recorded data are analysed by the Integrated Risk and Capital Department and at organizational units, which allows organizational units to carry out ongoing monitoring of their current risk profile.

The implementation of qualitative elements and comprehensive collection of operational loss data is required for both the standard and the advanced measurement method (AMA) for the calculation of regulatory capital in accordance with the requirements of the New Capital Accord and in order to fulfil the relevant Pillar II requirements.

Strategy

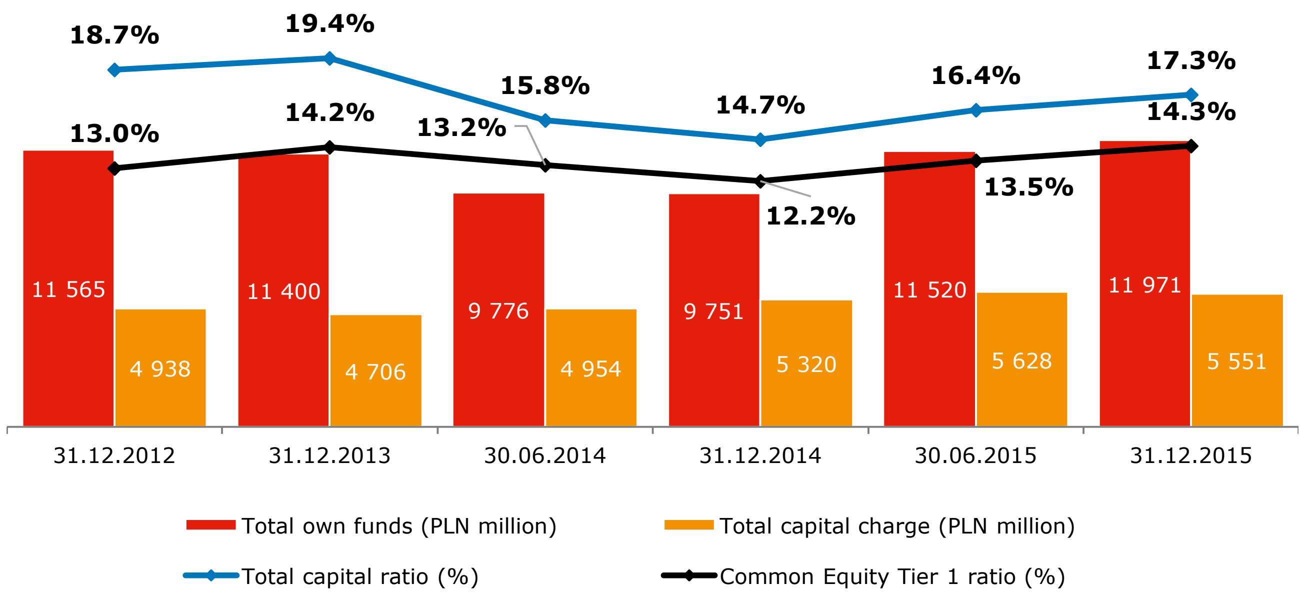
The operational risk control and management system,, forms an organisational basis in order to enable effective control and management of operational risk at every level of mBank's organisational hierarchy. The structure of operational risk control and management covers in particular the role of the Management Board of the Bank, the Business and Risk Forum, the Chief Risk Officer, the Integrated Risk and Capital Management Department, and the tasks assigned to persons managing operational risk in particular organisational units and business areas of the Bank. The operational risk control and management process at mBank is developed and co-ordinated by the central operational risk control function while operational risk management takes place in every organisational unit of the Bank and in every subsidiary of mBank Group. It consists in identifying and monitoring operational risk and taking actions aimed to avoid, mitigate or transfer operational risk.

The entire operational risk control process is supervised by the Supervisory Board of the Bank through its Risk Committee.

12.3. Capital adequacy

Maintaining an adequate level of capital is one of the main tasks of managing the balance sheet of the Bank. The Management Board of mBank ensures consistency of the capital and risk management process by means of a system of strategies, policies, procedures and limits for the management of particular risks which constitute the ICAAP architecture. Furthermore, in line with the Capital Management Policy applicable at mBank, mBank maintains an optimum level and structure of own funds, guaranteeing maintenance of the capital adequacy ratio at a level higher than the statutory minimum, at the same time covering all significant risks identified in the Bank's operations. mBank's capital targets are being set based on the regulatory requirements and simulated capital needs to cover unfavourable changes in the external environment and within the Bank.

Capital Adequacy of mBank Group



The Capital Management Policy at mBank is based on two main pillars:

- Maintenance of an optimal level and structure of own funds, with the use of available methods and means (retained net profit, issue of shares, subordinated bonds, etc.).
- Effective use of the existing capital among others by applying a system of capital utilisation measures resulting in reduction of the activity that is not generating the expected return and development of products with lower capital absorption.

The capital ratios of mBank Group in 2015 were driven by the following factors:

- addition of PLN 750 million to the own funds: it is the Group's subordinated liability following the issuance of subordinated bonds on December 17, 2014, approved by the PFSA on January 8, 2015;
- early repayment of a subordinated loan of CHF 90 million (face value), approved by the PFSA on 8 January 2015, previously partly included in the own funds;
- including in Common Equity Tier 1 capital the net profit of mBank Group for the year 2014, reduced by every foreseeable charges;
- including in Common Equity Tier 1 capital the verified net profit of mBank Group for the 1st half of 2015, reduced by every foreseeable charges, on the basis of the KNF permission from 20 October 2015;
- including subsidiaries: Aspiro (in March 2015), Tele-Tech Investment Sp. z o. o. (in July 2015) and mWealth Management (in December 2015) into the scope of prudential consolidation;

- expanded application of the advanced internal rating based approach to calculation of own funds requirements for credit and counterparty credit risk following the approvals of the PFSA and BaFin (Bundesanstalt für Finanzdienstleistungsaufsicht, the Federal Financial Supervisory Authority) for the Bank's exposures to commercial banks and retail mortgage-secured exposures (micro-companies) obtained in H1 2015;
- changes and recalibrations of AIRB models;
- expansion of mBank Group business activity.

Additionally, as a result of risk assessment carried out by the Polish Supervisory Authority (KNF) within the supervisory review and evaluation process, in particular with regard to evaluation of risk related to portfolio of foreign exchange retail mortgage loans, mBank (on the individual and consolidated level) received an individual recommendation to maintain own funds to cover additional capital requirement of 4,39 basis points in order to mitigate the risk (3.29 p.p. for Tier 1 capital).

High level of additional capital requirement was a result of the Polish Financial Supervision Authority (KNF) applying one methodology to all banks in Poland, which fails to take account of the specificity of individual banks, such as mBank, which use internal models approved by the regulator to calculate capital requirements for credit risk. According to this methodology, the calculation of the additional capital requirement for all banks uses a risk weight under the standardised approach (100%), regardless of the results generated by internal models. Consequently, more than half of the additional capital requirement calculated by the KNF for mBank is a result of "aligning" the capital requirement to the requirement calculated under the standardised approach.

mBank meets the KNF's recommendations: its capital ratios on an individual and consolidated basis were above the target values, i.e. 16.39% at the level of own funds and 12.29% at the level of Tier 1 capital.

As at December 31, 2015, the non-consolidated total capital ratio of mBank stood at 20.18% and the Common Equity Tier 1 ratio at 16.70%.

As at December 31, 2015, the consolidated total capital ratio of mBank Group stood at 17.25% and the Common Equity Tier 1 ratio at 14.29%.

Stress tests

The integrated stress tests are conducted assuming a scenario of unfavourable economic conditions that may adversely affect the Bank's financial position in at least a full two-year time horizon (for liquidity risk, in a one-year horizon). The risk scenario, i.e., the most plausible (in at least a full two-year time horizon) scenario of negative deviations from the base scenario, expressed in terms of macroeconomic and financial ratios, is common for all risk types, applied at Group level and aligned with the corresponding scenario accepted by the consolidating entity.

The Group and the Bank carry out reverse stress tests, the goal of which is to identify events potentially leading to unviability of the Group and the Bank.

The Group and the Bank take part in regulatory stress tests conducted by the PFSA in order to determine the impact of assumed macroeconomic stress scenarios on the Group's balance sheet and P&L as well as on external supervisory norms.

13. HR development

13.1. Changes in employment

At the end of 2015, the total employment in mBank Group was 6,540 FTEs compared with 6,318 FTEs a year before (+3.5% or +222 FTEs). The increase took place mainly in the area of Retail Banking, due to the implementation of new strategy in foreign branches as well as in call center and IT area.

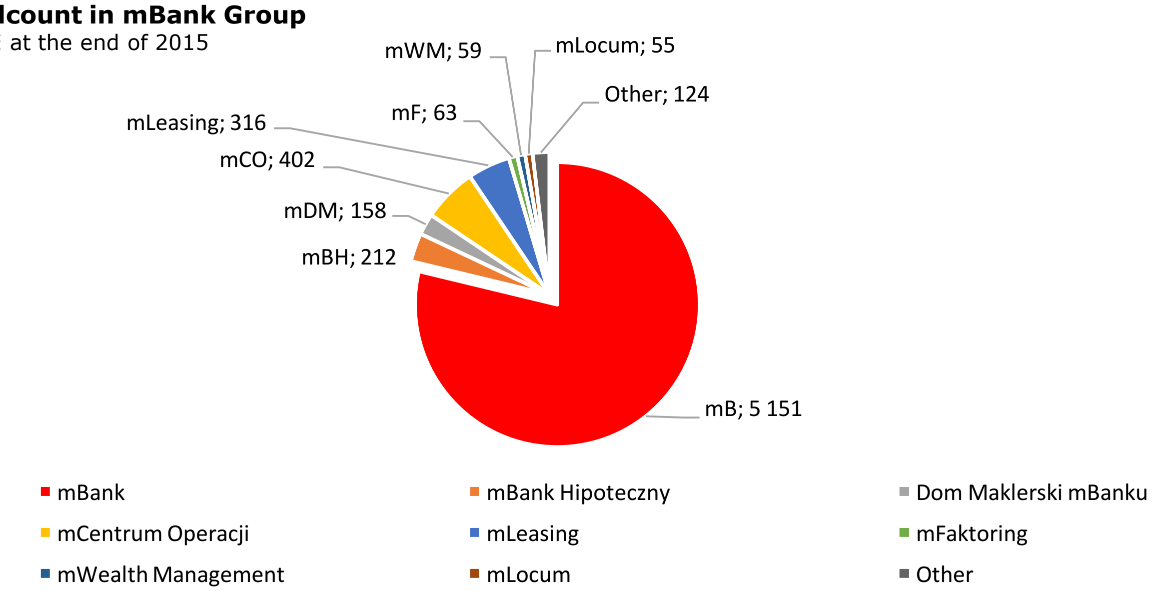
At the end of 2015, employment at mBank amounted to 5,151 FTEs and rose by 256 FTEs or 5.2% compared with 2014.

mBank's employees are relatively young: 49% are below the age of 35. They are also well-educated: nearly 83% are graduates of higher education institutions. Many employees undertake post-graduate and MBA studies, thus acquiring new professional qualifications.

At the end of 2015, employment in mBank Group subsidiaries amounted to 1,389 FTEs and decreased by 33 FTEs or 2.4% against 2014, due to the sale of BRE Ubezpieczenia TUiR.

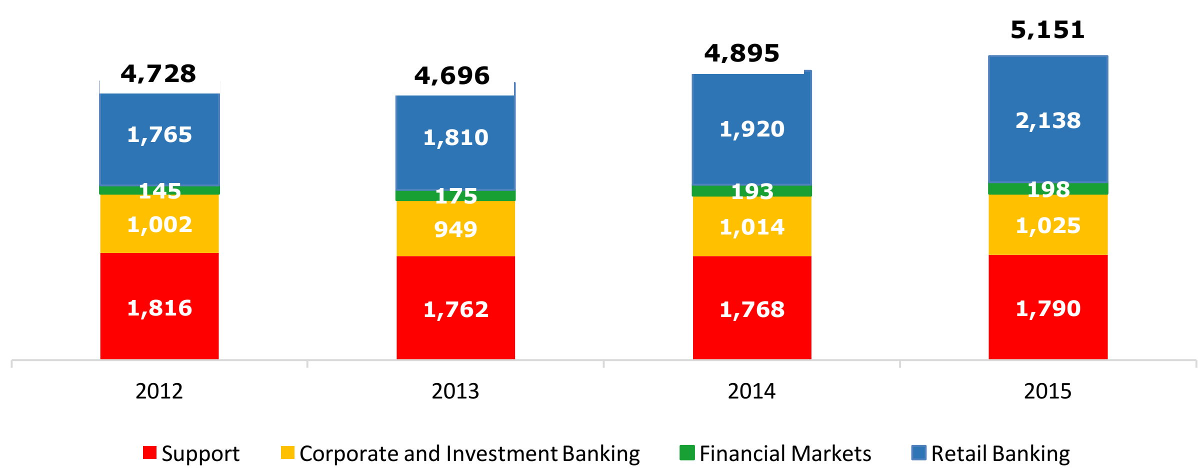
The charts below illustrate the employment structure in mBank Group, by subsidiaries, and in mBank, by areas of operation:

Headcount in mBank Group
in FTE at the end of 2015



** Other subsidiaries include: Aspiro, BDH Development, Garbary, Tele-Tech Investment i mFinance France*

Headcount in mBank by business lines
in FTE at the end of 2015



13.2. Mission and values of mBank Group

mBank, the first fully Internet-based Bank in Poland, for years has been a synonym of innovative solutions in the banking sector. Today it sets standards in the development of mobile and online banking sector. mBank's mission focuses on clients, aspiring to be the Bank which accurately identifies and foresees the needs of its customers being able to meet them precisely.

As a result of unification of the brand policy, which started in 2013, currently all clients are serviced under one brand. At the same time, mBank's team internally developed the model of values and behaviour characterising employees of mBank and targeting the Group's actions at accomplishment of the mission to create a better Bank for its clients.

Specialised banking services dedicated to various groups of clients are constantly improved and adjusted to changing behavioural patterns of clients. Organising around common values shared by employees helps to effectively face market challenges and provide clients with satisfactory experience from cooperation with the Bank.

mBank values

mBank are mainly people who cooperate with the aim to understand and precisely meet the needs of clients and share the responsibility for their satisfaction. Common values form the basis for the development of organisation and trust in customer relations. A clearly specified model of values (the chart below) is an expression of the internal consistency of the organisation, focused on offering the highest standards of service, as well as setting the direction for actions in increasingly challenging market environment.

13.3. Training and development

Development activities

In 2015, development activities were determined by business priorities – they were used to develop skills and enhance knowledge the teams needed in order to effectively achieve their goals. Plans devised jointly by development specialists and managers responsible for particular teams representing all levels of management in the organisation (including the Members of the Management Board supervising the business lines) served as the basis for the activities. Special development programmes supported activities of project teams performing key business initiatives for mBank.

Apart from specialised tailor-made training programmes run by experienced Polish and foreign experts, 2015 was also marked by a number of in-house initiatives. They were a consistent continuation of activities started in previous years under mBank Group's Strategy whose purpose is to fully use the knowledge and skills existing in the organisation.

A wide range of development programmes covering the entire organisation were run in mBank Group. They were characterised by a growing share of non-traditional activities, including *on-the-job training* and feedback from managers and colleagues. In 2015, all managers were trained in order to enhance their employee appraisal skills. The activities were coupled with major changes in employee appraisal process making the appraisal more useful in determining and planning the direction of development activities and making relevant decisions.

The following three programmes implemented in 2015 deserve special attention:

"3P" Project (from Polish: leadership-practice-professionalism)

Further implementation of the **3P** programme (from Polish: leadership-practice-professionalism) set the framework for the development of managerial skills. The version addressed to experienced managers was a cafeteria-style solution enabling managers to freely choose the development path. The only exception was the special module called "Introduction to practice" being a kind of an "entrance ticket" needed to take part in the workshops addressed to experienced managers. The main assumption of the programme was to arouse interest in and desire for continuous enhancement of managerial skills, to help the participants to maintain Personal Mastery, consistently verify knowledge through experience, perseverance and readiness to learn from one's own and other people's mistakes, continuously test their skills in real-life leadership situations, to encourage people to look for inspirations in management, and to teach and help them understand systemic thinking.

The training courses had the form of workshops based on materials and situations the participants have faced before. The workshops were run by consultants and trainers representing a training consortium composed of three specialist training firms. A total of 431 people participating in 38 dedicated training courses were trained in 2015 as part of the 3P programme.

Host, Designer, Coach Project

Young managers taking their first steps in this function were offered a tailor-made programme called Host, Designer, Coach (Polish: GPC), designed to expand their knowledge and skills with regard to: setting employees high-quality goals, getting people involved, delegating tasks effectively, modern motivation and auto-motivation methods, navigation conversations, and coaching oriented at business effects. In addition, the training provided the young managers with information about themselves and their managerial potential; proven, simple and useful tools supporting managerial efforts; and a long list of practical non-financial incentives and best managerial practices from mBank and outside. The 2015 GPC programme encompassed 11 training sessions with 119 young managers trained.

Our people make the difference. Help us find the most outstanding ones.

Another edition of the development programme called "Our people make the difference. Help us find the most outstanding ones." was organised in 2015. All the subsidiaries of mBank Group were invited to join the programme. We rewarded teams and people that are open to cooperation, knowledge sharing, team work, and helping others - people whose attitudes deserve recognition in the organisation. The programme was designed to support the integration of employees, increase their identification with the uniform brand, build team spirit and develop attitudes essential to achievement of business objectives. The programme is growing every year in terms of both its size and the number of employees reached.

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The programme is not only about rewarding individual people. It is the promotion of appropriate behaviour, attitudes, cooperation and sharing of knowledge and experience that matters the most. The social dimension of the initiative is of key importance as well. Entering people for the competition, voting, choosing the winners, the final gala - all these elements bring people together. The programme unites mBank Group's employees around the important objective of building an organisation based on its people in line with the statement "Our people make the difference".

In search of young talents

Banking and Digital Finance - a course at the University of Łódź launched in cooperation with mBank

In October 2015, mBank and Accenture launched a new course at the University of Łódź (Banking and Digital Finance). The course stands for its unique interdisciplinary programme combining the competences from the finance area with digital skills. Among the lecturers are scientists and teachers from the University of Łódź and representatives of partner companies providing the students with an insider perspective. As part of this cooperation, mBank employees may hold some of the classes and lectures. As a result, mBank employees are not only offered a self-development and knowledge sharing opportunity, but are also able to test their knowledge in the university environment and have a real impact on how young people are being trained. The responsibility for the classes lies with the lecturers working at the University. mBank employees offer their know-how, which means that the number of classes/lectures they hold depends on their individual preferences and availability.

The course takes three years. Graduates will be awarded a bachelor's degree. After a year and a half the students will be able to choose from two specialities: *Banking 3.0* and *IT in Finance.* The course comprises such important subjects as: Banking, Company Finance, Financial Markets and Products, Accounting, Financial Analysis, Digital Economy, Information Techniques, Data Structures and Algorithms, and Media Workshops.

Out of 316 candidates, 100 were selected in the course of the recruitment process to start the studies in October.

The programme was developed in a way to provide future graduates with a solid background making them suitable for a wide range of positions in:

- banks and other financial institutions,
- consulting firms,
- entities cooperating with financial institutions.

The Young Talents Programme

The Young Talents Programme, launched 5 years ago, is mBank's response to current and future needs of the organisation and expectations of candidates - students and graduates.

The programme is a part of mBank Group's strategy of creating its image as an employer among students and graduates. It helps the organisation to acquire talented individuals entering the labour market and prepare them to take up independent tasks at the Bank. Consequently, it facilitates access to candidates for entry-level positions, thus optimising recruitment processes and increasing the importance of internal recruitment.

Composed of traineeships and internships, the Young Talent Programme is addressed to students and graduates who intend to work in the banking industry in the future. The programme participants acquire practical skills and knowledge and receive ongoing support from their supervisor. Moreover, interns and trainees work under an employment contract and have access to employee benefits.

The Young Talents Programme consists of the following two sub-programmes:

Traineeship programme, consisting of traineeships with flexible working hours, with trainee positions offered throughout the calendar year so that trainees may easily combine their work at mBank with studies and other obligations. The trainees become familiar with one area of the Bank's operations. The traineeship contract is signed for three months with a prolongation option. There were approx. 80 trainees at mBank in 2015.

Internship programme of mBank is addressed to people who are open, committed and full of enthusiasm, who have already gained experience as trainees or as members of students' science associations and student organisations. Internship contracts are signed for a term of 9 to 12 months. Interns work full time. The internships in Łódź and Warsaw are conducted on a rotational basis which makes it possible for an intern to become familiar with several areas of the Bank - interns have the opportunity to support three organisational units. Candidates applying for an internship choose one profile determining the leading competence during the internship. Analytical, business, legal, business and investment, business and marketing, corporate banking and risk management profiles were available in 2015 with 18 interns working at mBank.

13.4. mBank Group's incentive system

The incentive system of mBank is based on the remuneration policy and intangible elements (e.g. possibility of career development). The incentive system plays a key role in developing corporate culture and builds a competitive advantage by acquiring and retaining competent employees.

The remuneration policy at mBank covers both the base salary (fixed component) as well as the variable part depending on the objectives achieved by the whole organisation and by individual employees.

In 2015, incentive programmes both for the Management Board Members and Key Managers were implemented at mBank Group.

2008 Incentive Programme for the Management Board Members of the Bank

On March 14, 2008 the Ordinary General Meeting of mBank, by adopting a relevant resolution, expressed consent to carry out an incentive programme for Members of the Bank's Management Board. Under the programme Members of the Bank's Management Board have the right to take up bonds with pre-emptive rights to acquire mBank shares or, as initially planned, shares of the ultimate parent entity, Commerzbank AG. In 2010, the programme was changed in the part concerning shares of Commerzbank, so that Members of the Management Board may obtain the right to receive cash equivalent corresponding to the value of the shares of Commerzbank calculated based on the average share price on the date when the right to receive the equivalent originated.

All the rights under payments settled in cash equivalent based on shares of Commerzbank and all the rights under payments settled in mBank S.A. shares within the framework of the programme have already been granted. Payments are settled in three equal deferred tranches: 12, 24 and 36 months from the date of acquiring the rights for a given year of the programme by the Management Board Member. The last settlements under this programme will take place in 2016.

Cash bonus paid under the programme for 2008-2011 was presented as an obligation to employees and referred to profit and loss account in a given year for which it was awarded.

The bonds may be acquired by the entitled persons over the years 2010 – 2021, provided that their employment continues. The right to take up shares under the conditional capital increase, resulting from the bonds, may be exercised by the entitled persons in the period from acquisition of bonds till 31 December 2021.

Share-Based Payments Settled in Cash

All rights under payments settled as a cash equivalent based on Commerzbank shares under the program have already been granted. Since payments are settled in three equal annual deferred tranches on the lapse of, respectively, 12, 24 and 36 months from the date of the right acquisition by the Management Board Members for a given year of the programme, the cost of Commerzbank share-based payments settled in cash were recognised in the income statement in correspondence with liabilities to employees. The last settlements under this programme are planned in 2016.

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Share-Based Payments Settled in mBank S.A. Shares

All rights under payments settled in mBank S.A. shares under the programme have already been granted. Since payments are settled in three equal annual deferred tranches on the lapse of, respectively, 12, 24 and 36 months from the date of the right acquisition by the Management Board Members for a given year of the programme, the cost of share-based payments settled in shares are still recognised in the income statement in correspondence with other reserve capital. The last settlements under the programme are planned in 2016.

This is an equity-settled share-based program.

The table below presents the number and weighted average exercise prices of share options related to the 2008 incentive programme for Management Board Members of the Bank.

	31.12.2015		31.12.2014	
	Number of options	Weighted average exercise price (in PLN)	Number of options	Weighted average exercise price (in PLN)
Outstanding at the beginning of the period	**3,650**	**4**	**10,293**	**4**
Granted during the period	-	-	-	-
Forfeited during the period	-	-	-	-
Exercised during the period	3,469	4	6,643	4
Expired during the period	0	-	-	-
Outstanding at the end of the period	**181**	**4**	**3,650**	**4**
Exercisable at the end of the period	**-**	**-**	**-**	**-**

** In 2015, the weighted average price of the shares at the option exercise date was PLN 399.40 (in 2014 PLN 500.28).*

2012 Incentive Programme for the Management Board Members of the Bank

On December 7, 2012, the Supervisory Board on the basis of recommendation of the Remuneration Committee, adopted Rules of the Incentive Programme at mBank S.A. which replaced the Rules of the Incentive Programme at mBank S.A. of March 14, 2008.

Under the programme, Members of the Bank's Management Board have the right to receive a bonus, including non-cash bonus paid in the Bank's shares, including phantom shares.

Cash bonus under the programme was paid for 2012-2013 and presented as an obligation to employees and referred to profit and loss account in a given year for which it was awarded.

Non-cash bonus, in which members of the Board have a right to take up bonds with pre-emptive rights to acquire shares, was granted under the programme for 2012-2013. The right to purchase the bonds will be realized in three equal annual deferred tranches, on the lapse of, respectively, 12, 24 and 36 months from the date of acquiring the right to non-cash bonus by the Management Board Memeber. Conditions of receiving as well as the amount of deferred tranche not paid out yet under non-cash bonus depend on the assessment of the financial position of the Bank by the Remuneration Committee and the performance evaluation of member of the Board for a period longer than one financial year.

The Supervisory Board on the basis of recommendations issued by the Remuneration Committee can make a decision on suspending in whole or limiting the right to acquire bonds with pre-emptive rights to take up the shares of the Bank relating to the deferred tranche in whole or partially due to the later assessment of the performance of the Member of the Management Board over a period of time longer than one financial year (i.e. for the period of at least 3 years), which takes into account the business cycle of the Bank as well as the risk related to the bank's operation, but only when the acts or omissions of the Member of the Management Board had a direct and adverse impact on the bank's financial result and market position within the assessment period. The Supervisory Board, on the basis of the recommendation of the Remuneration Committee of the Supervisory Board, can make a decision on suspending in whole or decreasing the bonus amount for a given financial year in relation to deferred tranche not paid out yet, in the situation referred to in Article 142 (1) of the Banking Law Act. Suspending in whole or decreasing any deferred tranche by the Remuneration Committee of the Supervisory Board can also apply to the deferred tranche not paid out yet to the Member of the Management Board after termination or expiry of the management contract.

Bonds may be acquired by eligible persons in the years 2014-2021.

The table below presents the number and weighted average exercise prices of share options related to the 2012 incentive programme for Management Board Members of the Bank.

	31.12.2015		31.12.2014	
	Number of options	Weighted average exercise price (in PLN)	Number of options	Weighted average exercise price (in PLN)
Outstanding at the beginning of the period	**33,352**	**-**	**25,802**	**-**
Granted during the period	-	-	16,153	4
Forfeited during the period	-	-	-	-
Exercised during the period	13,989	4	8,603	4
Expired during the period	-	-	-	-
Outstanding at the end of the period	**19,363**	**4**	**33,352**	**4**
Exercisable at the end of the period	**-**	**-**	**-**	**-**

** In 2015, the weighted average price of the shares at the option exercise date was PLN 399.40 (in 2014 PLN 500.28).*

Cash Part of the Bonus

40% of the bonus base amount for the year is recognised as a liability to employees and charged to the income statement in the year for which it was granted.

Share-Based Payments Settled in mBank S.A. Shares

60% of the bonus base amount constitutes a payment settled in mBank S.A. shares.

As payments are settled in three equal annual deferred tranches on the lapse of, respectively, 12, 24 and 36 months from the date of acquisition by the member of the Board of the right for a given year of the programme, the cost of payments settled in shares is recognised in the income statement in the correspondence with other reserve capital. The last settlements of this program are planned in 2017.

This is equity-settled share-based program.

2014 Incentive Programme for the Management Board Members of the Bank

On March 31, 2014 the Supervisory Board in accordance with the recommendation of Remuneration Committee adopted a Regulation of the Incentive Programme in mBank S.A., which replaced the Regulation of the Incentive Programme in mBank S.A. dated at December 7, 2012.

Under the program the members of the Board have the right to bonus, including non-cash bonus paid in Bank's shares, including phantom shares.

The net ROE of mBank S.A. Group and the monthly remuneration of the member of the Board as at December 31 form the basis for acquisition by Members of the Management Board of the right to bonus and for calculation of the amount of bonus for a given financial year. Equivalent of 50% of the base amount calculated based on ROE constitutes the so-called first part of the bonus. In regard to the remaining 50% of the base amount, the Remuneration Committee of the Supervisory Board can grant the second part of the bonus if it decides that a given Member of the Management Board achieved the annual/multi-year business and development objective. The decision of granting the second part of the bonus is the sole responsibility of Remuneration Committee of the Supervisory Board, which according to its own judgement and decision confirm MBO achievement taking into account the situation on financial markets in the last/previous financial period.

The sum of the first and the second part of bonus is the base bonus of the member of the Board for a given financial period. 40% of the base bonus constitutes non-deferred bonus and is paid in the year of determination of base bonus as follows: 50% in form of cash payment and 50% in Bank's shares or bonds with pre-emptive rights to acquire shares or phantom shares.

60% of the base bonus is deferred bonus and is paid in three equal tranches in the next three following years after the year of determining the base bonus as follows: 50% of each of the deferred tranches in form of cash payment and 50% of each of the deferred tranches in form of non-cash payment in Bank's shares or bonds with pre-emptive rights to acquire shares or phantom shares.

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The Supervisory Board on the basis of recommendation of Remuneration Committee can make a decision to suspend in whole or reduce the amount of deferred tranche due to the later assessment of the performance of the Member of the Management Board over a period of time longer than one financial year (i.e. for the period of at least 3 years), which takes into account the business cycle of the Bank as well as the risk related to the bank's operations, but only when the acts or omissions of the Member of the Management Board had a direct and adverse impact on the Bank's financial result and market position within the assessment period and when at least one of the elements included in the assessment card is not fulfilled.

Remuneration Committee of the Supervisory Board can make a decision on suspending in whole or decreasing the non-deferred and deferred bonus amount for a given financial year, including deferred tranches not paid out yet, in the situation referred to in Article 142 (1) of the Banking Law Act. Suspending in whole or decreasing the non-deferred and deferred bonus, as well as any deferred tranche by the Remuneration Committee of the Supervisory Board can also apply to the non-deferred and deferred bonus, including deferred tranche not paid out yet after expiry or termination of the management contract.

The table below presents the number and weighted average exercise prices of share options related to the 2014 incentive programme for Management Board Members of the Bank.

	31.12.2015		31.12.2014	
	Number of options	Weighted average exercise price (in PLN)	Number of options	Weighted average exercise price (in PLN)
Outstanding at the beginning of the period	**-**	**-**	**-**	**-**
Granted during the period	16,295	4	-	-
Forfeited during the period	-	-	-	-
Exercised during the period	6,519	4	-	-
Expired during the period	-	-	-	-
Outstanding at the end of the period	**9,776**	**4**	**-**	**-**
Exercisable at the end of the period	**-**	**-**	**-**	**-**

** In 2015, the weighted average price of the shares at the option exercise date was PLN 399.40.*

Cash Part of the Bonus

50% of the base amount constitutes bonus cash payment. It is recognised as a liability to employees and charged to the income statement in the correspondence to liability to employees.

Share-Based Payments Settled in mBank S.A. Shares

50% of the base amount constitutes bonus payment settled in mBank S.A. shares. The cost of payments settled in shares is recognised in the income statement in the correspondence with other reserve capital.

This is equity-settled share-based program.

On March 2, 2015 the Supervisory Board extended the duration of the program from December 31, 2018 until December 31, 2021 in accordance with the recommendation of the Remuneration Committee.

2008 Incentive Programme for Key Managers of mBank Group

On 27 October 2008 the Extraordinary General Meeting of the Bank adopted an incentive programme for the key management staff of mBank S.A. Group.

The programme participants include:

- Bank Directors;
- Representatives of key management.

They are responsible for taking decisions which have material impact on the implementation of a strategy specified by the Bank's Management Board, the Group's results, stability and security of business and development and creating added value of the organization.

In 2010, the Management Board of the Bank decided to launch the programme and approved the list of participants for Tranche III. Within Tranche III 13,000 options were granted. In 2011 within the Tranche IV and V programme 20,000 options and 19,990 options were granted. The rights started to be exercised in 2012 for Tranche III, in 2013 for Tranche IV and the process will last till December 31, 2019. The rights under Tranche V can be exercised after meeting specified conditions concerning acquisition of rights in the period from May 1, 2014 to December 31, 2019. The conditions for acquiring rights refer to being in an employment relationship throughout the term of the Tranche, obtaining an economic ratio for mBank S.A. Group specified by the Management Board and obtaining a specific appraisal by the programme participant in each year of the Tranche. In 2011 a decision was taken on suspension of the programme and not activating the remaining tranches.

Share-Based Payments Settled in mBank S.A. Shares

The cost of the programme for key managers is charged to the income statement and recognised in correspondence with other reserve capital.

The cost of payments settled in shares is recognised in the income statement as of the date of award of the program until the acquisition date of rights, i.e.:

- from 23.08.2010 to 30.04.2012 for Tranche III;

- from 1.02.2011 to 30.04.2013 for Tranche IV;

- from 1.02.2011 to 30.04.2014 for Tranche V.

This is equity-settled share-based program.

The table below presents the number and weighted average exercise prices of share options related to the 2008 incentive programme for key managers of mBank Group.

	31.12.2015		31.12.2014	
	Number of options	Weighted average exercise price (in PLN)	Number of options	Weighted average exercise price (in PLN)
Outstanding at the beginning of the period	**1,277**	**4**	**20,560**	**4**
Granted during the period	-	-	2,460	**-**
Forfeited during the period	-	-	200	**-**
Exercised during the period	1,177	4	20,798	4
Expired during the period	-	-	745	**-**
Outstanding at the end of the period	**100**	**4**	**1,277**	**4**
Exercisable at the end of the period	**-**	**4**	**1,277**	**4**

** In 2015, the weighted average price of the shares at the option exercise date was PLN 399.40 (in 2014 PLN 500.28).*

Options outstanding at the end of 2015 and 2014 expire on December 31, 2022.

Employee programme for key management staff of mBank Group of 2013

On April 11, 2013, the Extraordinary General Meeting of the Bank adopted a resolution amending the rules of the employee programme, which replaced the incentive programme for key management staff of mBank Group from 2008, whereas in regard to the persons who acquired bonds or were granted right to acquire bonds in Tranches III, IV and V the programme will be carried out under the previous principles.

The aim of the programme is to ensure growth in the value of the Company's shares by linking the interest of the key management staff of mBank S.A. Group with the interest of the Company and its shareholders and implementing in mBank S.A. Group variable components of remuneration of the persons holding managerial positions at mBank S.A. Group in accordance with the Resolution of the Polish Financial Supervision Authority.

The programme applies to the employees having a material impact on the risk profile of mBank S.A. Group, in particular Members of the Management Board of strategic subsidiaries, Bank Directors and key staff of mBank, whose decisions have a significant impact on the implementation of the strategy specified by the Bank's Management Board, results of mBank S.A. Group, growth in the value of the Bank.

During the programme the rights to acquire bonds under Tranche VI have been granted, which may be exercised in three equal parts after 12, 24 and 36 months from the date of granting these rights, in accordance with the internal regulations adopted in mBank S.A. Group specifying rules of variable remuneration of the employees having a material impact on the risk profile at mBank S.A. Group.

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The bonds may be acquired by the entitled persons during the programme term, but not later than by December 31, 2022.

The Bank's Management Board/Supervisory Board of the Company, where the Programme is carried out can take a decision on suspending the Programme in whole or decreasing the number of bonds or the number of bonds deferred in a given tranche for the entitled person in the case of occurrence of the situations referred to in Article 142 (1) of the Banking Law Act, occurrence of balance sheet loss or loss of liquidity, meeting the conditions set forth in the agreements with the program participants, forming the basis for provision of work or other services for the Bank and subsidiaries.

Cash Part of the Bonus

The bonus in the amount of 50% of the base amount for the year is recognised as a liability to employees and charged to the income statement in the year for which it was granted.

Share-Based Payments Settled in mBank S.A. Shares

As payments are settled in three equal annual deferred tranches on the lapse of, respectively, 12, 24 and 36 months from the date of acquisition by the programme participants of the right for a given year of the programme, the cost of this part of the programme is charged to the income statement and recognised in correspondence with other reserve capital.

This is equity-settled share-based program.

The table below presents the number and weighted average exercise prices of share options related to the 2013 incentive programme for key managers of mBank Group.

	31.12.2015		31.12.2014	
	Number of options	Weighted average exercise price (in PLN)	Number of options	Weighted average exercise price (in PLN)
Outstanding at the beginning of the period	**2,233**	-	-	-
Granted during the period	5,288	-	2,233	-
Forfeited during the period	-	-	-	-
Exercised during the period	3,713	4	-	-
Expired during the period	-	-	-	-
Outstanding at the end of the period	**3,808**	-	**2,233**	-
Exercisable at the end of the period	**-**	-	-	-

** In 2015, the weighted average price of the shares at the option exercise date was PLN 399.40.*

Employee programme for key management staff of mBank Group of 2014

On March 31, 2014, the Supervisory Board of the Bank adopted on the basis of recommendation of Remuneration Committee a resolution amending the rules of the employee programme, which replaced the incentive programme for key management staff of mBank Group from 2013, whereas in regard to the persons who acquired bonds or were granted right to acquire bonds in Tranches III, IV, V and VI the programme will be carried out under the previous principles.

The aim of the programme is to ensure growth in the value of the Company's shares by linking the interest of the key management staff of mBank S.A. Group with the interest of the Company and its shareholders and implementing in mBank S.A. Group variable components of remuneration of the persons holding managerial positions at mBank S.A. Group.

Beginning with Tranche VII the right to purchase bonds granted to the entitled person will be divided into four parts, which may be realized respectively: I part – non-deferred bonds representing 50% of the 60% of the amount of discretionary bonus granted for a given financial year in the year of granting the right, and then another three equal parts – deferred bonds constituting 50% of the 40% of the amount of discretionary bonus granted for a given financial year on the lapse of 12, 24 and 36 months from the date of granting the rights, in accordance with the internal regulations adopted in mBank S.A. Group specifying rules of variable remuneration of the employees having a material impact on the risk profile at mBank S.A. Group.

The Bank's Management Board/Supervisory Board of the Company, where the Programme is carried out may take a decision on suspending the Programme in whole or decreasing the number of bonds or the number of bonds deferred in a given tranche for the entitled person in case of occurrence of the situations, referred to in Article 142 (1) of the Banking Law Act, occurrence of balance sheet loss or loss of liquidity, meeting the conditions set forth in the agreements with the program participants, forming the basis for provision of work or other services for the Bank and subsidiaries.

Cash Part of the Bonus

The bonus in the amount of 50% of the base amount for the year is cash payment. It is recognised as a liability to employees and charged to the income statement in the correspondence to the liability to employees.

Share-Based Payments Settled in mBank S.A. Shares

The bonus in the amount of 50% of the base amount constitutes a payment settled in mBank S.A. shares.

The cost of payments settled in shares is recognised in the income statement in the correspondence with other reserve capital.

This is equity-settled share-based program.

On March 2, 2015 the Supervisory Board extended the duration of the program from December 31, 2019 until December 31, 2022 in accordance with the recommendation of the Remuneration Committee.

Employee programmes of mBank Group subsidiaries

Starting from the second quarter of 2014 utill the sale of BRE Ubezpiczenie TUiR SA in the first quarter of 2015, the Group operated an incentive programme, under which the management and employees of BRE Ubezpieczenia TUiR SA were entitled to potential capital gains concerning 4.99% of the shares of this company. The programme met the definition of share-based payment settled in cash. The incentive programme functioning in mBank Hipoteczny is based on phantom shares of this bank and considered as incentive programme under IAS 19.

Summary of the impact of the Programmes on the Bank's balance sheet and income statement

Share-Based Payments Settled in Shares

The table below presents changes in other reserve capital generated by the above mentioned incentive programmes for share-based payments settled in mBank S.A. shares.

	31.12.2015	31.12.2014
Incentive Programs		
As at the beginning of the period	**30 256**	**29 061**
- value of services provided by the employees	14 459	12 616
- settlement of exercised options	(11 739)	(11 421)
As at the end of the period	**32 976**	**30 256**

Share-Based Payments Settled in Cash

The incentive programme for the Management Board of the Bank in the part relating to Commerzbank shares has no impact on other reserves as its cost is taken to the income statement in correspondence with liabilities.

The value of provided services associated with this part of the programme amounted to PLN 1,286 thousand in 2015 (December 31, 2014: PLN 3,370 thousand). The value of liabilities under this program amounted to PLN 0 on December 31, 2015 (December 31, 2014: PLN 1,995 thousand).

Cash Payments

On March 2, 2015 Supervisory Board according to the recommendation of the Remuneration Committee extended the duration of the programm from December 31, 2019 to December 31, 2022.

According to the opinion of the Management Board of the Bank, remuneration policy is in line with objectives set within the Group improving the stability of the company and long term growth.

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13.5. MbO (Management by Objectives) - planning and appraisal system

In the current economic environment, one of the bases for a strong and stable growth as well as a competitive advantage is an effective and efficient Organisation Management System. In 2011, mBank implemented a fully developed, established and, additionally, very flexible System of Management by Objectives (MbO). For a few years now the MbO system has been covering not only mBank employees, but also all the employees of the key subsidiaries of mBank Group, thereby ensuring effective cooperation and communication within the entire mBank Group.

On the basis of more than 5 years of experience, at the end of 2015 the process of setting and cascading objectives for 2016, both in mBank and in selected Group subsidiaries was started — strong emphasis was placed on solidarity and integration objectives as well as those driving cooperation within not only mBank, but also the whole Group. It is a long-term process which will, in effect, provide mBank Group with a lasting competitive advantage and a tool which supports its long-term strategy on an ongoing basis.

The knowledge of strategic goals will allow mBank Group to focus employees' involvement on the most important issues, improving their effectiveness and saving time.

The MbO system has the following functions in the organisation:

- It translates directly into mBank's and mBank Group's performance by imposing discipline and involving the entire organisation in the achievement of results.
- It forms a direct communication platform which enables sharing information on the role and involvement of an individual employee in developing the organisation and achieving the strategic goals of mBank.

14. Investments

In 2015, the Bank spent PLN 230.1 million on investments, compared with PLN 160.5 million a year earlier.

The majority of investment spending at the Bank (PLN 191.9 million) was related to the IT area (salary of IT segment employees working on IT projects). The largest project financed in the IT systems area was the migration of former Multibank clients to mBank.

Spending in the logistics and security area, totalling PLN 38.1 million, was allotted to continued development and modernisation of the branch network and the Head Office as well as additional equipment for retail outlets. Moreover, some part of the spending was connected with new outlets opened as part of the One Network project.

15. mBank and social corporate responsibility

15.1. mBank Foundation

mBank Foundation (mFoundation), established in 1994, strives to support enhancement in education and quality of life of the society through actions coherent with the image and policy of the Bank.

In 2015, mFoundation continued its involvement in the "m for Mathematics" initiative introduced at the end of 2013 and outlined in the strategy for 2012-2016. The strategy is centred around activities aimed at supporting mathematics education in Poland and improving its effectiveness.

Through its three main activities the Foundation supports committed teachers and organisers of social activities in their efforts to show young people the interesting and practical side of mathematics so that they can effectively apply it not only in the classroom, but first of all, in their everyday lives. Subsidies, the grant programme "mPower" ("mPotęga") and the "Masters of Mathematics" ("Mistrzowie matematyki") scholarships allow for offering interesting educational activities to children, teenagers and students. Parents who want to support children in learning mathematics and teachers eager to upgrade their vocational qualifications in teaching of mathematics were invited to take part in projects subsidised by mFoundation.

In the first half of 2015 mFoundation continued to be the partner to the "Mathematics Counts" ("Matematyka się liczy") initiative launched by Gazeta Wyborcza daily. As part of this initiative, competitions for students and teachers as well as a mathematical picnic with workshops and lectures about modern and effective mathematics education were held.

Apart from its regular programmes, mFoundation was also engaged in supporting the employee volunteering programmes "Let's Do Good Together" and "Let's Run Together for Others".

Actions in support of mathematics education

mFoundation subsidies offer one-time financial support for development projects related to mathematics. Applications for subsidies are accepted throughout the year and are processed on the last Monday of every month. Non-governmental organisations, schools, libraries and other educational and scientific establishments as well as higher education institutions may apply for the support. In 2015, almost 60 thousand direct recipients benefited from the projects subsidised by mFoundation. The funds of mFoundation enabled the development of 48 mathematical projects on a national and regional scale, among others: 11th edition of the Competition of Secondary School Pupils in Mathematics, mathematical meetings as part of the 19th Science Festival in Warsaw, 6th edition of the international photographic competition "Mathematics in Focus", or "General Internet Competition for high school students - Mathematics" organised by the Faculty of Mathematics and Information Science of the Warsaw University of Technology.

Another key initiative of mFoundation is the grant programme **"mPower"**. Underlying the programme is a desire to develop mathematical skills in the young generation by inspiring teachers, parents, people with passion for mathematics to look for creative, attractive ways for children and teenagers to get to know the world of numbers. The programme is implemented in cooperation with the Good Network Foundation (Fundacja Dobra Sieć). In 2015, in the second edition of "mPower", schools, social organisations, cultural centres and public libraries from nine voivodeships (mazowieckie, łódzkie, wielkopolskie, kujawsko-pomorskie, pomorskie, zachodniopomorskie, warmińsko-mazurskie, lubuskie and dolnośląskie) were eligible for grants. The applicants could enter their original projects in two categories: addressed to 4-6th grade pupils of primary schools, and to secondary school pupils and high school students. Grants ranging from PLN 2 thousand to PLN 8 thousand were awarded to 61 most interesting initiatives. Consequently, ten thousand pupils, parents and teachers benefited from "mPower".

The programme **"Masters of Mathematics"** is dedicated to non-governmental organisations whose statutory activities include scholarship programmes. As part of the programme, NGOs can raise funds for scholarships awarded to pupils and university students demonstrating outstanding talents for science, e.g. mathematics. In 2015, mFoundation launched ten scholarship programmes "Masters of Mathematics". They were implemented among others by local foundations and associations from Kielce, Solec Kujawski, Wieluń and Nowy Sącz. mFoundation funded scholarships for 160 talented young mathematicians.

Employee volunteering programme

mFoundation helps mBank's employees to take actions for local communities through the support of the employee volunteering programme "Let's Do Good Together" ("Zróbmy razem coś dobrego") and the sports volunteering programme "Let's Run Together for Others" ("Biegnijmy razem dla innych"). In 2015, five projects implemented by 25 volunteers were co-financed by mFoundation as part of the employee volunteering programme "Let's Do Good Together".

Cooperation with the CASE Foundation

Since 2005 mFoundation has been cooperating with the Science Foundation CASE (Center for Social and Economic Research), co-organising cyclical seminars and issuing accompanying publications. CASE is an international, independent research and advisory centre, focusing on the transformation in Central and Eastern Europe, Transcaucasia and Central Asia, the European integration and the world economy. The seminars cover the key issues of the financial sector, public finances, the monetary union and other current, important questions relating to the economic policy in Poland and in the world. There were six seminars organised within the scope of the cooperation in 2015.

The amount of **PLN 2,246,618** was earmarked for the performance of mFoundation's statutory tasks in 2015 with the following structure of expenses:

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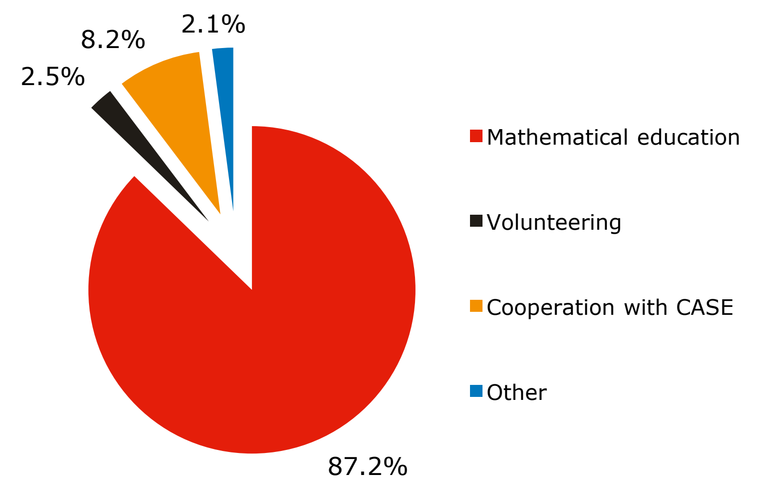
The costs of the performance of the statutory tasks of mFoundation in 2015



15.2. Other social-oriented activities

"You don't do it in real life? Don't do it online!" mBank's first social campaign promoting online security

In 2015, mBank, an online banking pioneer, launched a social campaign which was not only the first campaign promoting online security in the bank's history, but the first such campaign in the banking industry. The campaign is addressed to all those who bank using their computers and mobiles. Its aim is to make people aware of the possible threats lurking online.

The campaign covers TV ads based on the concept of moving risky online situations to real life. They are designed to provoke reflection on the way users reveal their data on the Internet and on how and to whom they give access to their devices.

In its next step mBank launched a dedicated service (mbank.pl/uwazniwsieci), explaining in a concise way what may pose a threat to Internet users and why, and how to protect oneself from it.

This website is supplementary to https://mbank.pl/bezpieczenstwo which has been administered by mBank for many years, offering guidelines for clients and warnings against cyber-attacks.

"Tomorrow Belongs to Women"

Since 2008 mBank has been organising a series of seminars entitled "Tomorrow Belongs to Women" addressed to the female corporate clients of mBank who manage finances, sit on management boards or own enterprises. As part of the project, mBank organises meetings with experts, networking discussions and other activities making it easier for working women to achieve the work-life balance. The key themes of the meetings were selected based on suggestions from women given in an Internet questionnaire.

In 2015, there were three meetings organised as part of the "Tomorrow Belongs to Women" programme.

16. Statement of mBank S.A. on application of Corporate Governance principles in 2015

16.1. Application of Corporate Governance Principles

In 2015, mBank was subject to corporate governance principles contained in the following documents:

1. "Code of Best Practice for WSE Listed Companies"

2. "Principles of Corporate Governance for Supervised Institutions"

The text of the "Code of Best Practice for WSE Listed Companies" is available on the website of the Warsaw Stock Exchange (http://www.corp-gov.gpw.pl/), and the Principles of Corporate Governance for Supervised Institutions are available on the website of the Polish Financial Supervision Authority (http://www.knf.gov.pl/regulacje/praktyka/index.html).

On 13 October 2015, the Exchange Supervisory Board adopted a resolution on introduction of the new corporate governance principles entitled "Code of Best Practice for WSE Listed Companies 2016". Before, the draft of new principles was subject to public consultation attended by representatives of issuers, stock exchange investors and institutions and organisations interested in corporate governance of listed companies. The new principles entered into force on January 1, 2016. Some of the current principles have been clarified in the document. With regard to the selected issues being of key importance from the point of view of corporate governance, the current requirements were increased where the adequacy rule was taken into account, which adjusts the particular rules to the possibilities of implementing them by companies of various sizes. This refers in particular to extending the scope of information published by the companies on the website.

The "comply or explain" rule applies to the detailed rules of best practice. Constant non-application of a given principle or its incidental non-application are subject to obligatory reporting by the company in a manner specified in § 29 point 3 of the Stock Exchange Rules. It is worth noting that starting from 1 January 2016, Best Practice within the scope of organising the so-called "e-general meetings" have the nature of recommendations and there is therefore no obligation to publish a current report on refraining from the implementation of those principles in the EIB System.

Code of Best Practice for WSE Listed Companies

The version of the "Code of Best Practice for WSE Listed Companies" including amendments introduced by Resolution No. 19/1307/2012 of the WSE Supervisory Board of 21 November 2012 which came into effect on January 1, 2013 was applicable in 2015. That is why the latest statement refers to this document.

In 2015, similarly as in the two previous years, mBank applied the principles of the "Code of Best Practice for WSE Listed Companies" with the exception of Rule no. 10 point 2 in chapter IV of the "Code of Best Practice for WSE Listed Companies". This rule stipulates the obligation to ensure that shareholders have the possibility to participate in the general meeting with the use of means of electronic communication.

For many years, mBank has broadcast General Meetings in real time, however, without the possibility to engage in two-way on-line communication by allowing shareholders to speak during the General Meeting from a different location. The Bank's By-laws and the Standing Rules of the General Meeting do not provide for the possibility to actively participate in General Meetings with the use of means of electronic communication.

Moreover, in the opinion of the Management Board of the Bank, the organisation of general meetings with the use of means of electronic communication involves additional legal, organisational and technical risks. It should be noted that mBank has a stable majority shareholder while a large part of minority shareholders are represented at each General Meeting even if participation in General Meetings with the use of means of electronic communication is not available.

In the opinion of the Management Board, the rules for participating in General Meetings of the Bank, currently applicable at the Company, allow for adequate protection of the interests of all shareholders, including the minority shareholders, allowing them to exercise all rights attached to shares.

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With respect to the Recommendations listed in the "Code of Best Practice for WSE Listed Companies", Point 9 of the Recommendations, which calls for ensuring a balanced proportion of women and men in management and supervisory functions in companies, requires an additional commentary.

mBank ensures equal access of men and women to management positions, which however is not based on a predetermined parity.

The persons recommended and appointed to the Bank's Management Board and Supervisory Board should display the highest competence, be adequately educated and experienced, and have a professional track record. mBank is of the opinion that it would be unjustified to introduce regulations based on pre-established parities, and leaves the decision on selecting members of the Management Board and Supervisory Board in the hands of duly authorised bodies of the Company.

As at the end of 2015, the 12-member Supervisory Board of mBank had two female members: Teresa Mokrysz and Agnieszka Słomka-Gołębiowska. The 7-member Management Board of mBank had one female member: Lidia Jabłonowska-Luba, Chief Risk Officer.

Finally, it is worth mentioning that from among the detailed corporate governance principles ("Code of Best Practice for WSE Listed Companies 2016") applicable as of January 1, 2016, mBank does not apply two rules:

1. The rule II.Z.8. which reads "The chairman of the audit committee meets the independence criteria specified in Rule II.Z.4", Stephan Engels, Member of the Management Board of Commerzbank AG (CFO) is the Chairman of the Audit Committee of the Supervisory Board of mBank S.A. Therefore, Stephan Engels does not meet the criterion of independence, referred to in rule II.Z.4.; however, this does not have an impact on the manner and credibility of tasks performed by the Committee.

2. The rule VI.Z.2. which reads "In order to link the remuneration of members of the management board and key managers with the company's long-term business and financial objectives, the period between granting options or other instruments connected with company shares as part of the incentive programme and the possibility of executing them should be at least 2 years." The conditions for granting variable components of remuneration at mBank S.A. are compliant with Resolution No. 258/2011 of the Polish Financial Supervision Authority of October 4, 2011 drafted in response to EU Directive CRDIII and CEBS guidelines (Committee of European Banking Supervisors; at present, EBA – European Banking Authority) and consistent with EU Directive CRD IV, the provisions of which do not provide for the indication specified in item VI.Z.2. of the Code of Best Practice for WSE Listed Companies 2016 as a condition for awarding the bonus.

Corporate Governance Principles for Supervised Institutions

The "Principles of Corporate Governance for Supervised Institutions" approved by the Polish Financial Supervision Authority on July 22, 2014 are in effect since January 1, 2015. The "Principles of Corporate Governance for Supervised Institutions" cover relations with shareholders and clients, issues relating to the organisational structure, an effective and efficient internal control system, as well as the risks of business activities.

mBank has accepted for application the "Principles of Corporate Governance for Supervised Institutions" excluding the rules defined in § 8 point 4 and § 16 point 1.

The rule in § 8 point 4, which provides as follows: "A supervised institution, when justified by the number of shareholders, should strive for facilitating the participation of all shareholders in the General Meeting of the supervised institution, among others, through ensuring the possibility of electronic active participation in the General Meeting", is similar to rule 10 point 2 in chapter IV of the "Code of Best Practice for WSE Listed Companies". As a large part of mBank's shareholders are represented at General Meetings and with a view to mitigating the risk inherent in active participation in General Meetings with the use of means of electronic communication, mBank has decided that non-compliance with the rule defined in § 8 point 4 was justified.

Likewise, mBank does not comply with the rule defined in § 16 point 1, which provides as follows: "It is proper that meetings of a management body shall be held in Polish. In case of need, necessary assistance of an interpreter should be ensured." The non-compliance derives from the fact that all Members of mBank's Management Board speak fluent English. Communication without an interpreter is more effective as discussions and decisions can be made without the participation of a third party (interpreter). In some circumstances, the participation of an interpreter could make discussions at Management Board meetings more difficult or prolonged due to the complex nature of issues under discussion as well as the specialised language. Furthermore, given that Management Board meetings review information that constitutes the company's secret, it is legitimate to limit to the bare minimum the participation of non-members of the Management Board in its meetings. At the same time, most of mBank's Management Board Members speak Polish, which implies that the Bank can be represented whenever participation of Management Board Members is required including communications in Polish without an interpreter. Furthermore, minutes of Management Board meetings as well as resolutions of mBank's Management Board are prepared in two language versions, ensuring compliance with the provisions of § 16 point 2 of the "Principles".

The stand of shareholders as regards the Corporate Governance Principles was presented in the resolution of the 28th Annual General Meeting of mBank S.A. of March 30, 2015.

In the above resolution, the shareholders undertook:

- to participate in the performance of the statutory objectives of mBank, ensuring security of its operation and following its interest
- not to violate the competence of other statutory bodies of mBank
- to immediately solve any potential conflicts between shareholders to prevent infringing the interest of mBank and its clients
- not to make decisions resulting in transferring assets from the supervised institution to other entities, and in acquisition or alienation of or in conclusion of other transactions leading to the supervised institution disposing of its assets under conditions other than market conditions or posing a threat to the security or interest of the supervised institution; to grant the individual rights to the given shareholder or shareholders when justified on the grounds of achieving significant objectives of mBank and not causing hindrance to proper functioning of the bodies of mBank or discrimination against other shareholders and reflected in the By-Laws of mBank
- to provide, if needed, additional capital or grant financial support to the Bank to the extent to which it is possible and compliant with authorisations, whereas it will only take place after the analysis of the entirety of reasons which led to such a necessity; the shareholders will take into consideration the possibility of providing support from the point of view of their financial situation, provisions of law and supervisory regulations the shareholders are bound to respect and considering the best interest of mBank and its clients.
- to make decisions with regard to dividend payment depending on the need for maintaining an appropriate level of equity and on the achievement of strategic objectives of mBank and to take into consideration general and individual recommendations issued by the supervisory authorities.
- to implement the recommendations of the the Polish Financial Supervision Authority regarding the election of members of the Supervisory Board of the Bank.

Code of Banking Ethics

Irrespective of the corporate governance principles, mBank has for many years complied with best banking industry practices developed by the Polish Bank Association (ZBP). The currently applicable version of the Code of Banking Ethics was approved at the 25th General Meeting of the Polish Bank Association held on April 18, 2013. The Code of Banking Ethics is a set of principles referring to banks, their employees, and persons acting as intermediaries in banking activities. The Code of Banking Ethics includes two parts: Code of Best Banking Practice and Code of Employee Ethics. The Code of Banking Ethics is available on the website of the Polish Bank Association (http://zbp.pl/dla-bankow/zespoly-rady-i-komitety/dzialania-w-obszarze-legislacyjno-prawnym/komisja-etyki-bankowej).

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The disclosure policy

mBank pursues an open, transparent, and effective information policy. The main means applied in the disclosure policy are:

- current and periodic reports
- meetings, tele- and video-conferences of representatives of the Management Board and the Investor Relations and Group Strategy Department with investors and analysts on a regular basis, both in Poland and abroad
- quarterly presentations of financial results for investors and analysts provided directly and through interactive webcasts and teleconferences
- ongoing contact by phone or e-mail with analysts and investors, including sending Newsletters and other informational materials
- participation of the domestic and foreign representatives of the Bank in investor conferences and road-shows in the selected European countries and in the United States of America
- website of the company with a big investor relations section where information is published on, among others, the shareholders of mBank, composition of the Management Board and Supervisory Board, General Meetings (including video recordings of the course of the General Meetings), ratings, the Euro Medium Term Note Programme, quotations of mBank's shares on the WSE, analysts' recommendations, the consensus on mBank Group's expected performance, the target share price, yearly, periodical and ongoing presentations, including presentations with the results of the Group for analysts and stock exchange investors as well as presentations for the investors in the Bank's debt securities, online version of the annual report allowing for an interactive access to the audited financial data, investor's calendar, mBank Analyser allowing for making financial and business analyses in different dimension and the Investor's Calendar. In the section dedicated to corporate governance and best practice the following is included: By-laws and rules of the Bank's bodies, statements on the application of corporate governance principles, principles of remunerating the Management Board and the Supervisory Board, information on incentive programmes, information on the diversity policy, rules for changing the entity entitled to audit financial statements, and information on the participation of men and women in statutory bodies of mBank.

In 2015, the Investor Relations team held in total about 140 investor meetings (the majority of them with the participation of the members of the Management Board of the Bank) attended by about 240 investors and analysts. The team took part in three conferences in Poland and six conferences abroad, organised three mini road-shows with OFE, TFI and other financial investors in the Warsaw headquarters of the Bank and two road-shows in the United States.

16.2. Internal control and risk management systems with regard to the process of preparing financial statements of mBank

mBank is equipped with an internal control system which supports Bank management by ensuring the efficiency and effectiveness of the Bank's operation, reliability of financial reports, as well as compliance of the Bank's operation with the provisions of law and internal regulations.

The internal control system includes the following:

- functional control which covers all organisational units and all processes
- risk monitoring and risk control mechanisms
- monitoring compliance of the Bank's operation with the provisions of law and internal regulations
- internal audit.

The adequacy and effectiveness of the internal control system is subject to independent assessment of the Internal Audit Department (DAW). The audit results are reported, among others, to the President of the Management Board, the Chief Risk Officer, and the Chairman of the Supervisory Board of the Bank. Moreover, the Department of Integrated Risk Management and Capital (DKR) manages the process of integrated risk and capital of the Bank and the Group reporting for the Bank's statutory bodies, the regulators and financial market participants, as well as for consolidated supervision.

The general rules described above are applied also in the process of drafting financial statements.

The process of preparing financial data for reporting is automated and based on the General Ledger of the Bank. Preparation of data in source systems is subject to formalised operational and acceptance procedures. Creating the General Ledger of the Bank takes place within a process covering respective internal controls. Manual adjustments are subject to special controls.

The process of monitoring the operational risk which occurs in the preparation of financial statements in the Bank includes mechanisms which effectively ensure the security of IT systems. mBank has in place a business continuity plan which covers also the IT systems used in the process of preparing financial statements.

Financial statements of mBank and the Group are prepared by the Financial Reporting Department. Consolidated financial statements are based on the data submitted by mBank's subsidiaries. The Financial Reporting Department monitors the reporting packages prepared by the subsidiaries in terms of their correctness, completeness and coherence of data.

The responsibility for keeping accounting books and administering the model chart of accounts lies with the Accounting Department. Both Departments report to the Vice-President of the Management Board, Chief Financial Officer.

Financial statements are submitted to the Management Board of mBank for verification. The Audit Committee of the Supervisory Board receives quarterly financial statements before they are published. After consultations with the Bank's external auditor and the Members of the Management Board of the Bank, the Audit Committee recommends whether the Supervisory Board should approve or reject the annual financial statements.

The annual and semi-annual financial statements of mBank are respectively subject to an independent audit or review by the statutory auditor. The selection of the statutory auditor of the Bank requires a resolution of the General Meeting. The Audit Committee of the Supervisory Board issues an opinion on the selection of the statutory auditor. mBank observes the rule stipulating that the key statutory auditor should change at least once every five years. This is in line with Article 89 of the Act on Statutory Auditors and their Self-Government, Entities Authorised to Audit Financial Statements, and Public Supervision dated 7 May 2009 (Journal of Laws of 2009, No. 77, item 649). According to the above article, the key auditor (the auditor, who signs the opinion and the report) cannot perform auditing activities in the same unit of public interest for a period longer than five years and then can perform such activities only after two years. Furthermore, mBank abides with all recommendations issued by the Polish Financial Supervision Authority regarding the change of statutory auditors.

Pursuant to a resolution no. 32 of the 28th Annual General Meeting of the Bank of March 30, 2015, Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k. was the entity authorised to audit the Bank's financial statements and consolidated financial statements of the Capital Group for 2015. This company was also the auditor in the years 2013-2014.

The amount of fees paid to Ernst & Young is presented in Note 47 to the Consolidated Financial Statements.

The procedures of co-operation of the Bank and the external auditor ensure that all the important issues related to the recognition of economic events in the books and financial statements are being consulted on an on-going basis.

The aspiration to ensure the highest standards of financial statements is reflected in the high quality of reporting. In "The Best Annual Report 2014" contest organised by the Accounting and Tax Institute, the results of which were announced in September 2015, mBank won the title "The Best of the Best" for the third time in a row. Moreover, mBank received a distinction for the annual report on the Internet.

16.3. Significant blocks of shares

Commerzbank AG is the majority shareholder of mBank.

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As at December 31, 2015, Commerzbank held directly 29,352,897 shares of mBank, which accounted for 69.49% of the share capital and votes at the General Meeting. 30.51% of mBank shares in free float are held by institutional investors, in particular Polish pension funds and Polish and foreign investment funds as well as individual investors. ING Otwarty Fundusz Emerytalny (ING OFE) exceeded the 5% threshold of shares and votes at the General Meeting. According to the notification sent to the Bank, on 18 March 2015 ING OFE held 5.05% of the share capital entitling it to 5.05% of the total amount of shares and votes at the General Meeting.

The strategic shareholder of mBank, Commerzbank AG, is a leading German bank with a history dating back to 1870, which provides its services to private and corporate customers.

The German government – currently the largest shareholder of Commerzbank – holds more than 15% of stake in the share capital of Commerzbank through Germany's Financial Market Stabilisation Fund (SoFFin). The largest institutional investors are BlackRock and Capital Group – each of them holds a bit more than 5% of the shares of the Bank. The remaining institutional investors hold about 50% of shares in free float.

Commerzbank is one of the leading international commercial banks. Its branches are located in over 50 countries. The basic markets for the Bank are Germany and Poland. There are five segments in the structure of Commerzbank Group: Individual Clients, small and medium-sized enterprises (Mittelstandsbank), Corporations and Financial Markets, Central and Eastern Europe and Non-Core Assets. Commerzbank holds branches and offices in more than 50 countries. With approximately 1,050 branches and more than 90 advisory centres for business customers Commerzbank has one of the densest branch networks among German private banks. In total, Commerzbank boasts more than 16 million private customers, as well as 1 million business and corporate clients. The Bank, which was founded in 1870, is represented at all the world's major stock exchanges. In 2015, it generated gross revenues of EUR 9.8 billion with 51,300 employees. As at 31 December, 2015, Commerzbank Group held assets of EUR 533 billion.

Pursuant to the By-laws of mBank, each share gives the right to one vote at the General Meeting. There are no preferred shares. The control rights of Commerzbank AG as the parent entity of mBank are a result of the number of shares held, their percentage share in the share capital, and the number of votes at the General Meeting of mBank.

The By-laws of mBank do not impose any limitations on the exercise of the voting right. There are no provisions which would separate the equity rights attached to securities from the holding of securities. Furthermore, there are no limitations on the transfer of the property right to securities issued by the Bank.

16.4. Principles of appointing and dismissing Management Board Members

Pursuant to the By-laws of mBank, the Management Board is composed of at least three Members appointed for a joint term of 5 years. At least half of the Members of the Management Board, including the President of the Management Board, must hold Polish citizenship, be habitually resident in Poland, speak Polish and have experience on the Polish market which can be used while managing the Bank.

The President of the Management Board, the Vice-Presidents of the Management Board and the other Members of the Management Board are appointed and dismissed by the Supervisory Board, acting pursuant to the provisions of the Banking Law and considering relevant qualifications for the assigned functions. The Polish Financial Supervision Authority (PFSA) approves two Members of the Management Board of the Bank: The Polish Financial Supervision Authority (PFSA) approves two Members of the Management Board of the Bank: the President of the Management Board and the Chief Risk Officer.

In accordance with the Code of Commercial Partnerships and Companies, a Member of the Management Board may also be dismissed or suspended by the General Meeting.

The mandate of a Member of the Management Board expires at the latest on the day of the General Meeting that approves the financial statements for the last full financial year of the term of that Management Board Member. The mandate of a Member of the Management Board also expires if the Member dies, resigns from his or her position, or is recalled. The mandate of a Member of the Management Board appointed before the end of the term expires on the expiration of mandates of the other Members of the Management Board.

16.5. Amendments to the Company's By-Laws

Amendments to the By-Laws of mBank require adoption of a resolution by the General Meeting of mBank and registration of the adopted amendment in the National Court Register. Before the General Meeting of mBank is presented with a draft resolution concerning amendment to the By-Laws, the Management Board of mBank adopts a resolution on the proposed amendment by approving the draft resolution of the General Meeting, and then the draft is presented to the Supervisory Board of mBank for approval.

In accordance with Article 34.2 of the Banking Law Act of 29 August 1997, any amendment to the Bank's By-laws requires the authorisation of the Polish Financial Supervision Authority where such amendment relates to:

- The Bank's registered business name.
- The Bank's registered office, objects and scope of the Bank's operation.
- The bodies and their competences, including particularly the competences of the Members of the Management Board appointed with the approval of the Polish Financial Supervision Authority and the decision-making principles, the general organisational structure of the Bank, the procedures applicable to making legally binding statements regarding property rights and obligations, the procedures for issuing internal regulations and the procedure for making decisions on assuming obligations or disposing of assets whose total value with regard to a single entity exceeds 5% of the Bank's own funds.
- The principles of functioning of the internal control system.
- The own funds and the financial management principles.
- Shares preferred or limited as to voting rights.

16.6. General Meeting and shareholder rights

General Meeting procedures and powers

The General Meeting is convened pursuant to the provisions of the Code of Commercial Partnerships and Companies, the Bank's By-laws, and the Standing Rules of the General Meeting. Both the By-laws and the Standing Rules of the General Meeting are available on the website of mBank.

The General Meeting convened by the Management Board in the way of an ordinary procedure is held once a year, no later than in June. The Supervisory Board may convene an Annual General Meeting if the Management Board fails to convene it within the time limits set out in the By-laws and an Extraordinary General Meeting, if the Supervisory Board considers it necessary.

In addition, under specific circumstances, the shareholders have the right to convene a General Meeting or to request for a General Meeting to be convened.

Shareholders may participate in the General Meeting and cast their votes either in person or by proxies. One proxy may represent more than one shareholder.

Subject to the cases defined in the Code of Commercial Partnerships and Companies, the General Meeting is valid regardless of the number of shares represented at the General Meeting.

All matters submitted to the General Meeting are previously submitted to the Supervisory Board for consideration.

Subject to specific exceptions, resolutions of the General Meeting are passed in an open ballot by a simple majority of votes, unless the Code of Commercial Partnerships and Companies or the mBank By- laws impose a stricter requirement for the passing of resolutions on specific issues. A secret ballot is required in the case of elections and motions to dismiss members of the Bank's authorities or liquidators, motions to call members of the Bank's authorities or liquidators to account, and motions concerning personal issues. In addition, a secret ballot is required if requested by at least one shareholder present or represented at the General Meeting.

Voting takes place with the use of a computer system, which also counts the votes. The By-laws and Standing Rules of the General Meeting do not provide for the possibility to vote by mail or with the use of electronic means of communication.

The following matters require a resolution of the General Meeting (in addition to other matters set out in the Code of Commercial Partnerships and Companies):

- Examination and approval of the report of the Management Board on the Bank's operation and financial statements for the past financial year.
- Adoption of resolutions on the distribution of profits or coverage of losses.
- Vote of discharge of duties for members of the Bank's authorities.
- Election and dismissal of Members of the Supervisory Board.
- Amendment to the By-laws.
- Increase or reduction of the Bank's share capital.
- Adoption of resolutions concerning the cancellation of shares, which set the rules of acquiring shares by the Bank, in particular the amounts allotted for purchasing the shares for redemption and funding sources, and in particular setting the policy of share cancellation not regulated in the By-laws.
- Creation and winding up of special purpose funds.
- Issue of convertible bonds or preferred bonds.
- Establishment of the principles of remunerating Members of the Supervisory Board.
- Liquidation of the Bank or its merger with another bank.
- Appointment of liquidators.
- Matters submitted by the Supervisory Board.
- Matters submitted by shareholders in accordance with the By-laws.
- Election of an entity authorised to audit financial statements as statutory auditor of the Bank.

The General Meetings of mBank take place on the Bank's premises in Warsaw and are broadcast on-line. The General Meetings may be attended by the representatives of the media.

Shareholder Rights

The shareholders have the right to participate in the profit reported in the audited financial statements and allocated by the General Meeting to be paid to the shareholders.

The shareholders representing at least one-half of the share capital or at least one-half of the total number of votes in the Company may convene an Extraordinary General Meeting. The shareholders appoint the chairman of such meeting. The shareholder(s) representing at least one-twentieth of the share capital may request that the Management Board convene an Extraordinary General Meeting and that specific items be put on the agenda for such meeting.

Only persons who are shareholders of the Bank sixteen days before the date of the General Meeting have the right to participate in the General Meeting of the Bank. The shareholder(s) of the Bank representing at least one-twentieth of the share capital may request that specific items be put on the agenda for the Annual General Meeting. The request should be submitted to the Management Board of the Bank no later than twenty-one days prior to the date of the Annual General Meeting.

Shareholders may participate in the General Meeting and cast their votes either in person or by proxies.

A shareholder has the right to:

- Vote, propose motions and raise objections.
- Justify his or her position briefly.
- Stand for election for Chairman of the General Meeting and propose a candidate for Chairman of the General Meeting to be noted in the minutes.
- Take the floor during the proceedings and make a reply.
- Table draft resolutions concerning the items put on the agenda.

- Propose amendments and additions to draft resolutions on the agenda for the General Meeting before the discussion on the item covering the draft resolution concerned by the proposal is closed.
- Propose formal motions relating to the proceedings and the voting procedure.
- Propose candidates for the Bank's Supervisory Board in writing to the Chairman of the General Meeting or orally to the minutes.
- Review the book of minutes and request a copy of resolutions authenticated by the Management Board.
- Take legal action to have a resolution of the General Meeting annulled where the shareholder voted against a resolution of the General Meeting and after its adoption raised an objection to the minutes or the shareholder was unreasonably prevented from participating in the General Meeting or the shareholder was not present at the General Meeting as a result of it being convened incorrectly or the adopted resolution not being on the agenda.
- Take legal action against the Company to have a resolution of the General Meeting annulled where the resolution is in breach of law.

The Management Board is obliged to provide the shareholder, at the shareholder's request, with information concerning the Company if this is justified by the assessment of an issue on the agenda. The Management Board should refuse information if:

- This could damage the Company or its associated company or subsidiary, in particular due to disclosure of technical, trade or organisational secret of the Company.
- This could expose a Member of the Management Board to criminal, civil or administrative liability.

In justified cases, the Management Board may provide information in writing no later than two weeks after the General Meeting is adjourned.

28th Annual General Meeting in 2015

The 28th Annual General Meeting was held on March 30, 2015 and, after adjourning the session, it was continued on April 29, 2015. The break resulted from receiving on the day of the General Meeting the stand of the Polish Financial Supervision Authority recommending to retain the whole profit generated in the period between January 1 and December 31, 2014 until additional capital requirements are set, while the draft resolution of the General Meeting provided for paying out a dividend of PLN 17 per share, under the condition that the specified minimal levels of the total capital ratio and net profit are presented in the audited financial statements of mBank S.A. for H1 2015.

During the session on March 30, 2015, the General Meeting adopted resolutions concerning:

- approving the financial statements and the reports of the Management Board of mBank and mBank Group for 2014,
- the vote of discharge of duties for members of the Supervisory Board and the Management Board,
- amendments to the By-laws of the Bank,
- stance of shareholders of mBank concerning the Corporate Governance Principles for Supervised Institutions adopted by the Polish Financial Supervision Authority,
- appointment of an auditor to audit the financial statements of mBank and mBank Group, and
- changes concerning the rules of conducting the incentive programme by the Bank and conditional share capital increase by way of issuing shares excluding preemptive rights of the existing shareholders in order to allow the participants of the employee incentive programmes to take up the Bank's shares in connection with the extension of the period of their validity.

On April 29, 2015, the resumed 28th General Meeting of mBank adopted a resolution on dividing the profit, and thus the profit of mBank in the amount of PLN 1,174,096,218.00 was allotted in the following way:

- PLN 50,000,000.00 – for the general risk fund of mBank
- PLN 406,523,549.00 – for the supplementary capital of mBank
- The remaining part of the profit, amounting to PLN 717,572,669.00, remained undistributed.

The resolutions adopted by the 28th Annual General Meeting and the detailed voting results are available on the Bank's website in the section dedicated to General Meetings (http://www.mbank.pl/relacje-inwestorskie/walne-zgromadzenia/).

16.7. Composition, powers and procedures of the Management Board and the Supervisory Board

Composition of the Management Board

The Management Board is composed of at least three members appointed for a joint term of 5 years. At least half of the Members of the Management Board, including the President of the Management Board, must hold Polish citizenship, be habitually resident in Poland, speak Polish and have experience on the Polish market which can be used while managing the Bank. The Members of the Management Board manage selected areas of the Bank's operation within the scope determined by the President of the Management Board. The division of powers of the Members of the Management Board has been described in detail in the Management Board's resolutions.

The composition of the Management Board of the Bank did not change in 2015. The composition of the Management Board appointed for a joint term of 5 years by the Supervisory Board on April 11, 2013 is as follows:

1. Cezary Stypułkowski – President of the Management Board, Chief Executive Officer
2. Przemysław Gdański – Vice-President of the Management Board, Head of Corporate and Investment Banking
3. Jörg Hessenmüller – Vice-President of the Management Board, Chief Financial Officer
4. Lidia Jabłonowska-Luba – Vice-President of the Management Board, Chief Risk Officer
5. Hans-Dieter Kemler – Vice-President of the Management Board, Head of Financial Markets
6. Cezary Kocik – Vice-President of the Management Board, Head of Retail Banking
7. Jarosław Mastalerz – Vice-President of the Management Board, Chief Operations Officer

Detailed information on mBank Management Board Members is presented below:

Cezary Stypułkowski - President of the Management Board, Chief Executive Officer

Cezary Stypułkowski holds a Ph.D. in Law from the University of Warsaw. In the late 1980s, he studied at Columbia University Business School in New York as a participant of the Fulbright Program. Starting in 1991, he chaired the management board of Bank Handlowy S.A. (currently Citibank Group) for nearly thirteen years. Mr Stypułkowski was appointed as president of the management board of the PZU Group in 2003. From 2006 to 2010 he worked for J.P Morgan in London, and from 2007 as Managing Director of J.P. Morgan Investment Bank in Central and Eastern Europe. Mr Stypułkowski was also a member of the International Advisory Board for Deutsche Bank Management Board, INSEAD International Advisory Board and the Geneva Association. Since 2012 he has been the co-chairman of the Emerging Markets Advisory Council of the Institute of International Finance in Washington (IFF).

Cezary Stypułkowski was appointed President of the Management Board of mBank on August 2, 2010, acting as President of the Management Board of the Bank as of October 1, 2010, approved as President of the Management Board by the Polish Financial Supervision Authority on October 27, 2010.

Przemysław Gdański – Vice-President of the Management Board, Head of Corporate and Investment Banking

Przemysław Gdański graduated from the University of Gdańsk (major: International Trade) and completed a one-year program in international banking and finance at Loughborough University in the UK. In 2012, he completed the Advanced Management Program (AMP) at IESE Business School.

He has over 20 years of experience in corporate and investment banking. From 1993 to 1995 he worked for IBP Bank S.A., then for ABN AMRO Bank in Poland, Romania and in the headquarters in Amsterdam. From 2002 to 2006, he was the Managing Director of the Large Corporates Division in Bank BPH Bank S.A.. From May to November 2006 he was CEO and General Director of Calyon Bank Polska and Calyon S.A. Branch in Poland.

In November 2006, he took the position of Deputy CEO in BPH Bank, responsible for corporate banking and real estate financing. After the merger of part of BPH Bank and Pekao S.A., he became the Deputy CEO of Pekao S.A. responsible for the Corporate Banking, Markets and Investment Banking Division.

Mr Gdański has been a Member of the Management Board since November 19, 2008.

Jörg Hessenmüller - Vice-President of the Management Board, Chief Financial Officer

Jörg Hessenmüller graduated from Hochschule für Bankwirtschaft in Frankfurt am Main in 1997 and was awarded a Master's in Management (Diplom–Betriebswirt (FH)). From 1989 to 2009 he worked for Dresdner Bank, holding the position of, among others, Head of Financial Control responsible for London, New York, Moscow, Sao Paulo and Asia. In 2009 Mr. Hessenmüller was appointed Managing Director in Commerzbank Group and worked as Head of Investment Banking Finance, Group Finance, responsible for controlling and management reporting on: Corporates and Financial Markets, Portfolio Restructuring Unit, Group Treasury and Public Finance.

Member of the Management Board of the Bank since April 16, 2012.

Lidia Jabłonowska-Luba – Vice-President of the Management Board, Chief Risk Officer

Lidia Jabłonowska-Luba graduated from the Mathematics Institute of the University of Gdańsk. From 1994 to 2001, Ms Jabłonowska-Luba was Vice-President of Schroder Salomon Smith Barney Poland, where she advised a number of clients, financial institutions in particular, on M&A and public equity transactions. In 2002, Ms Jabłonowska-Luba joined Citigroup in Poland, first as the Head of the Financial Institutions & Public Sector Division and from November 2003 as the Member of the Management Board in charge of finance and operational risk management, capital management and the implementation of the New Capital Accord. From 2008 to 2010, she served as Vice-President of the Management Board of Kredyt Bank and Advisor to the CEO of Warta S.A. and TUnŻ Warta S.A., acting as Chief Finance and Risk Officer. From 2010 to 2012 Ms Jabłonowska-Luba was the Senior General Manager at KBC Group in Brussels, where she was responsible for managing all risk types in the group, including model development and valuation, risk policies and procedures, risk support for business decisions, supervision and reporting, ICAAP and ORSA processes, capital adequacy policy and technological support for risk management. Her main task was to implement a new approach to risk management within KBC Group. Additionally, Ms Jabłonowska-Luba held the position of Vice Chairman of the Group Risk Management Committee and also served as a member of the Group Risk and Capital Oversight Committee and ALCO at KBC Group.

Member of the Management Board of the Bank since April 12, 2013.

Hans-Dieter Kemler – Vice-President of the Management Board, Head of Financial Markets

Mr Kemler graduated from the Westphalian Wilhelm University of Münster in 1996. Between 1991 and 1992, worked in Bond Trading Department at Dresdner Bank. Between 1996 and 1998, employed with Sal. Oppenheim jr. & Cie. KGaA, Financial Markets Department in Frankfurt am Main. From 1998 to 2005, Head of the Corporate Risk Advisory in the Head Office of Commerzbank. Since 2005, member of the senior management of Commerzbank responsible for international public finance. He also acted as a managing director at Erste Europäische Pfandbrief- und Kommunalkreditbank AG in Luxemburg.

Member of the Management Board of the Bank since July 10, 2009.

Cezary Kocik - Vice-President of the Management Board, Head of Retail Banking

Cezary Kocik graduated with a degree in Banking and Finance from the University of Łódź. He is a licensed stockbroker. From 1994 to 1996 Mr Kocik was employed with the brokerage house of Bank PBG as a securities broker. Starting in 1996 he worked for Bank PBG in the Investment Banking and Debt Collection and Restructuring divisions. In 1999, Mr Kocik was employed with the Debt Collection and Loan Restructuring Department of Bank Pekao S.A. In 2000 he was appointed director of a Pekao Branch in Łódź.

Since 2004, he has been working for mBank. Until 2006 he was the Director of the Retail Loans Department. In 2007, he was appointed Director of the Sales and Marketing Department responsible for Multibank. From 2008 to 2010 he held the position Managing Director for Multibank and in 2010 he was appointed Managing Director for Retail Banking Sales and Business Processes.

Member of the Management Board of the Bank since April 1, 2012.

Jarosław Mastalerz – Vice-President of the Management Board, Chief Operations Officer

Jarosław Mastalerz (born in 1972) graduated from the University of Łódź, the Economics and Sociology Department (major: Foreign Trade) and the Management Department (major: Management Accounting). He holds a certificate of the Association of Chartered Certified Accountants. From 1996 to 1998 he worked as a consultant in PricewaterhouseCoopers. In 1998 he started to work for the Zurich Group. Initially, he was responsible for the organisation and market strategy of the pension fund, and then he took over the position of Marketing Director and became a member of the Management Board. Starting in 2000, he served as the Member of the Management Board responsible for the retail client segment of the Zurich Group in Poland, and from 2001 - as Financial Director. From January 2003 to the end of June 2006, he was a Member of the Management Board and the Financial Director of Generali T.U. S.A and Generali Życie T.U. S.A. From January 1, 2003, he was responsible for the financial department, the actuarial office, controlling and bancassurance. In 2002, he participated in the process of merging Zurich companies with Generali companies. On July 20, 2006, he was appointed Chief Executive Officer of BRE Ubezpieczenia, then as Chief Executive Officer of BRE Ubezpieczenia Towarzystwo Ubezpieczeń S.A. He was responsible for developing and integrating insurance programmes offered within the BRE Bank Group as well as providing process management services in distributing insurance to external partners.

In August 2007, Jarosław Mastalerz was appointed by the Supervisory Board as member of the Management Board of BRE Bank SA (currently mBank S.A.), Head of Retail Banking, responsible for the coordination of all the business and communication activities of mBank in Poland, Czech Republic and Slovakia, as well as Multibank, Private Banking and Aspiro S.A., a subsidiary set up during his term of office. In April 2012 Mr Mastalerz was appointed Member of the Management Board, Chief Operations Officer responsible for IT and logistics area.

Powers and procedures of the Management Board

The Members of the Management Board are jointly liable for the overall operation of the Bank. They work collegially and inform each other about the most important matters concerning the Bank for which particular Members of the Management Board are responsible. The Management Board may appoint standing committees or teams to perform specific functions or to co-ordinate the work of organisational units of the Bank or to perform specific tasks.

The following committees led by Members of the Management Board operate at mBank:

- Resource Management Committee (chairperson: Cezary Stypułkowski)
- Capital Management Committee (chairperson: Jörg Hessenmüller)
- Data Quality and IT Systems Development Committee (chairperson: Jörg Hessenmüller)
- Assets and Liabilities Management Committee of mBank Group (chairperson: Hans-Dieter Kemler)
- Foreign Branch Supervision Committee of mBank S.A. (chairperson: Cezary Kocik)
- The Credit Committee of the mBank Group (chairperson: Lidia Jabłonowska-Luba)
- Retail Banking Risk Committee (chairperson: Lidia Jabłonowska-Luba)
- Corporate and Investment Banking Risk Committee (chairperson: Lidia Jabłonowska-Luba)
- Financial Markets Risk Committee (chairperson: Lidia Jabłonowska-Luba)
- IT Architecture Committee of mBank S.A. (chairperson: Jarosław Mastalerz)
- IT Projects Committee of mBank S.A. (chairperson: Jarosław Mastalerz).

The Management Board manages the Bank's business, represents the Bank and defines the guidelines for the Bank's operation, especially for the areas subject to risks, including the credit policy, the investment policy, the Bank's assets and liabilities management policy, and the guarantee policy. The Management Board presents to the Supervisory Board on a regular basis comprehensive information on all significant aspects of the Bank's operation and risks related to its operation as well as risk management methods.

The Management Board operates pursuant to its Rules approved by the Supervisory Board (available on the Bank's website). The Rules determine among others the issues which require consideration of the Management Board as a collegial body and adoption of a resolution of the Management Board.

All resolutions are adopted by a majority of votes of the Management Board Members present at the meeting, and in the case of an equal number of opposing votes, the President of the Management Board has the casting vote. The Members of the Management Board strive to adopt resolutions by consensus.

Rules and levels of remuneration of Members of the Management Board are determined by the Remuneration Committee of the Supervisory Board.

The rules of the incentive programme for the Management Board as well as the principles of allocating bonuses to Management Board Members are defined in Resolutions of the Supervisory Board.

Total remuneration of the Members of the Management Board includes a fixed and a variable part.

For more information on the incentive system for the Management Board please see section Reports of the Management Board entitled "mBank Group's incentive system".

The section below presents a brief description of the 2014 incentive programme for the Management Board which replaced the Incentive Programme Rules of December 7, 2012.

Under the programme, the Members of the Bank's Management Board have the right to receive a bonus, including a non-cash bonus paid in the Bank's shares, including phantom shares (i.e. virtual shares).

The net ROE of mBank Group and the monthly remuneration as at the end of the financial year for which the bonus is to be awarded constitute the basis for the acquisition of the right to a bonus and for the calculation of the amount of the bonus for a given financial year. One part of the base bonus is the equivalent of 50% of the base amount calculated depending on the ROE. The other part of the bonus may be granted by the Remuneration Committee of the Supervisory Board on the basis of its appraisal of the Management Board Member and achievement of the MbO objectives. The two parts of the bonus constitute the base bonus. 40% of the base bonus is paid in the year when it is determined: 50% in cash and 50% in Bank shares, or bonds with a pre-emptive right to take up shares, or phantom shares. The remaining 60% of the base bonus is deferred and paid in three equal tranches in three subsequent years: 50% in cash and 50% in Bank shares, or bonds with a pre-emptive right to take up shares, or phantom shares.

A detailed description of the rules of the incentive programme for the Management Board based on shares is presented in Note 44 of the Consolidated Financial Statements.

The remuneration of the current Management Board in 2015 and in 2014 is presented below.

		Remuneration paid in 2015 (in PLN)			
		Basic remuneration	Other benefits	Bonus for 2014	Cash settlement of the incentive programme based on Commerzbank shares
1.	Cezary Stypułkowski	2,092,108	174,833	650,000	827,941
2.	Lidia Jabłonowska-Luba	1,219,483	228,872	360,000	-
3.	Przemysław Gdański	1,200,000	143,184	360,000	658,950
4.	Joerg Hessenmueller	1,263,000	166,535	380,000	-
5.	Hans-Dieter Kemler	1,218,561	366,354	360,000	688,900
6.	Cezary Kocik	1,200,000	156,825	400,000	-
7.	Jarosław Mastalerz	1,200,000	125,670	360,000	778,749
	Total:	**9,393,152**	**1,362,273**	**2,870,000**	**2,954,540**

		Remuneration paid in 2014 (in PLN)			
		Basic remuneration	Other benefits	Bonus for 2013	Cash settlement of the incentive programme based on Commerzbank shares
1.	Cezary Stypułkowski	2,091,963	155,478	1,294,010	279,935
2.	Lidia Jabłonowska-Luba	1,200,000	131,749	520,000	-
3.	Przemysław Gdański	1,200,000	127,515	720,000	860,734
4.	Joerg Hessenmueller	1,263,000	161,860	720,000	-
5.	Hans-Dieter Kemler	1,217,190	372,506	600,000	891,308
6.	Cezary Kocik	1,200,000	91,772	760,000	-
7.	Jarosław Mastalerz	1,200,000	109,274	760,000	983,029
	Total:	**9,372,153**	**1,150,154**	**5,374,010**	**3,015,006**

Composition of the Supervisory Board

The Supervisory Board acts on the basis of adopted Rules and performs the functions provided for in the By-laws of the Bank, the Code of Commercial Partnerships and Companies, and the Banking Law. The By-laws of mBank provide that the Supervisory Board consists of no less than five Members elected by the General Meeting for a joint term of three years. The number of the Supervisory Board Members is defined by the General Meeting. A Member of the Supervisory Board whose mandate expired in the course of the joint term of the Supervisory Board may be replaced with another person, elected by the Supervisory Board.

At least half of all Supervisory Board Members, including the Chairman, shall have Polish citizenship. Pursuant to the statutory requirement, at least two Supervisory Board Members are independent, unless the General Meeting decides otherwise. The independence criteria of the Supervisory Board Members are stipulated in the Rules of the Supervisory Board.

In 2015, the Supervisory Board consisted of the following members:

1. Maciej Leśny – Chairman of the Supervisory Board
2. Martin Zielke – Deputy Chairman of the Supervisory Board
3. Martin Blessing – Member of the Supervisory Board
4. Andre Carls – Member of the Supervisory Board
5. Stephan Engels – Member of the Supervisory Board
6. Thorsten Kanzler – Member of the Supervisory Board
7. Teresa Mokrysz – Member of the Supervisory Board
8. Stefan Schmittmann – Member of the Supervisory Board
9. Agnieszka Słomka-Gołębiowska – Member of the Supervisory Board
10. Waldemar Stawski – Member of the Supervisory Board
11. Wiesław Thor – Member of the Supervisory Board
12. Marek Wierzbowski – Member of the Supervisory Board

On November 24, 2015 Maciej Leśny, Chairman of the Bank's Supervisory Board, received a letter of resignation from Dr. Stefan Schmittmann, Member of the Bank's Supervisory Board and Chairman of the Risk Committee on resigning from the held functions as of December 31, 2015. Pursuant to a Resolution of the Supervisory Board of the Bank dated December 10, 2015, Dr. Marcus Chromik, replacing Stefan Schmittmann who resigned as of January 1, 2016, was appointed Member of the Supervisory Board of the Bank until the end of the term of office of the current Supervisory Board. He was also appointed Chairman of the Risk Committee of the Supervisory Board of mBank.

More detailed information on mBank Supervisory Board Members is presented in the table below.

Maciej Leśny – Chairman of the Supervisory Board

In 1969 Maciej Leśny completed his studies at the Faculty of Economic Sciences at the Warsaw University. During his professional career, Mr Leśny worked for 6 years in the shipbuilding industry in Gdańsk and 8 years for Zakłady Elektronicznej Techniki Obliczeniowej. For more than 22 years he had worked in the central state administration, including 8 years in the position of Undersecretary of State: in the Ministry of Foreign Economic Co-operation; the Ministry of Economy, Labour and Social Policy; and finally in the Ministry of Infrastructure.

He completed post-graduate studies and training at universities in the USA: He completed post-graduate studies and training in the United States at the Michigan University (Business School of Administration) and De Paul University (Chicago). In 1992-1993, as a scholarship holder of the US government, Mr Leśny studied at the American University in Washington, DC. During his scholarship he served a four-month internship at the World Bank and completed a privatization training course in the International Monetary Fund.

From March 1994 to 1998, Mr Leśny was the Chairman of the Supervisory Board of BRE Bank (currently mBank). By December 2001, he had become a Member of the Supervisory Board. In 2004, Mr Leśny was re-elected Chairman of the Supervisory Board.

Martin Zielke - Deputy Chairman of the Supervisory Board

Mr Zielke studied at Göttingen University in 1985-1990, Master's degree (Diplom-Kaufmann) in Economics graduated in 1990.

In 1983-1985 he worked for Deutsche Bank AG, Kassel Branch. In 1990-2000 he worked for Dresdner Bank AG in Frankfurt am Main. In 1990-1995, Mr Zielke was the manager of sub-project relating to retail customer strategy. In 1997, he was the head of new market positioning project. In 1997-1999, Mr Zielke was the Regional Head of Retail Banking, Northern Region. In 1999-2000, Mr Zielke was the Head of special project on retail banking /Area Head of Business Development.

Later, until May 2001 he was a Regional Head of Portfolio Investment, Member of Operative Management Team in Deutsche Bank 24. In June-December 2001, Mr Zielke was the Regional Head of Financing Retail Banking with Deutsche Hyp, Frankfurt am Main. In January 2002-December 2004, he was the Group Manager, Retail Banking, Commerzbank AG, Frankfurt am Main. In January 2005-March 2006, Mr Zielke was the Group Manager Corporate Banking Commerzbank AG, Frankfurt am Main. From April 2006 to December 2007, Mr Zielke was the Member of the Board of Managing Directors of Eurohypo Aktiengesellschaft, Eschborn.

From February 2008 to November 2010, Mr Zielke was the Group Manager, Group Finance Division, Commerzbank AG, Frankfurt am Main.

Since November 2010 he has been a Member of the Board of Managing Directors of Commerzbank AG, responsible for the Private Clients Segment. Mr Zielke is a member of Supervisory Boards of Comdirect Bank AG, Commerz Real AG and Commerz Real Investmentgesellschaft mbH.

Martin Blessing – Member of the Supervisory Board

A graduate of business administration in Frankfurt and St. Gallen. In 1988 he was awarded an MBA from the University of Chicago.

Between 1989 and 1996, Mr Blessing worked for McKinsey in Frankfurt am Main and New York, becoming a Partner in 1994. He became a partner in 1994. In 1997, he joined Dresdner Bank AG, where he was Manager of the Department for Private Customers. From 2000 to 2001, Mr Blessing was Chairman of the Board of Advance Bank AG in Munich.

Mr Blessing was appointed to the Board of Managing Directors of Commerzbank AG in 2001 and became the Chairman of the Board of Managing Directors in 2008. He held his initial position as a Member of the Supervisory Board of BRE Bank from 2005 until 2008.

Andre Carls - Member of the Supervisory Board

Having studied business economics and completed a doctorate at the University of Cologne, Dr Carls joined Commerzbank through an international trainee programme in 1990.

He subsequently held various positions in Corporate Finance and Capital Markets in Frankfurt and from 1998 to 2000 was Executive Director of the Investment Banking Division of Commerzbank in London. From 2000 to 2008, Dr Carls was a member of the Board of Managing Directors of comdirect bank AG, from September 2002 to November 2004 as CFO and from November 2004 to March 2008 as CEO. From March 2008, to September 2008 he held the position of Vice-President of the Management Board and CFO of BRE Bank S.A. (currently mBank S.A.).

From March 2008 to December 2013, Dr Carls has been CEO of Commerzbank Auslandsbanken Holding AG and CEO of Central & Eastern Europe-Holding of Commerzbank AG. In January 2014, Dr Carls became a Divisional Board Member in the "Mittelstandsbank" of Commerzbank AG.

Marcus Chromik – Member of the Supervisory Board

Marcus Chromik studied in Munich, Göttingen, and Kiel. He also spent time in the US, engaged in scientific research in Michigan. Mr Chromik holds a PhD in nuclear physics. He started his professional career with McKinsey in 2001. In 2004 he joined Postbank Group, where he held various executive positions, including new issues and syndication, liquidity management, and Credit Treasury. Then he served as Chief Market Risk Officer for Commerzbank more than three years and was responsible for the Bank's market and liquidity risk management.

Dr Marcus Chromik has been a Divisional Board Member and Chief Credit Risk Officer for the Core Bank since 2012. On November 4, 2015, the Supervisory Board of Commerzbank appointed him to the Board of Managing Directors. He took up his post as Chief Risk Officer on January 1, 2016.

Stephan Engels – Member of the Supervisory Board

Stephan Engels studied Business Administration at the University of St. Gallen. Between 1988 and 1993 he worked at Daimler-Benz AG's internal audit department. Afterwards he headed the Regional Controlling Europe at debis AG for three years. From 1996 to 2000 he served as Chief Financial Officer at debis AirFinance B.V. In 2000, he joined DaimlerChrysler Bank AG, as Member of the Board for Credit then Chief Financial Officer & IT.

From 2003 he worked at DaimlerChrysler Services AG, lastly as a Member of the Board for Finance, Controlling, Risk Management & Strategy. From 2007 to 2012 he was a Member of the Executive Committee of Mercedes-Benz Car Group for Finance & Controlling and Head of Management Group Controlling at Daimler AG.

Thorsten Kanzler - Member of the Supervisory Board

Thorsten Kanzler studied mechanical engineering and economics at the University of Technology in Darmstadt (Germany), where he obtained the Diplom-Wirtschaftsingenieur (M.Sc. Eng.).

From 1991 to 2004 he was employed at Deutsche Bank AG on various positions in the treasury and risk management area in Frankfurt, New York, Sydney and London. Between 2004 and 2007, Mr. Kanzler was Group Treasurer and Divisional Board Member of Corporate & Investment Banking in WestLB AG in Düsseldorf.

From May 2007, Mr. Kanzler was Head of Group Treasury & Capital Management at Dresdner Bank AG in Frankfurt am Main. Since the beginning of 2009, Mr. Kanzler has been Divisional Board Member for Group Treasury at Commerzbank AG. Mr. Kanzler is responsible for assets and liabilities management, risk management of the banking books, capital management and funding.

Teresa Mokrysz – Member of the Supervisory Board

A graduate of the Academy of Economics (now the University of Economics) in Katowice (1978).

In 1990, Teresa Mokrysz created the brand "Mokate", one of the most recognizable Polish brands in the world. She transformed a small family-run company into a group of international companies with worldwide operations. As a co-owner, she directs nine Mokate companies with their business seats in Poland and Central Europe. She has built from scratch production plants in Żory and Ustroń and expanded a production facility near Prague (production of coffee, tea, confectionary, ingredients for the food industry). She has successfully launched her products in several dozen countries on all continents.

In 2000, the International Association of Women Entrepreneurs from Los Angeles awarded her with the title "The Leading Women Entrepreneurs of the World". Teresa Mokrysz has been the recipient of numerous prestigious awards in Poland and abroad. She has been awarded Commander's Cross of Polonia Restituta by the President of the Republic of Poland. She funds scholarships for talented and less well-off young people and provides financial support to health care institutions, nursing care homes, orphanages and schools.

Stefan Schmittmann - Member of the Supervisory Board till 31 December 2015

Mr Schmittmann is a graduate of business administration, doctorate in economics at the University of St. Gallen in Switzerland. In 1986-2003, he was employed at Bayerische Vereinsbank AG and, as of 1998, with Bayerische Hypo- und Vereinsbank AG.

In 2004-2005 he was a Chairman of the Board of Directors of Vereins- und Westbank AG, Hamburg. In 2005, Member of the Divisional Board of Directors in Munich and 2006-2008, Member of the Management Board of Bayerische Hypo- und Vereinsbank AG in Munich, where he was responsible for the Corporate Customer and Commercial Real Estate Customer Division, and Member of the Executive Committee UniCredit Corporate Division.

Between November 2008 and December 31, 2015 he was a Member of the Board of Managing Directors of Commerzbank AG, currently he is holding the position of Chief Risk Officer.

Agnieszka Słomka-Gołębiowska – Member of the Supervisory Board

Agnieszka Słomka-Gołębiowska has got a PhD in economics. She is a graduate of Warsaw School of Economics of faculty: finance and banking and MBA in the French Management Institute (IFG). She obtained a PhD degree at the Warsaw School of Economics (SGH), with a dissertation on bank's corporate governance over an enterprise. Currently she is working as a lecturer at Warsaw School of Economics and she is conducting research into corporate governance.

Previously, Director in the Industrial Development Agency responsible for corporate governance (2006-2009) and later consultant for private and public companies at Arthur Andersen. Since 2006, she sits on supervisory boards. She completed the Alexander von Humboldt Fellowship at the University of Muenster (2003-2004) and the Polish-American Fulbright Fellowship at the University of California, Berkeley (2001-2002). She was a visiting scholar at universities in Cambridge (MIT), Tucson (UOA), Munster, Copenhagen (CBS), Birmingham (BBS), Berlin (HSoG), Genoa (UoG - Law School) and Vienna (WU). She is the author of many publications on corporate governance.

Waldemar Stawski – Member of the Supervisory Board

Graduate of the Gdańsk Technical University and post-graduate studies in: Accounting and Finance (2009-2010), Financial Analysis in Business Management (1992-1993), Microprocessors in Energoelectronics and Propulsions (1986-1987), Didactics and Pedagogy (1984-1985).

In 1991-2011 he underwent domestic and foreign training on banking, finance and banks' organisation. Mr Stawski holds the Accounting Certificate issued by the Minister of Finance and is authorised to provide bookkeeping services. He passed the exam for the candidates for members of supervisory boards at state-owned companies (certificate MPW 8 April 1995).

In 1983-1991, Mr Stawski was a member of the teaching staff of the Maritime University of Gdynia. In 1991, he became an employee of Pomorski Bank Kredytowy. In 1993, Mr Stawski became a branch director in Gdynia. In 1995-2000, he was Director of the Regional Branch of PKO BP in Gdańsk. In 2000, Mr Stawski was appointed Vice-President of the Management Board of PKO BP S.A. responsible for managing the treasury, corporate clients, capital market and corporate governance areas. From June 2002 to February 2003, Mr Stawski was Chairman of the Team of Receivers for Wschodni Bank Cukrownictwa S.A. He then served as a Member of the Management Board of CTL Logistics S.A. and General Director of the Polish Association of Transport and Logistics Employers. From 2006 to 2015, Mr Stawski was a consultant of ALDAZ Sp. z o.o. Mr Stawski currently acts as Director at Zarzecki, Lasota i Wspólnicy Sp. z o.o.

From 2012 to 2014, Mr Stawski was a member of the Management Board of Gdańsk Business Club, of which he has been a member since 1995. In 2012, he was appointed to the Council of the Maritime University of Gdynia. From November 2014 to February 2015, Waldemar Stawski was special administrator of SKOK Wołomin appointed by the KNF.

Wiesław Thor – Member of the Supervisory Board
Wiesław Thor graduated from the Central School of Planning and Statistics (currently Warsaw School of Economics - SGH), training program "Train the Trainer" organised by KPMG and the South Carolina Business School, and summer school of banking at McIntire University Business School. Employed with BRE Bank since 1990 in the following positions: Specialist, Division Head, Deputy Director of the Warsaw Branch, Director of the Credit Department, and Chief Risk Officer from May 2000. From August 1, 2002, Country Risk Manager at Bank Handlowy S.A. in Warsaw. On 2 November 2002, Mr Thor was appointed Member of the Management Board of BRE Bank, Chief Risk Officer. He was Deputy President of the Management Board of BRE Bank from March 15, 2008 to April 11, 2013. Lecturer at the Warsaw Institute of Banking and SGH. Long-time Member of the Steering Committee of the Risk Management Association (formerly: Robert Morris Association European Credit & Risk Management Round Table) and Member of PRMIA Polska.
Marek Wierzbowski – Member of the Supervisory Board
Mr Wierzbowski is a professor ordinarius at the University of Warsaw School of Law, an attorney at law, the partner of the law firm "Prof. Marek Wierzbowski & Partners – Advocates and Legal Counsellors", the President of the Arbitration Court of the Chamber of Brokerage Houses, a member of the Board of Directors of the Polish-U.S. Fulbright Commission, and a member of the Council of the European Law Institute based in Vienna. Former member of the Board of Supreme Chamber of Control (NIK) and a member of the Public Procurement Council, deputy Chairman and Chairman of the Supervisory Board of the Warsaw Stock Exchange and chairman of the Construction Law Codification Committee. He also served as the deputy dean of the Faculty of Law and Administration, as well as vice-chancellor of the University of Warsaw. For many years, he was a partner at the law firms of Weil Gotshal & Manges and later Linklaters. He was an adviser to the Minister of Privatisation, the Minister of the Treasury and the President of the Energy Regulatory Office. He was also the vice-president of the Court of Arbitration at the Polish Chamber of Commerce. In his legal career, he managed legal teams and advised on numerous transactions, including sales of shares in connection with the privatisation of large enterprises and is also the editor and co-author of numerous commentaries and handbooks.

The composition of the Supervisory Board reflects the care exercised to achieve the greatest possible diversification of members both in terms of their professional experience, as well as their knowledge and skills. The Supervisory Board is composed of representatives of mBank's main shareholder, representatives of science and business, and persons having vast legal knowledge and banking expertise.

The five independent members of the Supervisory Board are: Maciej Leśny, Teresa Mokrysz, Agnieszka Słomka-Gołębiowska, Waldemar Stawski, and Marek Wierzbowski. Wiesław Thor is not an independent member as he was a Member of the Management Board at mBank, and holding the function of Member of the Management Board at the Bank in the past five years is one of the reasons why a Member of the Supervisory Board cannot be considered an independent member.
Martin Blessing, Andre Carls, Marcus Chromik, Stephan Engels, Thorsten Kanzler, and Martin Zielke are not independent members due to their relationship with the main shareholder of mBank.

Powers and procedures of the Supervisory Board

The responsibilities of the Supervisory Board specifically include the following matters:

- Advising and supervising the Management Board in defining internal guidelines for the activity of the Bank, especially for the areas subject to risks, including the Bank's credit policy, investment policy, guarantee policy, compliance policy, and approving the Management Board's proposals concerning the general organisational structure of the Bank.

- Supervising compliance of the Bank's risk-taking regulations with the strategy and financial plan of the Bank.
- Approving the disclosure policy rules concerning risk management and capital adequacy, as proposed by the Management Board.
- Approving strategies and procedures for the internal control system, the risk management system, the internal capital assessment process, capital management and capital planning, as proposed by the Management Board.
- Assessing the adequacy and effectiveness of the risk management system.
- Reviewing regular and exhaustive reports presented by the Management Board on all relevant issues related to the activity of the Bank, the risks of its activity, and the means and effectiveness of risk management.
- Preparing a concise assessment of the position of the Bank to be presented to the Ordinary General Meeting and attached to the annual report of the Bank for the previous financial year.
- Approving annual financial plans of the Bank, multi-annual growth plans, as well as the strategy of the Bank and the rules of prudent and stable management of the Bank.
- To review any motions and matters which are subject to resolutions of the General Meeting, including draft resolutions of the General Meeting. The Supervisory Board shall draw up grounds for draft resolutions to be tabled for approval of the General Meeting.
- Issuing or approving rules provided for in the By-laws of the Bank.
- Appointing and dismissing the President of the Management Board, the Deputy Presidents of the Management Board and other Members of the Management Board subject to the procedures laid down in the Banking Law and taking into account relevant qualifications for the functions assigned to them.
- Defining the terms of contracts and remuneration of the Management Board.
- Authorising the Chairman of the Supervisory Board to represent the Bank in agreements with Management Board Members, including the conclusion of management contracts with Management Board Members.
- Approving conclusion or amendment of any significant contract or agreement with Members of the Management Board or the Supervisory Board.
- Approving conclusion, amendment or termination of any significant alliance or co-operation agreements.
- Analysing reports of the Internal Audit Department Director received at least once per year.

Meetings of the Supervisory Board are convened by the Chairman of the Supervisory Board on his or her own initiative or on request of the Management Board or on request of the Supervisory Board Member at least three times a year. All the Management Board Members participate in meetings of the Supervisory Board except for those agenda items which directly concern the Management Board or its Members.

Resolutions of the Supervisory Board are adopted by a simple majority of votes. In the case of an equal number of opposing votes, the Chairman of the Supervisory Board has the casting vote.

No resolution should be passed without the consent of the majority of the Independent Members of the Supervisory Board on the following matters:

- Any benefits provided by the Bank or any entities associated with the Bank to the Members of the Management Board.
- Consent for the Bank to enter into a significant agreement with an entity associated with the Bank, a Member of the Supervisory Board or the Management Board, or entities associated with them.

The Supervisory Board has got 4 committees: the Executive Committee, the Risk Committee, the Audit Committee, and the Remuneration Committee. Members of individual committees are presented below (first – chairmen of the committees).

Executive Committee	Risk Committee	Audit Committee	Remuneration Committee
Maciej Leśny	Marcus Chromik*	Stephan Engels	Andre Carls
Martin Blessing	Thorsten Kanzler	Andre Carls	Maciej Leśny
Andre Carls	Maciej Leśny	Maciej Leśny	Marek Wierzbowski
Teresa Mokrysz	Agnieszka Słomka-Gołębiowska	Waldemar Stawski	Martin Zielke

**from January 2016; in 2015 the position of Chairman of the Risk Committee was held by Stefan Schmittmann*

The tasks of the Executive Committee involve, in particular, exercising regular supervision over the Bank's operation in the periods between meetings of the Supervisory Board. The Executive Committee authorises the Management Board to acquire, encumber or dispose of real estate, perpetual leasehold, or interests in real estate, shares or equity interests in companies, and other fixed assets if the value of the transaction exceeds 1% of the Bank's own funds. Such authorisation is not required if the aforesaid acquisition took place as part of enforcement or bankruptcy proceedings, including the bankruptcy proceeding with the possibility to make an arrangement or other settlement with the Bank's debtor or in the case of the sale of assets so acquired.

The Audit Committee issues opinions about the selection of the Bank's statutory auditor by the General Meeting, recommends whether the Supervisory Board should approve or reject financial statements, exercises regular supervision over the internal control system at the Bank, and approves changes proposed by the Management Board of the Bank as regards the head of the Internal Audit Department. The Audit Committee must have at least one independent Supervisory Board Member with qualifications and experience in accounting and finance.

The Risk Committee has among others the following tasks: exercising permanent supervision over credit risk, market risk, operational risk, and liquidity risk. Moreover, the Risk Committee issues recommendations for approval or rejection of exposures posing single entity risk, in accordance with the parameters defined by the Supervisory Board at the time. Moreover, the Risk Committee issues recommendations for approval or rejection of the transactions, provided for in the Banking Law, between the Bank and Members of the Bank's authorities, and recommendations for approval or rejection of the Bank's disclosure policy regarding risk management.

The tasks of the Remuneration Committee include: reviewing the remuneration principles and amounts of remuneration paid to Members of the Management Board, setting the remuneration levels, presenting opinions concerning approval for Members of the Management Board of mBank to engage in competitive activity, issuing recommendations to the Supervisory Board regarding the general guidelines for the Management Board on the level and structure of remuneration for the Bank's senior management and the policy of variable components of remuneration paid to persons holding managerial positions at the Bank. Moreover, the Committee monitors the level and structure of the remuneration paid to senior managers.

All standing committees of the Supervisory Board make reports pertaining to their performance in the past reporting period available to shareholders. The aforesaid reports are appended to the set of materials for the Ordinary General Meeting.

The amount of monthly remuneration of the Members of the Supervisory Board was set in Resolution No. 26 adopted by the 25thOrdinary General Meeting held on March 30, 2012. The Chairperson of the Supervisory Board earns PLN 17,000 monthly, the Deputy Chairperson – PLN 14,500 monthly, while members of the Supervisory Board earn PLN 12,000 monthly each.

Additional monthly remuneration is granted for participation in standing committees: 50% of the monthly basic remuneration for the first committee and 25% for participating in every other committee. Total remuneration for the participation in committees cannot exceed 75% of the basic remuneration.

The total remuneration of the Supervisory Board in 2015 and in 2014 is presented in the table below:

		Remuneration paid in 2015 (PLN)	Remuneration paid in 2014 (PLN)
1.	Maciej Leśny	367 235	366 006
2.	Martin Zielke	-	-
3.	Andre Carls	252 000	252 000
4.	Stephan Engels	-	216 000
5.	Stefan Schmittmann	-	-
6.	Martin Blessing	-	-
7.	Thorsten Kanzler	216 000	216 000
8.	Teresa Mokrysz	220 225	220 202
9.	Agnieszka Słomka-Gołębiowska	221 435	54 906
10.	Waldemar Stawski	221 435	221 406
11.	Wiesław Thor	149 435	138 522
12.	Marek Wierzbowski	216 000	198 000
	Jan Szomburg*		184 500
	Dirk Wilhelm Schuh**		54 000
	Total:	**1 863 765**	**2 121 542**

**On October 27, 2014 Mr Jan Szomburg resigned from his position*

*** Mr Dirk Wilhelm Schuh held his position from March 31, 2014*

Activity of the Supervisory Board and its Committees in 2015

The Supervisory Board and 4 Standing Committees of the Supervisory Board, i.e. the Executive Committee, the Audit Committee, the Remuneration Committee and the Risk Committee perform their functions in line with the requirements set forth in the Bank's By-laws, the Rules of the Supervisory Board and the Rules of particular Committees.

In 2015, the Supervisory Board held 6 meetings and adopted 51 resolutions. The resolutions covered all areas of the Bank's operation and were consistent with the scope of supervisory functions specified in laws, recommendations of the Polish Financial Supervision Authority and the Bank's By-laws and the Rules of the Supervisory Board.

The adopted resolutions concerned among others:

- Acceptance of financial statements of mBank and mBank Group and other materials for the Annual General Meeting.
- Adoption of the Financial Plan for 2016 and the Mid-Term Plan for 2016-2019.
- Adoption of the Capital Management Policy at mBank Group.
- Approval of the documentation and the report on a review of the Internal Capital Adequacy Assessment Process (ICAAP) at mBank Group.
- Allocation of funds to the mBank Foundation.
- Approval of the general organisational structure of mBank and the division of competence among Members of the Management Board of mBank.
- Approval of the Remuneration Policy and Rules and the Risk-takers Identification Policy.

- Approval of the Rules of the Employee Incentive Programme and the Information Memorandum drawn up to implement the Employee Incentive Programme.
- Approval of Rules of the Management Board Incentive Programme, approval of the terms of bonds issue and setting the dates of acquisition of mBank S.A. shares by Members of the Management Board under the Programme.
- Approval of the Rules of investing in financial instruments by persons linked to mBank S.A. or on their account and principles of maintaining the register of transactions on own account.
- Approval of the MbO results and Individual MbO Cards for Management Board Members.
- Approval of the new consolidated text of mBank S.A. By-laws and the Rules of the Management Board of mBank S.A.
- Approval of the Audit Plan of the Internal Audit Department for 2015.
- Adoption of the Policy of Managing Conflicts of Interest, the Compliance Policy and approval of the report on compliance risk management.
- Approval of the reports on the performance of outsourcing tasks and supervision over the processes of handling claims and complaints.
- Approval of the strategies and policies requiring approval of the Risk Committee and the Supervisory Board including: the mBank Group Risk Management Strategy; the Market, Operational, and Liquidity Risk Management Strategy; the Corporate and Retail Credit Risk Management Strategy.
- Approval of the Limit Book – Limit Rules and the levels of limits for mBank Group.
- Approval of the Contingency Plan in the event of a threat of losing financial liquidity by mBank S.A.
- Approval of the Reputation Risk Management Strategy of mBank Group.
- Approval of the Bancassurance Policy at mBank S.A.

In 2015, current results of mBank Group and its particular business areas were discussed and evaluated in a systematic, regular manner at the meetings of the Supervisory Board with reference to the financial plan.

Attendance of the Supervisory Board Members at Supervisory Board meetings in 2015 is presented in the table below.

	Attendance*
Martin Blessing	6/6
Andre Carls	6/6
Stephan Engels	5/6
Thorsten Kanzler	5/6
Maciej Leśny	6/6
Teresa Mokrysz	6/6
Stefan Schmittmann	5/6
Agnieszka Słomka-Gołębiowska	6/6
Waldemar Stawski	6/6
Wiesław Thor	6/6
Marek Wierzbowski	6/6
Martin Zielke	5/6

** Attendance at meetings/ number of meetings during the term of office*

In 2015, the Executive Committee performing its function of ongoing supervision over the Bank's operation in the periods between meetings of the Supervisory Board co-operated closely with the Management Board and was informed about the situation in the Bank on an ongoing basis. Apart from the meetings of the Supervisory Board, Members of the Committee had regular meetings with Members of the Management

Board discussing the most important current issues of the Bank. According to its powers, the Executive Committee took decisions on transactions exceeding 1% of the Bank's own funds. In a decision, the Executive Committee approved the report on its activity for the previous year which is presented to the Annual General Meeting.

The Audit Committee was receiving regular information about the results and the financial standing of the Bank and the Group and was analysing information on actions taken in the key risk areas.

The Audit Committee held four meetings in 2015 and discussed, among others, the following:

- Compliance of the process of preparing financial statements with the applicable law.
- Co-operation with the external auditor.
- Conclusions from the audit of the annual financial statements of mBank Group for 2014.
- Scope of the audit of the financial statements for 2015.
- Assessment of the internal control system at mBank in 2015.
- Ongoing supervision over the proposed changes to the internal control system at mBank in 2015.
- Ongoing supervision over the activity of the Internal Audit Department.
- Approval of reports of the Compliance Department.

The Audit Committee recommended that the Supervisory Board approve the following:

- Reports of the Management Board on the activity of mBank and mBank Group in 2014, and the financial statements for 2014.
- Annual report on compliance risk management at mBank in 2014.
- Report of the Outsourcing Coordinator in respect to the implementation of the Outsourcing Policy at mBank in 2014.
- Annual report on supervising the processes of handling claims and complaints at mBank S.A. in 2014.
- Audit Plan of the Internal Audit Department for 2015.
- Amendments to the Rules of the Audit Committee.

In 2015, the Risk Committee held 7 meetings during which it regularly discussed the quarterly risk reports (capital adequacy, liquidity risk, credit risk, operational risk, market risk, interest rate risk and key events in the risk area), and a range of issues related to the credit portfolio, including dedicated presentations on corporate, financial markets, and retail portfolio risks. Other major issues considered by the Committee included the largest exposures, development of risk parameters, and loan loss provisions at the Bank and in the Group. Furthermore, in accordance with the plan of works the Committee discussed in detail the effectiveness of particular portfolios of the bank, analysing risk parameters, change directions and forecasts. In 2015, the Risk Committee issued 17 recommendations concerning exposures posing single entity risk in accordance with the parameters defined by the Supervisory Board and took 18 decisions approving a range of risk strategies and policies to be approved by the Supervisory Board.

The Remuneration Committee held 5 meetings in 2015 and discussed issues including:

- Rules of the mBank Management Board Incentive Programme,
- Rules of the Employee Incentive Programme.
- MbO objectives for Members of the Management Board of mBank.
- Identification of risk takers at mBank and rules for their remuneration.
- Terms and conditions for the issue of bonds with pre-emptive right to acquire the shares offered in the Incentive Programme.

In 2015, the Remuneration Committee took 15 decisions and submitted recommendations on the above issues to the Supervisory Board.

17. Glossary

AIRB - Advanced Internal Rating-Based

ALM – Asset and Liability Management

BaFin – Bundesanstalt für Finanzdienstleistungsaufsicht, the Federal Financial Supervisory Authority

BFG – Bank Guarantee Fund

BGK - Bank Gospodarstwa Krajowego; it is a Poland's only state-owned bank which primary business covers providing banking services for the public finance sector

BRRD – Banking Recovery and Resolution Directive

CATI - Computer Assisted Telephone Interview (survey)

CEE – Central and Eastern Europe

CET 1 - Core Tier 1 ratio, core equity capital ratio, calculated as: core funds after deductions / total risk exposure amount (from the end of March 2014, capital ratios are calculated in line with Basel III principles)

C/I ratio – Cost to Income; calculated as: (overhead costs + amortisation) / total income (including net other operating income/costs)

CNB – Czech National Bank

CRD IV – Capital Requirement Directive, a part of regulatory package CRD IV / CRR, which forms a part of Basel III

Cross-selling – a trade technique of selling a product or service combined with purchase of another product to an existing customer

CRR – Capital Requirement Regulation, EU regulation

ECB - European Central Bank

EIB – European Investment Bank

ESMA – European Securities and Markets Authority

EURIBOR – Euro Interbank Offer Rate – a daily reference rate, published by the European Money Market Institute; European equivalent of LIBOR

Fed – US Federal Reserve

FTE – Full Time Equivalent

GDP – Gross Domestic Product – a monetary measure of the value of all final goods and services produced in a country or region over a given period

Guarantee de minimis – A form of security of a loan, which dedicates funds to guaranteeing the repayment of loans in case of non-timely repayment

GUS – Polish Central Statistical Office

IBNI –Incured but Not Idenified Losses

ICAAP - Internal Capital Adequacy Assessment Process

IPO – Initial Public Offering, shares of stock in a company are sold to the general public on stock exchange market for the first time

K1 - Large enterprises (annual sales exceeding PLN 500 million)

K2 - Mid-sized enterprises (annual sales of PLN 30 – 500 million)

K3 - Small enterprises (annual sales below PLN 30 million)

KNF – Polish Financial Supervision Authority (eng. PFSA – Polish Financial Supervision Authority)

KSF – Financial Stability Committee

KUKE – Medium-term lending insured in Export Credit Insurance Corporation

LIBOR - London Interbank Offered Rate – the reference rate of interest on deposits and loans in the interbank market in London. Libor rates are set for the following currencies: USD, EUR, CHF, GBP, JPY, for 1 day, 1 week, 2 months, 3 months, 6 months and 1 year loans

LtV ratio – Loan to Value ratio, expressing a relation between an amount of a loan and a value of its collateral (usually mortgage)

M&A – Mergers and Acquisitions

MBA studies – Executive Master of Business Administration postgraduate studies offered in Polish and addressed to working professionals with higher education who have several years of experience in business, mainly occupying middle and higher management positions

MbO – Management by Objectives

„Mieszkanie dla Młodych" program – „Flats for Youth", the government's support program for people up to 35 years old in the process of purchase of their first, new flat

ML - Mortgage Loans - mortgage-secured products

MPC – Monetary Policy Council

NBP – National Bank of Poland

NBS – National Bank of Slovakia

Net interest margin – Net interest income / Average interest earning assets

NFC - Near Field Communication - technology that allows to pay using mobile phones

NFSR – Net Stable Funding Ratio

NML - Non-Mortgage Loans - unsecured products or products with collateral other than mortgage

NPL ratio – Non-Performing Loans ratio – a ratio of loans in default or close to being in default to total loans

„On-the-job" learning – Learning of new skills during work, i.e. through participation in projects, workshops, etc.

P/BV ratio – Price / Book value

PD – Probability of Default

P/E ratio – Price / Earnings

PPS – purchasing power standards

ROA net – Net profit attributable to owners of the Bank / average total assets

ROE gross – Profit before income tax/ average total equity net of the year's result

ROE net - Net profit attributable to owners of the Bank / average total equity net of the year's result

RWA – Risk Weighted Assets

RWD – Responsive Web Design – a technology enabling to adapt website layouts to the screen of a device displaying the content

SME – Small and Medium Enterprises

SoFFin - Germany's Financial Market Stabilisation Fund

SREP Guideline – Guidelines on Supervisory Review and Evaluation

Total income - Net interest income + Net fee and commission income + Dividend income + Net trading income + Gains less losses from investment securities, investments in subsidiaries and associates + The share in profits (losses) of joint ventures + Other operating income - Other operating expenses

TREA – Total Risk Exposure Amount

WIBOR - Warsaw Interbank Offered Rate; Polish equivalent of LIBOR

WIG – Warsaw Stock Exchange Index

WSE – Warsaw Stock Exchange

ZBP – The Polish Bank Association

18. Statements of the Management Board

True and fair picture in the presented reports

The Management Board of mBank S.A. declares that according to their best knowledge:

- The annual consolidated financial statements and the comparative figures were prepared in compliance with the binding accounting principles and present a true, fair and clear picture of the financial position and the condition of the assets of mBank S.A. Group as well as its financial performance.
- The report of the Management Board on the business of mBank Group in 2015 presents a true picture of the developments, achievements, and situation of the mBank S.A. Group, including a description of the main risks and threats.

Appointment of the auditor

The Auditor authorised to audit financial statements and performing the audit of the annual financial statements of mBank S.A. Group for 2015 – Ernst & Young Audyt Polska Spółka z ograniczoną odpowiedzialnością Sp. k. - was appointed in compliance with legal regulations. The audit company and its auditors fulfilled the conditions necessary for an impartial and independent audit report in compliance with respective provisions of Polish law and professional standards.

Signatures of the Management Board of mBank S.A.

Date	First and last name	Position	Signature
25.02.2016	Cezary Stypułkowski	President of the Management Board	
25.02.2016	Lidia Jabłonowska-Luba	Deputy President of the Management Board, Chief Risk Officer	
25.02.2016	Przemysław Gdański	Deputy President of the Management Board, Head of Corporate and Investment Banking	
25.02.2016	Jörg Hessenmüller	Deputy President of the Management Board, Chief Financial Officer	
25.02.2016	Hans-Dieter Kemler	Deputy President of the Management Bard, Head of Financial Markets	
25.02.2016	Cezary Kocik	Deputy President of the Management Board, Head of Retail Banking	
25.02.2016	Jarosław Mastalerz	Deputy President of the Management Board, Head of Operations and Information Technology	

The Polish original should be referred to in matters of interpretation.
Translation of auditors' report originally issued in Polish.

INDEPENDENT AUDITORS' OPINION

To the General Shareholders Meeting mBank S.A.

1. We have audited the attached consolidated financial statements of mBank S.A. Group ('the Group'), for which the holding company is mBank S.A. ('Bank') located in Warsaw at Senatorska 18, for the year ended 31 December 2015 containing the consolidated income statement and the consolidated statement of comprehensive income for the period from 1 January 2015 to 31 December 2015, the consolidated statement of financial position as at 31 December 2015, the consolidated statement of changes in equity and the consolidated statement of cash flows for the period from 1 January 2015 to 31 December 2015 and explanatory notes to the financial statements ('the attached consolidated financial statements').
2. The truth and fairness[1] of the attached consolidated financial statements, the preparation of the attached consolidated financial statements in accordance with the required applicable accounting policies and the proper maintenance of the consolidation documentation are the responsibility of the Bank's Management Board. In addition, the Bank's Management Board and Members of the Supervisory Board are required to ensure that the attached consolidated financial statements and the Directors' Report meet the requirements of the Accounting Act dated 29 September 1994 (Journal of Laws 2013.330 with subsequent amendments – 'the Accounting Act'). Our responsibility was to audit the attached consolidated financial statements and to express an opinion on whether, based on our audit, these financial statements comply, in all material respects, with the required applicable accounting policies and whether they truly and fairly[2] reflect, in all material respects, the financial position and results of the operations of the Group.
3. We conducted our audit of the attached consolidated financial statements in accordance with:
   - chapter 7 of the Accounting Act;
   - National Auditing Standards issued by the National Council of Statutory Auditors;

   in order to obtain reasonable assurance whether these financial statements are free of material misstatement. In particular, the audit included examining, to a large extent on a test basis, documentation supporting the amounts and disclosures in the attached consolidated financial statements. The audit also included assessing the accounting principles adopted and used and significant estimates made by the Bank's Management Board, as well as evaluating the overall presentation of the attached consolidated financial statements. We believe our audit has provided a reasonable basis to express our opinion on the attached consolidated financial statements treated as a whole.

[1] Translation of the following expression in Polish: '*rzetelność i jasność*'
[2] Translation of the following expression in Polish: '*rzetelne i jasne*'

4. In our opinion, the attached consolidated financial statements, in all material respects:
   - present truly and fairly all information material for the assessment of the results of the Group's operations for the period from 1 January 2015 to 31 December 2015, as well as its financial position[3] as at 31 December 2015;
   - have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union;
   - are in respect of the form and content, in accordance with the legal regulations governing the preparation of financial statements.
5. We have read the 'Management Board Report on the Performance of the Group for the period from 1 January 2015 to 31 December 2015 and the rules of preparation of annual statements' ('the Management Board Report') and concluded that the information derived from the attached consolidated financial statements reconciles with these financial statements. The information included in the Management Board Report corresponds with the relevant regulations of art. 49 para 2 of the Accounting Act, the Decree of the Minister of Finance dated 19 February 2009 on current and periodic information published by issuers of securities, conditions for recognition as equivalent the information required by laws of non-EU member states (Journal of Laws 2014.133 with subsequent amendments) and art. 111a of Banking Law Act dated 29 August 1997 (Journal of Law 2015.128 with subsequent amendments).

on behalf of
Ernst & Young Audyt Polska spółka
z ograniczoną odpowiedzialnością sp. k.
Rondo ONZ 1, 00-124 Warsaw
Registration number 130

Key Certified Auditor
(-)

Dominik Januszewski
Certified Auditor
Number 9707

Warsaw, 25 February 2016

[3] Translation of the following expression in Polish: '*sytuacja majątkowa i finansowa*'

mBank S.A. Group

LONG-FORM AUDITORS' REPORT
ON THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015

(in thousand zlotys)

I. GENERAL NOTES

1. Background

The holding company of the mBank S.A. Group (hereinafter 'the Group' or 'the Capital Group') is mBank S.A. ('the holding company', 'the Bank').

The holding company was incorporated on the basis of a Notarial Deed dated 11 December 1986. The Bank's registered office is located in Warsaw at Senatorska 18.

The holding company is an issuer of securities as referred to in art. 4 of the Regulation (EC) No 1606/2002 of the European Parliament and of the Council of the European Union of 19 July 2002 on the application of international accounting standards (EC Official Journal L243 dated 11 September 2002, page 1, polish special edition chapter 13, title 29 page 609) and, based on the article 55.5 of the Accounting Act dated 29 September 1994 (Journal of Laws 2013.330 with subsequent amendments – 'the Accounting Act'), prepares consolidated financial statements of the Group in accordance with International Financial Reporting Standards as adopted by the EU.

The holding company was entered in the Register of Entrepreneurs of the National Court Register under no. KRS 0000025237 on 11 July 2001.

The Bank was issued with tax identification number (NIP) 5260215088 on 13 December 2013 and statistical number (REGON) 001254524 on 9 December 2013.

The holding

is part of the Commerzbank AG capital group.

The principal activities of the holding company are as follows:

- accepting a-vista and term deposits and maintaining deposit accounts;
- maintaining other bank accounts;
- conducting bank monetary settlements;
- granting loans and cash advances;
- cheque and bill of exchange transactions and transactions in warrants;
- granting and confirming of suretyships;
- issuing and confirming bank guarantees and letters of credit;
- intermediary services in cash transfers and foreign currency settlements;
- issuing bank securities;
- performing commissioned activities relating to issue of securities;
- safekeeping of objects and securities and offering safety deposit box services to clients;
- forward financial transactions;
- purchasing and sale of debts;
- performing bank representative actions as provided for in the Bonds Act;
- purchasing and sale of foreign currencies;
- issuing payment cards and performing transactions with the use of cards;
- issuing e-money instruments.

The operations of the Group's subsidiaries include the following activities:

- factoring services;
- leasing;
- administration of buildings;
- raising funds for the holding company;
- trading in securities;
- offering holding company's product to third parties;
- provide comprehensive wealth management services;
- providing mortgage loans
- insurance activities;
- providing services in the field of data and document management;
- development and assessment of investment projects and their realization;
- realization of developer projects.

As at 31 December 2015, the Bank's share capital amounted to 168 955 696 zlotys and was divisible into 42 238 924 shares.

As at 31 December 2015, the ownership structure of the Bank's issued share capital was as follows:

	Number of shares	Number of votes	Par value of shares (in zlotys)	% of share capital
Commerzbank AG	29 352 897	29 352 897	117 411 588	69.49%
ING Otwarty Fundusz Emerytalny	2 130 699	2 130 699	8 522 796	5.05%
Other shareholders	10 755 328	10 755 328	43 021 312	25.46%
	--------	--------	--------	--------
Total	42 238 924	42 238 924	168 955 696	100%
	=====	=====	=====	=====

As it was presented in Note 38 of explanatory notes to the consolidated financial statements of the Group for the year ended 31 December 2015, the following changes took place in the ownership structure of the holding company's share capital during the period from 1 January 2015 to 31 December 2015 ('the reporting period') as well as during the period from the balance sheet date to the date of the opinion:

- On 20 March 2015 mBank was notified by ING Powszechne Towarzystwo Emerytalne SA about ING Otwarty Fundusz Emerytalny exceeding the threshold of 5% of total votes at the General Meeting of the Bank.
- Before the purchase of shares ING Otwarty Fundusz Emerytalny held 2 110 309 mBank S.A.'s shares representing 4.99% of share capital. Effective 18 March 2015 ING Otwarty Fundusz Emerytalny held 2 130 699 mBank S.A. shares representing 5.05% of share capital. These share entitle to 2 130 699 votes at the General Meeting of mBank S.A. which represents 5.05% of total number of votes.

(in thousand zlotys)

Movements in the share capital of the holding company in the financial year were as follows:

	Number of shares	Par value of shares (in zlotys)
Opening balance	42 210 057	168 840 228
Increase/ decrease in share capital	28 867	115 468
	--------	--------
Closing balance	42 238 924	168 955 696
	=====	=====

In 2015 the National Deposit for Securities has registered 28 867 shares of the Bank issued under the conditional share capital increase of the Bank by issuing shares with pre-emptive rights of the existing shareholders, in order to allow for the acquisition of the Bank shares to participants of incentive programs. Following registration of the shares of the Bank's share capital of the Bank increased in 2015 by 115 468 zlotys.

As at 25 February 2016, the holding company's Management Board was composed of:

Cezary Stypułkowski	- President
Lidia Jabłonowska-Luba	- Vicepresident
Przemysław Gdański	- Vicepresident
Jörg Hessenmüller	- Vicepresident
Hans Dieter Kemler	- Vicepresident
Cezary Kocik	- Vicepresident
Jarosław Mastalerz	- Vicepresident

There were no changes in the holding company's Management Board during the reporting period as well as from the balance sheet date to the date of the opinion.

2. Group Structure

As at 31 December 2015, the mBank S.A. Group consisted of the following subsidiaries (direct or indirect):

Entity name	Consolidation method	Type of opinion	Name of authorised entity that audited financial statements	Balance sheet date
Aspiro S.A.	Acquisition accounting	in the audit	Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k.	31 December 2015
BDH Development Sp. z o.o.	Acquisition accounting	in the audit	Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k.	31 December 2015
Dom Maklerski mBanku S.A.	Acquisition accounting	in the audit	Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k.	31 December 2015
Garbary Sp. z o.o.	Acquisition accounting	in the audit	Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k.	31 December 2015
mCentrum Operacji Sp. z o.o.	Acquisition accounting	in the audit	Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k.	31 December 2015
mBank Hipoteczny S.A.	Acquisition accounting	in the audit	Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k.	31 December 2015
mFactoring S.A.	Acquisition accounting	in the audit	Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k.	31 December 2015
mFinance France S.A.	Acquisition accounting	in the audit	Ernst & Young et Associés	31 December 2015
mLocum S.A.	Acquisition accounting	unqualified	Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k.	31 December 2015
mLeasing S.A.	Acquisition accounting	in the audit	Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k.	31 December 2015
mWealth Management S.A.	Acquisition accounting	in the audit	Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k.	31 December 2015

Details of the type and impact of changes in entities included in the consolidation as compared to the prior year may be found in Note 1 of explanatory notes to the consolidated financial statements of the Group for the year ended 31 December 2015.

3. Consolidated Financial Statements

3.1 Auditors' opinion and audit of consolidated financial statements

Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k. with its registered office in Warsaw, at Rondo ONZ 1, is registered on the list of entities authorised to audit financial statements under no. 130.

Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k. was appointed by General Shareholders' Meeting on 30 March 2015 to audit the Group's financial statements.

Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k. and the key certified auditor in charge of the audit meet the conditions required to express an impartial and independent opinion on the financial statements, as defined in Art. 56.3 and 56.4 of the Act on statutory auditors and their self-governance, audit firms authorized to audit financial statements and public oversight, dated 7 May 2009 (Journal of Laws 2009, No. 77, item 649 with subsequent amendments).

Under the contract executed on 30 May 2015 with the holding company's Management Board, we have audited the consolidated financial statements for the year ended 31 December 2015.

Our responsibility was to express an opinion on the consolidated financial statements based on our audit. The auditing procedures applied to the consolidated financial statements were designed to enable us to express an opinion on the consolidated financial statements taken as a whole. Our procedures did not extend to supplementary information that does not have an impact on the consolidated financial statements taken as a whole.

Based on our audit, we issued an auditors' unqualified opinion dated 25 February 2016, stating the following:

"To the General Shareholders Meeting mBank S.A.

1. We have audited the attached consolidated financial statements of mBank S.A. Group ('the Group'), for which the holding company is mBank S.A. ("Bank") located in Warsaw at Senatorska 18, for the year ended 31 December 2015 containing the consolidated income statement and the consolidated statement of comprehensive income for the period from 1 January 2015 to 31 December 2015, the consolidated statement of financial position as at 31 December 2015, the consolidated statement of changes in equity and the consolidated statement of cash flows for the period from 1 January 2015 to 31 December 2015 and explanatory notes to the financial statements ('the attached consolidated financial statements').
2. The truth and fairness[1] of the attached consolidated financial statements, the preparation of the attached consolidated financial statements in accordance with the required applicable accounting policies and the proper maintenance of the consolidation documentation are the responsibility of the Bank's Management Board. In addition, the Bank's Management Board and Members of the Supervisory Board are required to ensure that the attached consolidated financial statements and the Directors' Report meet the requirements of the Accounting Act dated 29 September 1994 (Journal of Laws 2013.330 with subsequent amendments – 'the Accounting Act'). Our responsibility was to audit the attached consolidated financial statements and to express an opinion on whether, based on our audit, these financial statements comply, in all material respects, with the required applicable accounting policies and whether they truly and fairly[2] reflect, in all material respects, the financial position and results of the operations of the Group.
3. We conducted our audit of the attached consolidated financial statements in accordance with:
   - chapter 7 of the Accounting Act;
   - National Auditing Standards issued by the National Council of Statutory Auditors;

   in order to obtain reasonable assurance whether these financial statements are free of material misstatement. In particular, the audit included examining, to a large extent on a test basis, documentation supporting the amounts and disclosures in the attached consolidated financial statements. The audit also included assessing the accounting principles adopted and used and significant estimates made by the Bank's Management Board, as well as evaluating the overall presentation of the attached consolidated financial statements. We believe our audit has provided a reasonable basis to express our opinion on the attached consolidated financial statements treated as a whole.
4. In our opinion, the attached consolidated financial statements, in all material respects:
   - present truly and fairly all information material for the assessment of the results of the Group's operations for the period from 1 January 2015 to 31 December 2015, as well as its financial position[3] as at 31 December 2015;
   - have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union;
   - are in respect of the form and content, in accordance with the legal regulations governing the preparation of financial statements.
5. We have read the 'Management Board Report on the Performance of the Group for the period from 1 January 2015 to 31 December 2015 and the rules of preparation of annual statements' ('the Management Board Report') and concluded that the information derived from the attached consolidated financial statements reconciles with these financial statements. The information included in the Management Board Report corresponds with the relevant regulations of art. 49 para 2 of the Accounting Act, the Decree of the Minister of Finance dated 19 February 2009 on current and periodic information published by issuers of securities, conditions for recognition as equivalent the information required by laws of non-EU member states (Journal of Laws 2014.133 with subsequent amendments) and art. 111a of Banking Law Act dated 29 August 1997 (Journal of Law 2015.128 with subsequent amendments).

[1] Translation of the following expression in Polish: '*rzetelność i jasność*'

[2] Translation of the following expression in Polish: '*rzetelne i jasne*'

[3] Translation of the following expression in Polish: '*sytuacja majątkowa i finansowa*'

mBank S.A.Group
Long-form auditors' report
for the year ended 31 December 2015
(in thousand zlotys)

This is a translation of a document originally issued in the Polish language.

(in thousand zlotys)

We conducted the audit of the consolidated financial statements during the period from 1 September 2015 to 25 February 2016. We were present at the holding company's head office from 1 October 2015 to 30 November 2015 and from 4 January 2016 to 25 February 2016.

3.2 Representations provided and data availability

The Management Board of the holding company confirmed its responsibility for fair presentation[4] of the consolidated financial statements and the preparation of the financial statements in accordance with the required applicable accounting policies, and the correctness of consolidation documentation. The Board stated that it provided us with all financial statements of the Group companies included in the consolidated financial statements, consolidation documentation and other required documents as well as all necessary explanations. The Management Board also provided a letter of representations dated 25 February 2016, from the Management Board of the holding company confirming that:

- the information included in the consolidation documentation was complete;
- all contingent liabilities had been disclosed in the consolidated financial statements, and
- all material events from the balance sheet date to the date of the representation letter had been disclosed in the consolidated financial statements;

and confirmed that the information provided to us was true and fair to the best of the holding company Management Board's knowledge and belief, and included all events that could have had an effect on the consolidated financial statements.

At the same time declare that during the audit of the financial statements, there were no limitations of scope.

3.3 Consolidated financial statements for prior financial year

The consolidated financial statements of the Group for the year ended 31 December 2014 were audited by Dominik Januszewski, key certified auditor no. 9707, acting on behalf of Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k. with its registered office in Warsaw, at Rondo ONZ 1, the company entered on the list of entities authorized to audit financial statements conducted by the National Council of Statutory Auditors with the number 130. The key certified auditor issued an unqualified opinion on the consolidated financial statements for the year ended 31 December 2014. The consolidated financial statements for the year ended 31 December 2014 were approved by the General Shareholders' Meeting on 30 March 2015.

The consolidated financial statements of the Group for the financial year ended 31 December 2014, together with the auditors' opinion, a copy of the resolution approving the consolidated financial statements and the Directors' Report, were filed on 9 April 2015 with the National Court Register.

[4] Translation of the following expression in Polish: "*rzetelna prezentacja*"

4. Analytical Review

4.1 Basic data and financial ratios

Presented below are selected financial ratios indicating the economic or financial performance of the Group for the years 2013 – 2015. The ratios were calculated on the basis of financial information included in the financial statements for the years ended 31 December 2014 and 31 December 2015.

	2015	2014	2013
Total assets	123 523 021	117 985 822	104 282 761
Shareholders' equity	12 274 964	11 072 980	10 256 438
Net profit/ loss	1 304 128	1 289 310	1 208 978
Total capital ratio	17.25%	14.66%	19.38%
Profitability ratio	78.76%	93.34%	90.44%
$\frac{\text{profit before tax}}{\text{overhead costs and amortization}}$			
Cost to income ratio	50.18%	44.95%	45.68%
$\frac{\text{overhead costs and amortization}}{\text{total operating income less other operating expenses}^{5}}$			
Return on equity (ROE)	11.17%	12.09%	12.17%
$\frac{\text{net result}}{\text{average shareholders' equity}^{6}}$			
Return on assets	1.08%	1.16%	1.17%
$\frac{\text{net result}}{\text{average assets}^{7}}$			
Rate of inflation:			
Yearly average	-0.9%	0.0%	0.9%
December to December	-0.5%	-1.0%	0.7%

[5] Total operating income less other operating expenses amounted to net interest income, net fee and commission income, dividend income, net trading income, gains less losses from investment securities, investments in subsidiaries and associates and other operating income less other operating expense.
[6] Average shareholders' equity is the average of opening and closing balance of total equity in the particular period.
[7] Average assets are the average of opening and closing balance of total assets in the particular period.

4.2 Comments

The following trends may be observed based on the above financial ratios:

- Profitability ratio increased from 90.44% in 2013 to 93.34% in 2014 and decreased to 78.76% in 2015.
- Cost to income ratio decreased from 45.68% in 2013 to 44.95% in 2014 and increased to 50.18% in 2015.
- Return on equity decreased from 12.17% in 2013 to 12.09% in 2014 and decreased to 11.17% in 2015.
- Return on assets decreased from 1.17% in 2013 to 1.16% in 2014 and decreased to 1.08% in 2015.

As at 31 December 2015 total capital ratio of the Group accounted for 17.25% in comparison to 14.66% as at 31 December 2014 and 19.38% as at 31 December 2013.

4.3 Going concern

Nothing came to our attention during the audit that caused us to believe that the holding company is unable to continue as a going concern for at least twelve months subsequent to 31 December 2015 as a result of an intended or compulsory withdrawal from or a substantial limitation in its current operations.

In Note 2.1 of the explanatory notes to the audited consolidated financial statements for the year ended 31 December 2015, the Management Board of the holding company has stated that the financial statements of the Group entities included in the consolidated financial statements were prepared on the assumption that these entities will continue as a going concern for a period of at least twelve months subsequent to 31 December 2015 and that there are no circumstances that would indicate a threat to its continued activity.

4.4 Application of regulations mitigating banking risk

As at 31 December 2015, the regulations of the Banking Law, the Resolutions of the Management Board of the National Bank of Poland, Resolution of Polish Financial Supervisory Authority and the Regulation of the European Parliament and the Council (EU) No. 575/2013 from 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) Nr 648/2012 (CRR) and other regulations issued by the Commission (EU) pursuant to this Regulation, envisaged banking regulatory norms in relation, among others, to following items:

- concentration of credit risk,
- concentration of investments in shares,
- classification of loans and guarantees to risk groups and the creation of provisions for the risk associated with the activities of banks,
- liquidity measures,
- level of obligatory reserve,

mBank S.A.Group
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- capital adequacy.

During the audit we have not identified significant facts indicating that during the period from 1 January 2015 to the day of issuance of this report the Bank did not comply with the above regulations. As it was disclosed in note 49 of explanatory notes to audited consolidated financial statements taking into account the "additional capital requirement as well as the conservation buffer of 1.25% enforced on 1 January 2016 on the basis of the Act on Macro-prudential Supervision over the Financial System and Crisis Management in the Financial System, starting from 1 January 2016 the Bank as well as mBank Group should maintain, on the stand alone and consolidated level respectively, the Common Equity Tier 1 ratio on the level not lower than 13.54% and the total capital ratio on the level not lower than 17.64%, which compares against 14.29% and 17.25% respectively reported by mBank Group as of 31 December 2015. As of 31 January 2016 on consolidated level the reported total capital ratio was below the afore-mentioned target ratio of 17.64%, whereas consolidated Common Equity Tier 1 ratio remained to well exceed the new target ratio, similar to the respective ratios on mBank stand alone level. The Management Board of mBank believes that with the decisions to be made by the upcoming mBank Ordinary General Meeting (planned on 24 March 2016) the Group will exceed the total capital ratio target level of 17.64%". We have received a written representation from the Management Board that in the period from 1 January 2015 to the date of the opinion other regulatory norms have been complied with.

4.5 Correctness of calculation of total capital ratio

During our audit we found no significant irregularities in determining total capital ratio as at 31 December 2015 in accordance with the Regulation of the European Parliament and the Council (EU) No. 575/2013 from 26 June 2013 (CRR).

II. DETAILED REPORT

1. Completeness and accuracy of consolidation documentation

During the audit no material irregularities were noted in the consolidation documentation which could have a material effect on the audited consolidated financial statements, and which were not subsequently adjusted. These would include matters related to the requirements applicable to the consolidation documentation (and in particular eliminations relating to consolidation adjustments).

2. Accounting policies for the valuation of assets and liabilities

The Group's accounting policies and rules for the presentation of data are detailed in 2 and note 25 of the explanatory notes to the Group's audited consolidated financial statements for the year ended 31 December 2015.

3. Structure of assets, liabilities and equity

The structure of the Group's assets and equity and liabilities is presented in the audited consolidated financial statements for the year ended 31 December 2015.

The data disclosed in the consolidated financial statements reconcile with the consolidation documentation.

3.1 Goodwill on consolidation and amortisation

The method of determining goodwill on consolidation, the method on determining impairment of goodwill, the impairment charged in the financial year and up to the balance sheet date were presented in note 2 and note 25 of the explanatory notes to the audited consolidated financial statements.

3.2 Shareholders' funds including non-controlling interest

The amount of shareholders' funds is consistent with the amount stated in the consolidation documentation and appropriate legal documentation. Non-controlling interest amounted to 32 618 thousand zlotys as at 31 December 2015. It was correctly calculated and is consistent with the consolidation documentation.

Information on shareholders' funds has been presented in notes 38-42 of the explanatory notes to the audited consolidated financial statements for the year ended 31 December 2015.

3.3 Financial year

The financial statements of all Group companies forming the basis for the preparation of the audited consolidated financial statements were prepared as at 31 December 2015 and include the financial data for the period from 1 January 2015 to 31 December 2015.

4. Consolidation adjustments

4.1 Elimination of inter-company balances (receivables and liabilities) and inter-company transactions (revenues and expenses) of consolidated entities.

All eliminations of inter-company balances (receivables and liabilities) and inter-company transactions (revenues and expenses) of the consolidated companies reconcile with the consolidation documentation.

4.2 Elimination of unrealised gains/losses of the consolidated companies, included in the value of assets, as well as relating to dividends

All eliminations of unrealised gains/losses of the consolidated companies, included in the value of assets, as well as relating to dividends reconcile with the consolidation documentation.

5. Disposal of all or part of shares in a subordinated entity

Information regarding the disposal of shares in the subordinated entities have been disclosed in note 24 and note 46 of the explanatory notes to the audited consolidated financial statements for the year ended 31 December 2015.

6. Items which have an impact on the Group's result for the year

Details of the items which have an impact on the Group's result for the year have been included in the audited consolidated financial statements for the year ended 31 December 2015.

7. The appropriateness of the departures from the consolidation methods and application of the equity accounting as defined in International Financial Reporting Standards as adopted by the EU

During the process of preparation of the consolidated financial statements there were no departures from the consolidation methods or application of the equity accounting

8. Explanatory Notes to the Consolidated Financial Statements

The explanatory notes to the audited consolidated financial statements for the year ended 31 December 2015 were prepared, in all material respects, in accordance with International Financial Reporting Standards as adopted by the EU.

9. Management Board Report

We have read the 'Management Board Report on the Performance of the Group for the period from 1 January 2015 to 31 December 2015 and the rules of preparation of annual statements' ('the Management Board Report') and concluded that the information derived from the attached consolidated financial statements reconciles with these financial statements. The information included in the Management Board Report corresponds with the relevant regulations of art. 49 para 2 of the Accounting Act, the Decree of the Minister of Finance dated 19 February 2009 on current and periodic information published by issuers of securities, conditions for recognition as equivalent the information required by laws of non-EU member states (Journal of Laws 2014.133 with subsequent amendments) and art. 111a of Banking Law Act dated 29 August 1997 (Journal of Law 2015.128 with subsequent amendments).

10. Conformity with Law and Regulations

We have obtained a letter of representations from the Management Board of the holding company confirming that no laws, regulations or provisions of the Group entities' Articles of Association were breached during the financial year.

11. Work of Experts

During our audit we have taken into account the results of the work of the independent property appraisers – in the calculation of the level of loan loss provisions the Group took into consideration the value of collateral established in valuations performed by property appraisers engaged by the Group.

on behalf of
Ernst & Young Audyt Polska spółka
z ograniczoną odpowiedzialnością sp. k.
Rondo ONZ 1, 00-124 Warsaw
Registration Number 130

Key Certified Auditor
(-)

Dominik Januszewski
Certified Auditor
Number 9707

Warsaw, 25 February 2016

mBank S.A. Group

IFRS Consolidated Financial Statements 2015

Selected financial data

The selected financial data are supplementary information to these Consolidated Financial Statements of mBank S.A. Group for 2015.

		in PLN '000		in EUR '000	
		Year ended 31.12.2015	Year ended 31.12.2014	Year ended 31.12.2015	Year ended 31.12.2014
I.	Interest income	3 660 505	3 956 254	874 714	944 371
II.	Fee and commission income	1 433 927	1 399 601	342 651	334 089
III.	Net trading income	292 935	369 156	70 000	88 119
IV.	Operating profit	1 617 855	1 652 700	386 603	394 505
V.	Profit before income tax	1 617 855	1 652 700	386 603	394 505
VI.	Net profit attributable to Owners of mBank S.A.	1 301 246	1 286 668	310 946	307 132
VII.	Net profit attributable to non-controlling interests	2 882	2 642	689	631
VIII.	Net cash flows from operating activities	6 989 966	481 916	1 670 323	115 035
IX.	Net cash flows from investing activities	291 202	(196 312)	69 586	(46 860)
X.	Net cash flows from financing activities	(5 320 487)	721 173	(1 271 384)	172 146
XI.	Net increase / decrease in cash and cash equivalents	1 960 681	1 006 777	468 524	240 321
XII.	Basic earnings per share (in PLN/EUR)	30.82	30.50	7.36	7.28
XIII.	Diluted earnings per share (in PLN/EUR)	30.80	30.47	7.36	7.27
XIV.	Declared or paid dividend per share (in PLN/EUR)	-	17.00	-	4.06

		in PLN '000		in EUR '000	
		As at		As at	
		31.12.2015	31.12.2014	31.12.2015	31.12.2014
I.	Total assets	123 523 021	117 985 822	28 985 808	27 681 257
II.	Amounts due to the Central Bank	-	-	-	-
III.	Amounts due to other banks	12 019 331	13 383 829	2 820 446	3 140 049
IV.	Amounts due to customers	81 140 866	72 422 479	19 040 447	16 991 408
V.	Equity attributable to Owners of mBank S.A.	12 242 346	11 043 242	2 872 779	2 590 911
VI.	Non-controlling interests	32 618	29 738	7 654	6 977
VII.	Share capital	168 956	168 840	39 647	39 612
VIII.	Number of shares	42 238 924	42 210 057	42 238 924	42 210 057
IX.	Book value per share (in PLN/EUR)	289.84	261.63	68.01	61.38
X.	Total capital ratio	17.25	14.66	17.25	14.66

The following exchange rates were used in translating selected financial data into euro:

- for items of the consolidated statement of financial position – exchange rate announced by the National Bank of Poland as at 31 December 2015: EUR 1 = 4.2615 and 31 December 2014: EUR 1 = PLN 4.2623.
- for items of the consolidated income statement – exchange rate calculated as the arithmetic mean of exchange rates announced by the National Bank of Poland as at the end of each month of 2015 and 2014: EUR 1 = PLN 4.1848 and EUR 1 = PLN 4.1893 respectively.

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IFRS Consolidated Financial Statements 2015 PLN (000's)

Consolidated income statement

	Note	Year ended 31 December	
		2015	**2014**
Interest income	6	3 660 505	3 956 254
Interest expense	6	(1 149 132)	(1 465 596)
Net interest income		**2 511 373**	**2 490 658**
Fee and commission income	7	1 433 927	1 399 601
Fee and commission expense	7	(536 751)	(497 911)
Net fee and commission income		**897 176**	**901 690**
Dividend income	8	17 540	19 992
Net trading income, including:	9	292 935	369 156
Foreign exchange result		*288 708*	*233 048*
Other net trading income and result on hedge accounting		*4 227*	*136 108*
Gains less losses from investment securities, investments in subsidiaries and associates, including:	23	314 408	51 926
Gains less losses from investment securities		*133 213*	*55 373*
Gains less losses from investments in subsidiaries and associates		*181 195*	*(3 447)*
The share in the profits (losses) of joint ventures		(141)	-
Other operating income	10	245 859	346 922
Net impairment losses on loans and advances	13	(421 222)	(515 903)
Overhead costs	11	(1 854 596)	(1 580 543)
Amortisation	25, 26	(199 650)	(190 022)
Other operating expenses	12	(185 827)	(241 176)
Operating profit		**1 617 855**	**1 652 700**
Profit before income tax		**1 617 855**	**1 652 700**
Income tax expense	14	(313 727)	(363 390)
Net profit		**1 304 128**	**1 289 310**
Net profit attributable to:			
- Owners of mBank S.A.		1 301 246	1 286 668
- Non-controlling interests		2 882	2 642
Net profit attributable to Owners of mBank S.A.		**1 301 246**	**1 286 668**
Weighted average number of ordinary shares	15	**42 221 351**	**42 189 705**
Earnings per share (in PLN)	15	**30.82**	**30.50**
Weighted average number of ordinary shares for diluted earnings	15	**42 247 160**	**42 221 295**
Diluted earnings per share (in PLN)	15	**30.80**	**30.47**

Notes presented on pages 10–162 constitute an integral part of these Consolidated Financial Statements.

IFRS Consolidated Financial Statements 2015 PLN (000's)

Consolidated statement of comprehensive income

	Note	Year ended 31 December	
		2015	2014
Net profit		**1 304 128**	**1 289 310**
Other comprehensive income net of tax, including:	16	**(116 717)**	**231 456**
Items that may be reclassified subsequently to the the income statement		**(115 125)**	**233 361**
Exchange differences on translation of foreign operations (net)		(4 661)	245
Change in valuation of available for sale financial assets (net)		(107 267)	229 060
Cash flows hedges (net)		(3 197)	4 056
Items that will not be reclassified to the income statement		**(1 592)**	**(1 905)**
Actuarial gains and losses relating to post-employment benefits (net)		(1 592)	(1 905)
Total comprehensive income (net)		**1 187 411**	**1 520 766**
Total comprehensive income (net), attributable to:			
- Owners of mBank S.A.		1 184 529	1 518 124
- Non-controlling interests		2 882	2 642

Notes presented on pages 10–162 constitute an integral part of these Consolidated Financial Statements.

Consolidated statement of financial position

ASSETS	Note	31.12.2015	31.12.2014
Cash and balances with the Central Bank	17	5 938 133	3 054 549
Loans and advances to banks	18	1 897 334	3 751 415
Trading securities	19	557 541	1 163 944
Derivative financial instruments	20	3 349 328	4 865 517
Loans and advances to customers	22	78 433 546	74 582 350
Hedge accounting adjustments related to fair value of hedged items	21	130	461
Investment securities	23	30 736 949	27 678 614
Investments in joint ventures		7 359	-
Non-current assets held for sale	24	-	576 838
Intangible assets	25	519 049	465 626
Tangible assets	26	744 522	717 377
Current income tax assets		1 850	61 751
Deferred income tax assets	34	366 088	272 416
Other assets	27	971 192	794 964
Total assets		**123 523 021**	**117 985 822**
LIABILITIES AND EQUITY			
Liabilities			
Amounts due to the Central Bank		-	-
Amounts due to other banks	28	12 019 331	13 383 829
Derivative financial instruments	20	3 173 638	4 719 056
Amounts due to customers	29	81 140 866	72 422 479
Debt securities in issue	30	8 946 195	10 341 742
Hedge accounting adjustments related to fair value of hedged items	21	100 098	103 382
Liabilities held for sale	24	-	276 341
Other liabilities	32	1 764 091	1 349 654
Current income tax liabilities		50 126	1 969
Deferred income tax liabilities	34	981	9 785
Provisions	33	225 416	176 881
Subordinated liabilities	31	3 827 315	4 127 724
Total liabilities		**111 248 057**	**106 912 842**
Equity			
Equity attributable to Owners of mBank S.A.		**12 242 346**	**11 043 242**
Share capital:		**3 535 758**	**3 523 903**
- Registered share capital	38	168 956	168 840
- Share premium	39	3 366 802	3 355 063
Retained earnings:	40	**8 273 782**	**6 969 816**
- Profit from the previous years		6 972 536	5 683 148
- Profit for the current year		1 301 246	1 286 668
Other components of equity	41	**432 806**	**549 523**
Non-controlling interests		**32 618**	**29 738**
Total equity		**12 274 964**	**11 072 980**
TOTAL LIABILITIES AND EQUITY		**123 523 021**	**117 985 822**
Total capital ratio	49	**17.25**	**14.66**
Common Equity Tier 1 capital ratio	49	**14.29**	**12.24**
Book value		**12 242 346**	**11 043 242**
Number of shares		**42 238 924**	**42 210 057**
Book value per share (in PLN)		**289.84**	**261.63**

Notes presented on pages 10–162 constitute an integral part of these Consolidated Financial Statements.

IFRS Consolidated Financial Statements 2015 PLN (000's)

Consolidated statement of changes in equity

Changes in equity from 1 January to 31 December 2015

	Note	Share capital		Retained earnings					Other components of equity				Equity attributable to Owners of mBank S.A., total	Non-controlling interests	Total equity
		Registered share capital	Share premium	Other supplementary capital	Other reserve capital	General banking risk reserve	Profit from the previous years	Profit for the current year attributable to Owners of mBank S.A.	Exchange differences on translation of foreign operations	Valuation of available for sale financial assets	Cash flows hedges	Actuarial gains and losses relating to post-employment benefits			
Equity as at 1 January 2015		**168 840**	**3 355 063**	**4 413 825**	**101 252**	**1 041 953**	**1 412 786**	**-**	**(1 765)**	**549 621**	**4 056**	**(2 389)**	**11 043 242**	**29 738**	**11 072 980**
Total comprehensive income	16							**1 301 246**	**(4 661)**	**(107 267)**	**(3 197)**	**(1 592)**	**1 184 529**	**2 882**	**1 187 411**
Transfer to General Risk Fund		-	-	-	-	53 500	(53 500)	-	-	-	-	-	-	-	-
Transfer to supplementary capital		-	-	469 777	-	-	(469 777)	-	-	-	-	-	-	-	-
Issue of shares	38	116	-	-	-	-	-	-	-	-	-	-	116	-	116
Other changes		-	-	-	-	-	-	-	-	-	-	-	-	(2)	(2)
Stock option program for employees	39, 44	-	11 739	-	2 720	-	-	-	-	-	-	-	14 459	-	14 459
- value of services provided by the employees		-	-	-	*14 459*	-	-	-	-	-	-	-	*14 459*	-	*14 459*
- settlement of exercised options		-	*11 739*	-	*(11 739)*	-	-	-	-	-	-	-	-	-	-
Equity as at 31 December 2015		**168 956**	**3 366 802**	**4 883 602**	**103 972**	**1 095 453**	**889 509**	**1 301 246**	**(6 426)**	**442 354**	**859**	**(3 981)**	**12 242 346**	**32 618**	**12 274 964**

Changes in equity from 1 January to 31 December 2014

	Note	Share capital		Retained earnings					Other components of equity				Equity attributable to Owners of mBank S.A., total	Non-controlling interests	Total equity
		Registered share capital	Share premium	Other supplementary capital	Other reserve capital	General banking risk reserve	Profit from the previous years	Profit for the current year attributable to Owners of mBank S.A.	Exchange differences on translation of foreign operations	Valuation of available for sale financial assets	Cash flows hedges	Actuarial gains and losses relating to post-employment benefits			
Equity as at 1 January 2014		**168 696**	**3 343 642**	**4 118 312**	**100 057**	**989 953**	**1 190 615**	**-**	**(2 010)**	**320 561**	**-**	**(484)**	**10 229 342**	**27 096**	**10 256 438**
Total comprehensive income	16							**1 286 668**	**245**	**229 060**	**4 056**	**(1 905)**	**1 518 124**	**2 642**	**1 520 766**
Dividends paid		-	-	-	-	-	(716 984)	-	-	-	-	-	(716 984)	-	(716 984)
Transfer to General Risk Fund		-	-	-	-	52 000	(52 000)	-	-	-	-	-	-	-	-
Transfer to supplementary capital		-	-	295 513	-	-	(295 513)	-	-	-	-	-	-	-	-
Issue of shares	38	144	-	-	-	-	-	-	-	-	-	-	144	-	144
Stock option program for employees	39, 44	-	11 421	-	1 195	-	-	-	-	-	-	-	12 616	-	12 616
- value of services provided by the employees		-	-	-	*12 616*	-	-	-	-	-	-	-	*12 616*	-	*12 616*
- settlement of exercised options		-	*11 421*	-	*(11 421)*	-	-	-	-	-	-	-	-	-	-
Equity as at 31 December 2014		**168 840**	**3 355 063**	**4 413 825**	**101 252**	**1 041 953**	**126 118**	**1 286 668**	**(1 765)**	**549 621**	**4 056**	**(2 389)**	**11 043 242**	**29 738**	**11 072 980**

Notes presented on pages 10–162 constitute an integral part of these Consolidated Financial Statements.

Consolidated statement of cash flows

	Note	Year ended 31 December	
		2015	2014
A. Cash flows from operating activities		**6 989 966**	**481 916**
Profit before income tax		**1 617 855**	**1 652 700**
Adjustments:		***5 372 111***	***(1 170 784)***
Income taxes paid		(256 570)	(398 422)
Amortisation	25, 26	245 425	240 441
Foreign exchange (gains) losses related to financing activities		1 611 739	796 603
(Gains) losses on investing activities		(321 382)	(2 121)
Impairment of investment securities		8 086	3 447
Dividends received	8	(17 540)	(19 992)
Interest income (income statement)	6	(3 660 505)	(3 956 254)
Interest expense (income statement)	6	1 149 132	1 465 596
Interest received		3 844 426	4 226 919
Interest paid		(1 121 141)	(1 259 024)
Changes in loans and advances to banks		1 418 145	(1 002 595)
Changes in trading securities		71 698	(72 578)
Changes in assets and liabilities on derivative financial instruments		(8 161)	(204 904)
Changes in loans and advances to customers		(3 863 810)	(6 406 450)
Changes in investment securities		(3 374 776)	(2 284 104)
Changes in other assets		(168 378)	(387 566)
Changes in amounts due to other banks		612 911	(2 846 865)
Changes in amounts due to customers		8 430 304	9 799 826
Changes in debt securities in issue		134 591	818 384
Changes in provisions		48 535	(51 347)
Changes in other liabilities		589 382	370 222
Net cash generated from/(used in) operating activities		**6 989 966**	**481 916**
B.Cash flows from investing activities		**291 202**	**(196 312)**
Investing activity inflows		**654 702**	**54 988**
Disposal of shares in subsidiaries, net of cash disposed		427 424	-
Disposal of intangible assets and tangible fixed assets		31 186	34 996
Dividends received	8	17 540	19 992
Other investing inflows		178 552	-
Investing activity outflows		**363 500**	**251 300**
Acquisition of shares in subsidiaries		2 997	-
Purchase of intangible assets and tangible fixed assets		342 942	251 300
Other investing outflows		17 561	-
Net cash generated from/(used in) investing activities		**291 202**	**(196 312)**
C. Cash flows from financing activities		**(5 320 487)**	**721 173**
Financing activity inflows		**2 136 724**	**6 027 185**
Proceeds from loans and advances from other banks		180 475	-
Proceeds from other loans and advances		415 420	1 050 075
Issue of debt securities		1 540 713	4 226 966
Increase of subordinated liabilities	31	-	750 000
Issue of ordinary shares		116	144
Financing activity outflows		**7 457 211**	**5 306 012**
Repayments of loans and advances from other banks		3 380 926	3 601 459
Repayments of other loans and advances		12 655	10 064
Redemption of debt securities		3 055 583	136 462
Decrease of subordinated liabilities	31	637 661	480 122
Payments of financial lease liabilities		509	439
Dividends and other payments to shareholders		-	716 984
Interest paid from loans and advances received from other banks and from subordinated liabilities		369 877	360 482
Net cash generated from/(used in) financing activities		**(5 320 487)**	**721 173**
Net increase / decrease in cash and cash equivalents (A+B+C)		**1 960 681**	**1 006 777**
Effects of exchange rate changes on cash and cash equivalents		(15 804)	19 088
Cash and cash equivalents at the beginning of the reporting period		4 711 505	3 685 640
Cash and cash equivalents at the end of the reporting period	43	**6 656 382**	**4 711 505**

Notes presented on pages 10–162 constitute an integral part of these Consolidated Financial Statements.

Explanatory notes to the consolidated financial statements

1. Information regarding the Group of mBank S.A.

The Group of mBank S.A. ("Group", "mBank Group") consists of entities under the control of mBank S.A. ("Bank", "mBank") of the following nature:

- strategic: shares and equity interests in companies supporting particular business segment of mBank S.A. (corporates and financial markets segment, retail banking segment and other) with an investment horizon not shorter than 3 years. The formation or acquisition of these companies was intended to expand the range of services offered to the clients of the Bank;
- other: shares and equity interests in companies acquired in exchange for receivables, in transactions resulting from composition and work out agreements with debtors, with the intention to recover a part or all claims to loan receivables and insolvent companies under liquidation or receivership.

The parent entity of the Group is mBank S.A., which is a joint stock company registered in Poland and a part of Commerzbank AG Group.

The head office of the Bank is located at 18 Senatorska St., Warsaw.

The shares of the Bank are listed on the Warsaw Stock Exchange.

As at 31 December 2015, mBank S.A. Group covered by the Consolidated Financial Statements comprised the following companies:

mBank S.A., the parent entity

mBank S.A. was established under the name of Bank Rozwoju Eksportu SA by Resolution of the Council of Ministers N° 99 of 20 June 1986. The Bank was registered pursuant to the legally valid decision of the District Court for the Capital City of Warsaw, 16th Economic Registration Division, on 23 December 1986 in the Business Register under the number RHB 14036. The 9th Extraordinary Meeting of Shareholders held on 4 March 1999 adopted the resolution changing the Bank's name to BRE Bank S.A. The new name of the Bank was entered in the Business Register on 23 March 1999. On 11 July 2001, the District Court in Warsaw issued the decision on the entry of the Bank in the National Court Register (KRS) under number KRS 0000025237.

On 22 November 2013, the District Court for the Capital City of Warsaw, 12th Commercial Division of the National Court Register, registered the amendments to the Bank's By-lows arising from Resolutions N°26 and Resolutions N°27 of the 26th Annual General Meeting of mBank S.A., which was held on 11 April 2013. With the registration of changes in By-lows, the name of the Bank has changed from the current BRE Bank Spółka Akcyjna on mBank Spółka Akcyjna (abbreviated mBank S.A.).

According to the Polish Classification of Business Activities, the business of the Bank was classified as "Other monetary intermediation" under number 6419Z. According to the Stock Exchange Quotation, the Bank is classified as "Banks" sector as part of the "Finance" macro-sector.

According to the By-laws of the Bank, the scope of its business consists of providing banking services and consulting and advisory services in financial matters, as well as of conducting business activities within the scope described in its By-laws. The Bank operates within the scope of corporate, institutional and retail banking (including private banking) throughout the whole country and operates trade and investment activities as well as brokerage activities.

The Bank provides services to Polish and international corporations and individuals, both in the local currency (Polish Zloty, PLN) and in foreign currencies.

The Bank may open and maintain accounts in Polish and foreign banks, and can possess foreign exchange assets and trade in them.

The Bank conducts retail banking business in Czech Republic and Slovakia through its foreign mBank branches in these countries.

As at 31 December 2015 the headcount of mBank S.A. amounted to 5 151 FTEs (Full Time Equivalents) and of the Group to 6 540 FTEs (31 December 2014: Bank 4 895 FTEs, Group 6 318 FTEs).

As at 31 December 2015 the employment in mBank S.A. was 6 336 persons and in the Group 8 587 persons (31 December 2014: Bank 6 015 persons, Group 8 277 persons).

The business activities of the Group are conducted in the following business segments presented in detail in Note 5.

mBank S.A. Group
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Corporates and Financial Markets Segment, including:

Corporate and Investment Banking

- mFaktoring S.A., subsidiary

The company operates in Poland and provides factoring services for domestic, export and import transactions. It is a member of the Polish Factors Association and Factors Chain International.

- mLeasing Sp. z o.o., subsidiary (the corporate segment of the company's activity)

The company's core business is to lease chattels such as: machinery, equipment, technology lines, passenger cars, vans and trucks, tractors, trailers and semi-trailers, buses, vehicles, special equipment, ships, aircraft, rolling stock, office equipment, computer hardware. mLeasing's offer for corporate clients includes leasing of real estate, mainly offices, hotels, warehouses and logistics centres, petrol stations, public buildings and municipal infrastructure. The company has a network of offices in the largest cities of Poland.

- Garbary Sp. z o.o., subsidiary

The only business of the company is to administer the buildings of a former meat factories located at 101/111 Garbary St. in Poznań currently not in use.

- Tele-Tech Investment Sp. z o.o., subsidiary

The company's business includes investing funds in securities, trading in receivables, proprietary trading in securities, managing controlled enterprises, business and management consultancy. The company has no employees.

- Dom Maklerski mBanku S.A., subsidiary (the corporate segment of the company's activity).
- mBank Hipoteczny S.A., subsidiary (the corporate segment of the company's activity).

Financial Markets

- mFinance France S.A., subsidiary

The core business of the company is to raise funds for the Bank by issuing euro-notes on international financial markets. In 2012, the company issued Eurobonds with a nominal value of EUR 500 000 thousand with maturity date in 2015. In 2013, the company has issued the following tranches of Eurobonds maturing in 2018: nominal value of CHF 200 000 thousand and the nominal value of CZK 500 000 thousand. In 2014 there were two issues of Eurobonds with a nominal value of EUR 500 000 thousand each, and maturing dates in 2019 and 2021.

- mBank Hipoteczny S.A., subsidiary (with regard to activities concerning funding).
- mLeasing Sp. z o.o., subsidiary (with regard to activities concerning funding).

Retail Banking Segment (including Private Banking)

- Aspiro S.A., subsidiary

Aspiro S.A. offers mBank S.A. and third party banks' products. Its offer includes mortgage loans, business products, cash loans, insurance products and leasing. It has a national distribution network comprising 23 Stationary Financial Centres, 23 Mobile Financial Centres, 67 mKiosks, including 5 Partner mKiosks.

- Dom Maklerski mBanku S.A., subsidiary (the retail segment of the company's activity)

The company's core business is to provide services related to trading in securities, rights in property other than securities, and other financial instruments on the capital market in accordance with the applicable law and the licences held by the company.

- mBank Hipoteczny S.A., subsidiary

The core business of mBank Hipoteczny S.A. is to grant mortgage loans to finance commercial real estate, residential development projects and local government investments. The company issues mortgage and public bonds to finance its lending operation. In the retail segment, the Company provides mortgage loans to individuals, offered in cooperation with mBank.

- mLeasing Sp. z o.o., subsidiary (the retail segment of the company's activity)

- mWealth Management S.A., subsidiary

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The company's core business is to provide comprehensive wealth management services. In 2011, a new business model focused on offering investment related advice was implemented. The Company continues its strategic direction communicated as a change in the offer "From Asset Manager for Wealth Manager." The new model provides advice on all assets, financial and non-financial, focusing on client business plans and assistance in this regard.

Other

- mCentrum Operacji Sp. z o.o., subsidiary

The core business of the company is i.a. providing services in the field of data and document management, as well as an electronic archive, a traditional archive, business processes and transaction banking.

- mLocum S.A., subsidiary

mLocum S.A. is a property developer operating in the primary market of residential real estate. The company develops and assesses investment projects; arranges, supervises and manages building designs and construction work; acts as a "substitute investor"; sources funds for investment.

- BDH Development Sp. z o.o., subsidiary

The company's core business is implementation and completion of development projects on the basis of residential property taken over by mBank S.A. Group through restructuring and recovery of investment loans, in order to recover the greatest possible value of the real estate taken over.

Other information concerning companies of the Group

Starting with the financial statements for the third quarter of 2015, the Group has begun to consolidate the company Tele-Tech Investment Sp. z o.o., a subsidiary of mBank.

In Q3 2015, in connection with the cessation of the activity of MLV45 Sp. z o.o. spółka komandytowa, mBank S.A. has conducted reorganisation within mBank S.A. Group, which involved the transfer of shares held by the company MLV 45 Sp. z o.o. spółka komandytowa in companies mBank Hipoteczny S.A., mLeasing Sp. z o.o., mFaktoring S.A. and mLocum S.A. under the direct control of mBank S.A. On 10 September 2015, shareholders of MLV 45 Sp. z o.o. spółka komandytowa - mBank S.A. and MLV45 Sp. z o.o. adopted a resolution on MLV 45 Sp. z o.o. spółka komandytowa liquidation, opening a liquidation procedure and appointing a liquidator. The application for the opening of the liquidation procedure was submitted to the District Court for the Capital City of Warsaw, 12th Division of the National Court Register on 10 September 2015 and the company was deleted from the register on 22 December 2015. The afore-mentioned reorganisation steps have had no impact on the continuing full control mBank S.A. exercises over the mentioned subsidiaries.

As a result the Group ceased to consolidate MLV 45 Sp. z o.o. Sp.k. in the third quarter of 2015.

In accordance with the agreement concluded on 11 September 2014 between the Bank's subsidiary Aspiro S.A. ("Aspiro") and Avanssur S.A., the company belonging to AXA Group, on 27 March 2015 Aspiro sold 100% shares of BRE Ubezpieczenia TUiR S.A. The transaction has been described in detail under Note 46.

In connection with the sale of BRE Ubezpieczenia TUiR S.A. on 27 March 2015 the Group ceased to consolidate the company AWL I Sp. o.o., which was the subsidiary of BRE Ubezpieczenia TUiR S.A.

On 2 March 2015 the merger by acquisition of companies BRE Ubezpieczenia Spółka z o.o. and BRE Agent Ubezpieczeniowy Sp. o.o. by the company Aspiro. The transaction has been described under Note 46.

On 20 January 2015, the sale transaction of the company Transfinance a.s. was completed. The transaction has been described under Note 46.

Information concerning the business conducted by the Group's entities is presented under Note 5 "Business Segments" of these consolidated financial statements.

The consolidated financial statements of the Bank cover the following companies:

Company	31.12.2015		31.12.2014	
	Share in voting rights (directly and indirectly)	Consolidation method	Share in voting rights (directly and indirectly)	Consolidation method
Aspiro S.A.	100%	full	100%	full
BDH Development Sp. z o.o.	100%	full	100%	full
Dom Maklerski mBanku S.A.	100%	full	100%	full
Garbary Sp. z o.o.	100%	full	100%	full
mBank Hipoteczny S.A.	100%	full	100%	full
mCentrum Operacji Sp. z o.o.	100%	full	100%	full
mFaktoring S.A.	100%	full	100%	full
mLeasing Sp. z o.o.	100%	full	100%	full
mWealth Management S.A.	100%	full	100%	full
Tele-Tech Investment Sp. z o.o.	100%	full	-	-
mFinance France S.A.	99.998%	full	99.98%	full
mLocum S.A.	79.99%	full	79.99%	full
AWL I Sp. z o.o.	-	-	100%	full
BRE Agent Ubezpieczeniowy Sp. z o.o.	-	-	100%	full
BRE Ubezpieczenia Sp. z o.o.	-	-	100%	full
BRE Ubezpieczenia TUiR S.A.	-	-	100%	full
MLV 45 Sp. z o.o. spółka komandytowa	-	-	100%	full
Transfinance a.s.	-	-	100%	full

The Management Board of mBank S.A. approved these IFRS Consolidated Financial Statements 2015 for issue on 25 February 2016.

2. Description of relevant accounting policies

The most important accounting policies applied to the drafting of these Consolidated Financial Statements are presented below. These principles were applied consistently over all presented periods.

2.1. Accounting basis

These Consolidated Financial Statements of mBank S.A. Group have been prepared for the 12-month period ended 31 December 2015. Comparative data presented in these consolidated financial statements relate to the period of 12 months ended on 31 December 2014.

The Consolidated Financial Statements of mBank S.A. Group have been prepared in compliance with the International Financial Reporting Standards (IFRS) as adopted for use in the European Union, according to the historical cost method, as modified by the revaluation of available for sale financial assets, financial assets and financial liabilities measured at fair value through the income statement as well as all derivative contracts, as well as liabilities related to cash-settled share-based payment transactions measured at fair value. Non-current assets held for sale or group of these assets classified as held for sale are stated at the lower of the carrying value and fair value less costs to sell.

The preparation of the financial statements in compliance with IFRS requires the application of specific accounting estimates. It also requires the Management Board to use its own judgment when applying the accounting policies adopted by the Group. The issues in relation to which a significant professional judgement is required, more complex issues, or such issues where estimates or judgments are material to the consolidated financial statements are disclosed in Note 4.

Financial statements are prepared in compliance with materiality principle. Material omissions or misstatements of positions of financial statements are material if they could, individually or collectively, influence the economic decisions that users make on the basis of Group's financial statements. Materiality depends on the size and nature of the omission or misstatement of the position of financial statements or a combination of both. The Group presents separately each material class of similar positions. The Group presents separately positions of dissimilar nature or function unless they are immaterial.

These consolidated financial statements were prepared under the assumption that the Group continues as a going concern in the foreseeable future, i.e. in the period of at least 12 months following the reporting date. As of the date of approving these statements, the Bank Management Board has not identified any events that could indicate that the continuation of the operations by the Group is endangered.

2.2. Consolidation

Subsidiaries

Subsidiaries comprise entities, regardless of the nature of the involvement with an entity (including special purpose vehicles) over which the Group controls the investee. The control is achieved when the Group has power over the investee, is exposed or has rights, to variable returns from its involvement with the investee and has the ability to use its power over the investee to affect its returns. When the Group has less than a majority of the voting rights of an investee, it considers all relevant facts and circumstances in assessing whether it has power over the investee, including a contractual arrangements between the Group and other vote holders, rights arising from other contractual arrangements, the Group's voting rights and potential voting rights. If facts and circumstances indicate that there are changes in at least one of the three elements of control listed above, the Group reassess whether it controls an investee. The consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. The consolidated financial statements combine items of assets, liabilities, equity, income and expenses of the parent with those of its subsidiaries eliminating the carrying amount of the parent's investment in each subsidiary and the parent's portion of equity of each subsidiary. Thus arises goodwill. If goodwill has negative value, it is recognised directly in the income statement (see Note 2.20). The profit or loss and each component of other comprehensive income is attributed to the Group's owners and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. If the Group loses control of a subsidiary, it shall account for all amounts previously recognised in other comprehensive income in relation to that subsidiary on the same basis as would be required if the Group had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group shall reclassify the gain or loss from equity to profit or loss (as a reclassification adjustment) when it loses control of the subsidiary. If a revaluation surplus previously recognised in other comprehensive income would be transferred directly to retained earnings on the disposal of the assets, the Group shall transfer the revaluation surplus directly to retained earnings when it loses control of the subsidiary.

Non-controlling interest is equity in a subsidiary not attributable, directly or indirectly, to a parent. The Group presents non-controlling interest in the consolidated statement of financial position within equity, separately from the equity of the owners of the parent. Changes in a parent's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transaction (i.e. transactions with owners in their capacity as owners). In such cases, the Group adjusts the carrying amount of the controlling and non-controlling interests to reflect the changes in their relative interests in the subsidiary. The Group recognises directly in the equity any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received and attributes it to the owners of the parent.

In case when an acquirer made a bargain purchase, which is a business combination, and a result of that is a gain, the acquirer recognises the resulting gain in profit or loss on the acquisition date. Before recognising a gain on a bargain purchase, the acquirer reassesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and recognises any additional assets and liabilities that are identified in that review. The acquirer then reviews the procedures used to measure the amounts required to be recognised at the acquisition date to ensure that the measurements appropriately reflect consideration of all available information as of the acquisition date.

Intra-group transactions, balances and unrealised gains on transactions between companies of the Group are eliminated in full. Unrealised losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

The Group applies predecessor accounting method for combinations of businesses under common control. The method stipulates that assets and liabilities of the acquired arrangements are not measured at fair value, but the acquirer includes them in its financial statements based on the value of the acquired arrangements stemming from the consolidated financial statements of the consolidating entity that prepares the consolidated financial statements at the higher level and exercises the common control under which the transaction takes place. The result on combination of businesses under common control is presented in the equity position "Retained earnings from previous years" of the stand-alone financial statements of the acquirer.

Consolidation does not cover those companies whose scale of business operations is immaterial in relation to the volume of business of the Group. Those companies were recognised at cost less impairment.

2.3. Associates and joint ventures

Associates are all entities over which the Group has significant influence but not control or joint control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control of those policies.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

Under the equity method, on initial recognition the investment in an associate or a joint venture is recognised at cost. The carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. Goodwill forms part of the carrying amount of an investment in an associate or a joint venture and it is neither amortised nor tested for impairment.

After application of the equity method, the Group determines whether it is necessary to recognise any additional impairment with respect to its net investment in the associate or joint venture. At the reporting date the Group determines whether there was an objective evidence for impairment of an investment in an associate or a joint venture. If there was an objective evidence for impairment, the Group calculates impairment comparing the recoverable amount of the investment with its carrying value. Investments in associates and joint ventures are settled using the equity method of accounting and they are initially recognised at cost.

The share of the Group in the profits (losses) of associates since the date of acquisition is recognised in the income statement, whereas its share in other comprehensive income since the date of acquisition – in other comprehensive income. The carrying amount of the investment is adjusted by the total changes of share of net assets. When the share of the Group in the losses of an associate becomes equal to or greater than the share of the Group in that associate, possibly covering receivables other than secured claims, the Group discontinues the recognition of any further losses, unless it has assumed obligations or has settled payments on behalf of the respective associate.

Unrealised gains on transactions between the Group and its associates are eliminated proportionally to the extent of the Group's interest in the respective associate. Unrealised losses are also eliminated, unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies applied by associates have been adjusted, wherever necessary, to assure consistency with the accounting principles applied by the Group.

The Group discontinues the use of the equity method from the date when its investment ceases to be an associate or a joint venture. If the retained interest in the former associate or joint venture is a financial asset, the Group measures the retained interest at fair value. The Group recognises in profit or loss any difference between the carrying amount of the investment at the date the equity method was discontinued and the fair value of any retained interest and any proceeds from disposing of a part interest in the associate or joint venture.

2.4. Interest income and expenses

All interest income on financial instruments carried at amortised cost using the effective interest rate method is recognised in the income statement as well as interest income from financial assets held for trading and available for sale.

The effective interest rate method is a method of calculation of the amortised initial value of financial assets or financial liabilities and allocation of interest income or interest expense to the proper periods. The effective interest rate is the interest rate at which the discounted future payments or future cash inflows in the expected life of the financial instrument, are equal to the net present carrying value of the respective financial asset or liability. When calculating the effective interest rate, the Group estimates the cash flows taking into account all the contractual terms of the financial instrument, but without taking into account possible future losses on account of non-recovered loans and advances. This calculation takes into account all the fees paid or received between the parties to the contract, which constitute an integral component of the effective interest rate, as well as transaction expenses and any other premiums or discounts.

Following the recognition of an impairment loss on a financial asset or a group of similar financial assets, the interest income is calculated on the net value of financial assets and recognised using the interest rate at which the future cash flows were discounted for the purpose of valuation of impairment.

Interest income includes interest and commissions received or due on account of loans, inter-bank deposits or investment securities recognised in the calculation of the effective interest rate.

Interest income, including interest on loans, is recognised in the income statement and on the other side in the statement of financial position as part of receivables from banks or from other customers.

The calculation of the effective interest rate takes into account the cash flows resulting from only those embedded derivatives, which are strictly linked to the underlying contract.

Income and expenses related to the interest component of the result on interest rate derivatives and resulting from current calculation of swap points on currency derivatives classified into banking book are presented in the interest results in the position Interest income/expense on derivatives classified into banking book. The banking book includes transactions, which are not concluded for trading purposes i.e. not aimed at generating a profit in a short-term period (up to 6 months) and those that do not constitute hedging a risk arising from the operations assigned into trading book.

Interest income and interest expenses related to the interest measurement component of derivatives concluded as hedging instruments under fair value hedge are presented in the interest result in the position interest income/expense on derivatives under the fair value hedge accounting.

Interest income related to the interest measurement component of derivatives concluded as hedging instruments under cash flow hedge are presented in the interest result in the position interest income on derivatives under the cash flow hedge accounting.

2.5. Fee and commission income

Income on account of fees and commissions is recognised on the accrual basis, at the time of performance of the respective services. Fees charged for the granting of loans which are likely to be drawn down are deferred (together with the related direct costs) and recognised as adjustments of the effective interest rate charge on the loan. Fees on account of syndicated loans are recognised as income at the time of closing of the process of organisation of the respective syndicate, if the Group has not retained any part of the credit risk on its own account or has retained a part of the risk of a similar level as other participants. Commissions and fees on account of negotiation or participation in the negotiation of a transaction on behalf of a third party, such as the acquisition of shares or other securities, or the acquisition or disposal of an enterprise, are recognised at the time of realisation of the transaction. The same principle is applied in the case of management of client assets, financial planning and custody services, which are continuously provided over an extended period of time.

Fee and commissions collected by the Group on account of issuance, renewal and change in the limit of credit and payment cards, guarantees granted as well as opening, extension and increase of letters of credit are accounted for a straight-line basis.

Fee and commissions collected by the Group on account of cash management operations, keeping of customer accounts, money transfers and brokerage business activities are recognised directly in the income statement.

Additionally, fee and commission income on insurance activity comprises income on services provided by an insurance agent and income on account of payments for arranging instalments for a premium for insurance products sold through the Internet platform. The fee for the distribution of premium installment is settled in accordance with the duration of the policy.

Income on account of services provided as an insurance agent is recognised at the time of performance of the services in the net amount.

The Group's fee and commission income comprises also income from offering insurance products of third parties. In case of selling insurance products that are not bundled with loans, the revenues are recognized as upfront income or in majority of cases settled on a monthly basis.

2.6. Revenue and expenses from sale of insurance products bundled with loans

The Group treats insurance products as bundled with loans, in particular when insurance product was offered to the customer only with the loan, i.e. it was not possible to purchase from the Group the insurance product which is identical in a legal form, content and economic conditions without purchasing the loan.

Revenue and expenses from sale of insurance products bundled with loans are split into interest income and fee and commission income based on the relative fair value analysis of each of these products.

The remuneration included in interest income is recognised over time as part of effective interest rate calculation for the bundled loan. The remuneration included in fee and commission income is recognised partly as upfront income and partly including deferring over time based on the analysis of the stage of completion of the service.

Expenses directly linked to the sale of insurance products are recognised using the same pattern as in case of income observing the matching concept. A part of expenses is treated as an element adjusting the calculation of effective interest rate for interest income and the remaining part of expenses is recognised in fee and commission expenses as upfront cost or as cost accrued over time.

The Group estimates also the part of remuneration which in the future will be returned due to early termination of insurance contract and appropriately decreases interest income or fee and commission income to be recognised.

In connection with entry into force of Recommendation U concerning best practices in the area of bancassurance, starting from 31 March 2015 the Bank does not receive remuneration from the sale of insurance products which would have been treated as boundled with loans.

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2.7. Insurance premium revenue

Insurance premium revenue accomplished upon insurance activity is recognised at the policy issue date and calculated proportionally over the period of insurance cover. Insurance premium revenue is recognised under other operating income in the consolidated financial statements of the Group.

2.8. Compensations and benefits, net

Compensations and benefits, net relate to insurance activity. They comprise payoffs and charges made in the reporting period due to compensations and benefits for events arising in the current and previous periods, together with costs of claims handling and costs of enforcement of recourses, less received returns, recourses and any recoveries, including recoveries from sale of remains after claims and reduced by reinsurers' share in these positions. Costs of claims handling and costs of enforcement of recourses also comprise costs of legal proceedings. The item also comprises compensations and benefits due to co-insurance activity in the part related to the share of the Group. Compensations and benefits, net are recognised together with insurance premium revenue recognition under other operating income in the consolidated financial statements of the Group.

2.9. Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the Group), whose operating results are regularly reviewed by the Group's chief operating decision-maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker is the person or group that allocates resources to and assesses the performance of the operating segments of an entity. As defined in IFRS 8, the Group has determined the Management Board of the Bank as its chief operating decision-maker.

In accordance with IFRS 8, the Group has the following business segments: Corporates and Financial Markets including the sub-segments *Corporate and Investment Banking* as well as *Financial Markets*, Retail Banking (including Private Banking), and the Other business.

2.10. Financial assets

The Group classifies its financial assets to the following categories: financial assets valued at fair value through the income statement; loans and receivables; financial assets held to maturity; financial assets available for sale. The classification of financial assets is determined by the Management at the time of their initial recognition.

Standardised purchases and sales of financial assets at fair value through the income statement, held to maturity and available for sale are recognised on the settlement date – the date on which the Group delivers or receives the asset. Changes in fair value in the period between trade and settlement date with respect to assets carried at fair value is recognised in profit or loss or in other components of equity. Loans are recognised when cash is advanced to the borrowers. Derivative financial instruments are recognised beginning from the date of transaction.

A financial asset is de-recognized if Group loses control over any contractual rights attached to that asset, which usually takes place if the financial instrument is disposed of or if all cash flows attached to the instrument are transferred to an independent third party.

Financial assets valued at fair value through the income statement

This category comprises two subcategories: financial assets held for trading and financial assets designated at fair value through the income statement upon initial recognition. A financial asset is classified in this category if it was acquired principally for the purpose of short-term resale or if it was classified in this category by the companies of the Group. Derivative instruments are also classified as "held for trading", unless they were designated for hedging according to IAS 39.

Disposals of debt and equity securities held for trading are accounted according to the weighted average method.

The Group classifies financial assets/financial liabilities as measured at fair value through the income statement if they meet either of the following conditions:

- assets/liabilities are classified as held for trading i.e. they are acquired or incurred principally for the purpose of selling or repurchasing them in the near term, they are a part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit making or they are derivatives (except for derivatives that are designated as and being effective hedging instruments and financial guarantee contracts),

- upon initial recognition, assets/liabilities are designated by the entity at fair value through the income statement according to IAS 39.

If a contract contains one or more embedded derivatives, the Group designates the entire hybrid (combined) contract as a financial asset or financial liability at fair value through the income statement unless:

- the embedded derivative(s) does not significantly modify the cash flows that otherwise would be required by the contract; or
- it is clear with little or no analysis when a similar hybrid instrument is first considered that separation of the embedded derivative(s) is prohibited, such as a prepayment option embedded in a loan that permits the holder to prepay the loan for approximately its amortised cost.

The Group also designates the financial assets/financial liabilities at fair value through the income statement when doing so results in more relevant information, because either:

- it eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as "an accounting mismatch") that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; or
- a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the entity's key management personnel.

Financial assets and financial liabilities classified to this category are valued at fair value upon initial recognition.

Interest income/expense on financial assets/financial liabilities designated at fair value (Note 2.4), except for derivatives the recognition of which is discussed in Note 2.17, is recognised in net interest income. The valuation and result on disposal of financial assets/financial liabilities designated at fair value is recognised in trading income.

As presented in this financial statements reporting periods, the Group did not designate any financial instrument on initial recognition as financial assets at fair value through the income statement.

Loans and receivables

Loans and receivables consist of financial assets not classified as derivative instruments, with payments either determined or possible to determine, not listed on an active market. They arise when the Group supplies monetary assets, goods or services directly to the debtor without any intention of trading the receivable.

Financial assets held to maturity

Investments held to maturity comprise listed on active markets financial assets, not classified as derivative instruments, where the payments are determined or possible to determine and with specified maturity dates, and which the Group intends and is capable of holding until their maturity.

In the case of sale by the Group before maturity of a part of assets held to maturity which cannot be deemed insignificant the held to maturity portfolio is tainted, and there with all the assets of this category are reclassified to the available for sale category.

In reporting periods presented in these financial statements, there were no assets held to maturity at the Group.

Financial assets available for sale

Available for sale investments consist of investments which the Group intends to hold for an undetermined period of time. They may be sold, e.g., in order to improve liquidity, in reaction to changes of interest rates, foreign exchange rates, or prices of equity instruments.

Interest income and expense from available for sale investments are presented in net interest income. Gains and losses from sale of available for sale investments are presented in gains and losses from investment securities.

Available for sale financial assets and financial assets measured at fair value through the income statement are valued at the end of the reporting period according to their fair value. Loans and receivables, as well as investments held to maturity are measured at adjusted cost of acquisition (amortised cost), applying the effective interest rate method. Gains and losses resulting from changes in the fair value of "financial assets measured at fair value through the income statement" are recognised in the income statement in the period in which they arise.

Gains and losses arising from changes in the fair value of available for sale financial assets are recognised in other comprehensive income until the derecognition of the respective financial asset in the statement

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of financial position or until its impairment: at such time the aggregate net gain or loss previously recognised in other comprehensive income is now recognised in the income statement. However, interest calculated using the effective interest rate is recognised in the income statement. Dividends on available for sale equity instruments are recognised in the income statement when the entity's right to receive payment is established.

The fair value of quoted investments in active markets is based on current market prices. If the market for a given financial asset is not an active one, the Group determines the fair value by applying valuation techniques. These comprise recently conducted transactions concluded according to normal market principles, reference to other instruments, discounted cash flow analysis, as well as valuation models for options and other valuation methods generally applied by market participants.

If the application of valuation techniques does not ensure obtaining a reliable fair value of investments in equity instruments not quoted on an active market, they are stated at cost.

2.11. Reinsurance assets

The Group transfers insurance risks to reinsurers in the course of typical operating activities in insurance activity. Reinsurance assets comprise primarily reinsurers' share in technical-insurance provisions.

The amounts of settlements with reinsurers are estimated according to relevant reinsured polices and reinsurance agreements.

Tests for impairment of reinsurance assets are carried out if there is objective evidence that the reinsurance asset is impaired. Impairment loss of reinsurance asset is calculated if either there is an objective evidence that the Group might not receive the receivable in accordance with the agreement or the value of such impairment can be reliably assessed.

If in a subsequent period the impairment loss is decreasing and the decrease can be objectively related to an event occurring after the recognition of impairment, then the previously recognised impairment loss is reversed as an adjustment of the impairment loss through the consolidated income statement.

The reversal cannot cause an increase of the carrying amount of the financial asset more than the amount which would constitute the amortised cost of this asset on the reversal date if the recognition of the impairment did not occur at all.

2.12. Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

2.13. Impairment of financial assets

Assets carried at amortised cost

At the end of the reporting period, the Group estimates whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the future cash flows of the financial asset or group of financial assets that can be reliably estimated. Loss events were divided into definite ('hard') loss events of which occurrence requires that there is a need to classify the client into the default category, and indefinite ('soft') loss events of which occurrence may imply that there is a need to classify the client into the default category.

The Group first assesses whether objective indications exist individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Group determines that for the given financial asset assessed individually there are no objective indications of its impairment (regardless of whether that particular item is material or not), the given asset is included in a group of financial assets featuring similar credit risk characteristics, which is subsequently collectively assessed in terms of its possible impairment. Financial assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

Recognition of default in respect of one exposure to a customer leads to recognision of the default status for all exposures to that customer.

If there is impairment indicator for impairment of loans and receivables or investments held to maturity and recognised at amortised cost, the impairment amount is calculated as the difference between the carrying value in the statement of financial position of the respective asset and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying value of the asset is reduced through the use of an allowance account, and the resulting impairment loss is charged to the income statement. If a loan or held to maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

The calculation of the present value of estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

In order to assess if the impairment loss has occurred, identification of credit exposures with premises for impairment is carried out. Subsequently the comparison of the gross balance sheet credit exposure with the value of estimated future cash flows discounted at the original effective interest rate is carried out, which leads to the conclusion whether the impairment loss has occurred. If the discounted value of future cash flow is higher than the gross balance sheet value, the impairment charge is not recognized.

For the purpose of collective evaluation of impairment, the credit exposures are grouped in order to ensure the uniformity of credit risk attached to the given portfolio. Many different parameters may be applied to the grouping into homogeneous portfolios, e.g., the type of counterparty, the type of exposure, estimated probability of default, the type of collateral provided, overdue status outstanding, maturities, and their combinations. Such features influence the estimation of the future cash flows attached to specific groups of assets as they indicate the capabilities of repayment on the part of debtors of their total liabilities in conformity with the terms and conditions of the contracts concerning the assessed assets.

Future cash flows concerning groups of financial assets assessed collectively in terms of their possible impairment are estimated on the basis of contractual cash flows and historical loss experience for assets with credit risk characteristics similar to those in the group.

Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

For the purpose of calculation of the amount to be provisioned against balance sheet exposures analysed collectively, the probability of default (PD) method has been applied. By calibration of PD values, taking into account characteristics of specific products and emerging periods for losses on those products, such PD values allow already arisen losses to be identified and cover only the period in which the losses arising at the date of establishment of impairment should crystallise.

When a loan is uncollectible, it is written off against the related provision for impairment. Before any loan is written off, it is necessary to conduct all the procedures required by the Group and sets the amount of the loss. Subsequent recoveries of amounts previously written off reduce the amount of the provision for loan impairment in the income statement.

If in a subsequent period, after the transitional period, the impairment loss amount is decreasing and the decrease can be related objectively to an event occurring after the impairment was recognised (e.g., improvement of the debtor's credit rating), then the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recorded in the income statement.

<u>Assets measured at fair value available for sale</u>

At the end of the reporting period the Group estimates whether there is an objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity instruments classified as assets available for sale, a significant or prolonged decline in the fair value of the security below its cost resulting from higher credit risk is considered when determining whether the assets are impaired. If such kind of evidence concerning available for sale financial assets exists, the cumulative loss – determined as the difference between the cost of acquisition and the current fair value – is removed from other comprehensive income and recognised in the income statement. The above indicated difference should be reduced by the impairment concerning the given asset which was previously recognised in the income statement. Impairment losses concerning equity instruments recorded in the income statement are not reversed through the income statement, but through other comprehensive income. If the fair value of a debt instrument classified as available for sale increases in a subsequent period, and such increase can be objectively related to an event occurring after the recording of the impairment loss in the income statement, then the respective impairment loss is reversed in the income statement under the item "Net impairment losses on loans and advances".

<u>Renegotiated agreements</u>

The Group considers renegotiations on contractual terms of loans and advances as impairment indicator unless the renegotiation was not due to the situation of the debtor but had been carried out on normal business terms. In such a case the Group makes an assessment whether the impairment should be recognised on either individual or group basis.

2.14. Financial guarantee contracts

The financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

When a financial guarantee contract is recognised initially, it is measured at the fair value. After initial recognition, an issuer of such a contract measures it at the higher of:

- the amount determined in accordance with IAS 37 "*Provisions, Contingent Liabilities and Contingent Assets*", and
- the amount initially recognised less, when appropriate, cumulative amortization recognised in accordance with IAS 18 "*Revenue"*.

2.15. Cash and cash equivalents

Cash and cash equivalents comprise items with maturities of up to three months from the date of their acquisition, including: cash in hand and cash held at the Central Bank with unlimited availability for disposal, treasury bills and other eligible bills, loans and advances to banks, amounts due from other banks and government securities acquired for the purpose of short-term resale.

2.16. Sell-buy-back, buy-sell-back, reverse repo and repo contracts

Repo and reverse-repo transactions are defined as selling and purchasing securities for which a commitment has been made to repurchase or resell them at a contractual date and for a specified contractual price and are recognised when the money is transferred.

Securities sold with a repurchase clause (repos/sell buy back) are reclassified in the financial statements as pledged assets if the entity receiving them has the contractual or customary right to sell or pledge them as collateral security. The liability towards the counterparty is recognised as amounts due to other banks, deposits from other banks, other deposits or amounts due to customers, depending on its nature. Securities purchased together with a resale clause (reverse repos/buy sell back) are recognised as loans and advances to other banks or other customers, depending on their nature.

When concluding a repo or reverse repo transaction, mBank S.A. Group sells or buys securities with a repurchase or resale clause specifying a contractual date and price. Such transactions are presented in the statement of financial position as financial assets held for trading or as investment financial assets, and also as liabilities in the case of "sell-buy-back" transactions and as receivables in the case of "buy-sell-back" transactions.

Securities borrowed by the Group are not recognised in the financial statements, unless they are sold to third parties. In such case the purchase and sale transactions are recorded with a gain or a loss included in trading income. The obligation to return them is recorded at fair value as amounts due to customers. Securities borrowed under "buy-sell-back" transactions and then lent under "sell-buy-back" transactions are not recognised as financial assets.

As a result of "sell-buy-back" transactions concluded on securities held by the Group, financial assets are transferred in such way that they do not qualify for derecognition. Thus, the Group retains substantially all risks and rewards of ownership of the financial assets.

2.17. Derivative financial instruments and hedge accounting

Derivative financial instruments are recognised at fair value from the date of transaction. Fair value is determined based on prices of instruments listed on active markets, including recent market transactions, and on the basis of valuation techniques, including models based on discounted cash flows and options pricing models, depending on which method is appropriate in the particular case. All derivative instruments with a positive fair value are recognised in the statement of financial position as assets, those with a negative value as liabilities.

The best fair value indicator for a derivative instrument at the time of its initial recognition is the price of the transaction (i.e., the fair value of the paid or received consideration). If the fair value of the particular instrument may be determined by comparison with other current market transactions concerning the same instrument (not modified) or relying on valuation techniques based exclusively on market data that are available for observation, then the Group recognises the respective gains or losses from the first day in accordance with the principles described under Note 2.18.

Embedded derivative instruments are treated as separate derivative instruments if the risks attached to them and their characteristics are not strictly linked to the risks and characteristics of the underlying contract and the underlying contract is not measured at fair value through the income statement. Embedded derivative instruments of this kind are measured at fair value and the changes in fair value are recognised in the income statement.

In accordance with IAS 39 AG 30: (i), there is no need to separate the prepayment option from the host debt instrument for the needs of consolidated financial statements, because the option's exercise price is approximately equal on each exercise date to the amortised cost of the host debt instrument. If the value of prepayment option was not to be closely related to the underlying debt instrument, the option should be separated and fair valued in the consolidated financial statements of the Group; (ii), exercise price of a prepayment option reimburses the lender for an amount up to the approximate present value of lost interest for the remaining term of the host contract. Lost interest is the product of the principal amount prepaid multiplied by the interest rate differential. The interest rate differential is the excess of the effective interest rate of the host contract over the effective interest rate the entity would receive at the prepayment date if it reinvested the principal amount prepaid in a similar contract for the remaining term of the host contract.

The assessment of whether the call or put option is closely related to the host debt contract is made before separating the equity element of a convertible debt instrument in accordance with IAS 32.

The method of recognising the resulting fair value gain or loss depends on whether the given derivative instrument is designated as a hedging instrument, and if it is, it also depends on the nature of the hedged item. The Group designates some derivative instruments either as (1) fair value hedges against a recognised asset or liability or against a binding contractual obligation (fair value hedge), or as (2) hedges against highly probable future cash flows attributable to a recognised asset or liability, or a forecasted transaction (cash flow hedge). Derivative instruments designated as hedges against positions maintained by the Group are recorded by means of hedge accounting, subject to the fulfilment of the criteria specified in IAS 39:

- At the inception of the hedge there is formal designation and documentation of the hedging relationship and the entity's risk management objective and strategy for undertaking the hedge. That documentation shall include identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instruments effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk.
- The hedge is expected to be highly effective in offsetting changes in fair value or cash flows attributable to the hedged risk, consistently with the originally documented risk management strategy for that particular hedging relationship.
- For cash flow hedges, a forecast transaction that is the subject of the hedge must be highly probable and must present an exposure to variations in cash flows that could ultimately affect profit or loss.
- The effectiveness of the hedge can be reliably measured, i.e. the fair value or cash flows of the hedged item that are attributable to the hedged risk and the fair value of the hedging instrument can be reliably measured.
- The hedge is assessed on an ongoing basis and determined actually to have been highly effective throughout the financial reporting periods for which the hedge was designated.

The Group documents the objectives of risk management and the strategy of concluding hedging transactions, as well as at the time of concluding the respective transactions, the relationship between the hedging instrument and the hedged item. The Group also documents its own assessment of the effectiveness of fair value hedging and cash flow hedging transactions, measured both prospectively and retrospectively from the time of their designation and throughout the period of duration of the hedging relationship between the hedging instrument and the hedged item.

Due to the split of derivatives classified into banking book and into trading book, the Group applies a different approach to the presentation of interest income/expense for each of these groups of derivatives that is described in Note 2.4 "Interest income and expenses". The remaining result from fair value measurement of derivatives is recognised in "Net trading income".

<u>Fair value hedges</u>

Changes in the fair value of derivative instruments designated and qualifying as fair value hedges are recognised in the income statement together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

In case a hedge has ceased to fulfil the criteria of hedge accounting, the adjustment to the carrying value of the hedged item for which the effective interest method is used is amortised to the income statement over the period to maturity. The adjustment to the carrying amount of the hedged equity security remains in other comprehensive income until the disposal of the equity security.

<u>Cash flow hedges</u>

The effective part of the fair value changes of derivative instruments designated and qualifying as cash flow hedges is recognised in other comprehensive income. The gain or loss concerning the ineffective part is recognised in the income statement of the current period.

The amounts recognised in other comprehensive income are transferred to the income statement and recognised as income or cost of the same period in which the hedged item will affect the income statement (e.g., at the time when the forecast sale that is hedged takes place).

In case the hedging instrument has expired or has been sold, or the hedge has ceased to fulfil the criteria of hedge accounting, any aggregate gains or losses recognised at such time in other comprehensive income remain in other comprehensive income until the time of recognition in the income statement of the forecast transaction. When a forecast transaction is no longer expected to occur, the aggregate gains or losses recorded in other comprehensive income are immediately transferred to the income statement.

<u>Derivative instruments not fulfilling the criteria of hedge accounting</u>

Changes of the fair value of derivative instruments that do not meet the criteria of hedge accounting are recognised in the income statement of the current period.

The Group holds the following derivative instruments in its portfolio:

Market risk instruments:

- Futures contracts for bonds, index futures
- Options for securities and for stock-market indices
- Options for futures contracts
- Forward transactions for securities
- Commodity swaps

Interest rate risk instruments:

- Forward Rate Agreement (FRA)
- Interest Rate Swap (IRS), Overnight Index Swap (OIS)
- Interest Rate Options

Foreign exchange risk instruments:

- Currency forwards, fx swap, fx forward
- Cross Currency Interest Rate Swap (CIRS)
- Currency options.

2.18. Gains and losses on initial recognition

The best evidence of fair value of a financial instrument at initial recognition is the transaction price (i.e., the fair value of the payment given or received), unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (without modification) or based on a valuation technique whose variables include only data from observable markets.

The transaction for which the fair value determined using a valuation model (where inputs are both observable and non-observable data) and the transaction price differ, the initial recognition is at the transaction price. The Group assumes that the transaction price is the best indicator of fair value, although the value obtained from the valuation model may differ. The difference between the transaction price and the model value, commonly referred to as "day one profit and loss", is amortised over the period of time.

The timing of recognition of deferred day one profit and loss is determined individually. It is either amortised over the life of the transaction, deferred until the instrument's fair value can be determined using market observable date, or realised through settlement. The financial instrument is subsequently measured at fair value, adjusted for the deferred day one profit and loss. Subsequent changes in fair value are recognised immediately in the income statement without reversal of deferred day one profits and losses.

2.19. Borrowings and deposits taken

Borrowings (including deposits) are initially recognised at fair value reduced by the incurred transaction costs. After the initial recognition, borrowings are recorded at adjusted cost of acquisition (amortised cost using the effective interest method). Any differences between the amount received (reduced by transaction costs) and the redemption value are recognised in the income statement over the period of duration of the respective agreements according to the effective interest rate method.

2.20. Intangible assets

The Group measures intangible assets initially at cost. After initaial recognition, intangible assets are recognised at their cost of acquisition adjusted by the costs of improvement (rearrangement, development, reconstruction or modernisation) less any accumulated amortization and any accumulated impairment losses. Accumulated amortization is accrued by the straight line method taking into account the expected period of economic useful life of the respective intangible assets.

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Goodwill

Goodwill as of the acquisition date is measured as the excess of the aggregate of the consideration transferred, the amount of any non-controlling interest in the acquiree and in a business combination achieved in stages, the acquisition-date fair value of the acquirer's previously held equity interest in the acquire over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

Goodwill on acquisition of subsidiaries is included in "Intangible assets". Goodwill is not amortised, but it is tested annually for impairment and if there have been any indication that it may be impaired, and it is carried in the statement of financial position at cost reduced by accumulated impairment losses. The Group assesses at the end of each reporting period whether there is any indication that cash generaing unit to which goodwill is allocated may be impaired. If any such indication exists, the Group estimates the recoverable amount of the asset. Goodwill impairment losses should not be reversed.

Gains and losses on the disposal of the activity include the carrying amount of goodwill relating to the sold activity. Goodwill is allocated to cash generating units or groups of cash generating units for the purpose of impairment testing. The allocation is made as at the date of purchase to those cash-generating units or groups of cash generating units that are expected to benefit from the business combination in which the goodwill arose, not bigger than operating segments in accordance with IFRS 8 irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Computer software

Purchased computer software licences are capitalised in the amount of costs incurred for the purchase and adaptation for use of specific computer software. These costs are amortised on the basis of the expected useful life of the software (2-11 years). Expenses attached to the maintenance of computer software are expensed when incurred. Expenses directly linked to the development of identifiable and unique proprietary computer programmes controlled by the Group, which are likely to generate economic benefits in excess of such costs expected to be gained over a period exceeding one year, are recognised as intangible assets. Direct costs comprise personnel expenses directly related to the software.

Capitalised costs attached to the development of software are amortised over the period of their estimated useful life.

Computer software directly connected with the functioning of specific information technology hardware is recognised as "Tangible fixed assets".

Development costs

The Group identifies development costs as intangible asset as the asset will generate probable future economic benefits and fulfil the following requirements described in IAS 38, i.e., the Group has the intention and technical feasibility to complete and to use the intangible asset, the availability of adequate technical, financial and other resources to complete and to use the intangible asset and the ability to measure reliably the expenditure attributable to the intangible asset during its development.

"Development costs" useful lives are finite and the amortization period does not exceed 3 years. Amortization rates are adjusted to the period of economic utilisation. The Group shows separately additions from internal development and separately those acquired through business combinations.

Development expenditure comprises all expenditure that is directly attributable to research and development activities.

Intangible assets are tested in terms of possible impairment always after the occurrence of events or change of circumstances indicating that their carrying value in the statement of financial position might not be possible to be recovered.

2.21. Tangible fixed assets

Tangible fixed assets are carried at historical cost reduced by accumulated depreciation and accumulated impairment losses. Historical cost takes into account the expenses directly attached to the acquisition of the respective assets.

Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only where it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. Any other expenses incurred on repairs and maintenance are expensed to the income statement in the reporting period in which they were incurred.

Land is not depreciated. Depreciation of other fixed assets is accounted for according to the straight line method in order to spread their initial value reduced by the residual value over the period of their useful life which is estimated as follows for the particular categories of fixed assets:

Buildings and structures	25-40 years,
Equipment	2-10 years,
Vehicles	5 years,
Information technology hardware	2-5 years,
Investments in third party fixed assets	10-40 years, no longer when the period of the lease contract,
Office equipment, furniture	5-10 years.

Land and buildings consist mainly of branch outlets and offices. Residual values, estimated useful life periods and depreciation method are verified at the end of the reporting period and adjusted prospectively in accordance with the arrising need.

Group assesses at the end of each reporting period whether there is any indication that tangible asset may be impaired. If any such indication exists, the Group estimates the recoverable amount of the asset. Depreciable fixed assets are tested for impairment always whenever events or changes in circumstances indicate that the carrying value may not be recoverable. The value of a fixed asset carried in the statement of financial position is reduced to the level of its recoverable value if the carrying value in the statement of financial position exceeds the estimated recoverable amount. The recoverable value is the higher of two amounts: the fair value of the fixed asset reduced by its selling costs and the value in use.

If it is not possible to estimate the recoverable amount of the individual asset, the Group shall determine the recoverable amount of the cash-generating unit to which the asset belongs (cash-generating unit of the asset).

The carrying amount of tangible fixed assets is derecognised on disposal or when no future economic benefits are expected from its use or disposal. The gain or loss arising from from the derecognition of tangible fixed assets are included in profit or loss when the item is derecognised. Gains are not classified as revenue.

Gains and losses on account of the disposal of fixed assets are determined by comparing the proceeds from their sale against their carrying value in the statement of financial position and they are recognised in the income statement.

2.22. Inventories

Inventories are stated at the lower of: cost of purchase/cost of construction and net realisable value. Cost of construction of inventories comprises direct construction costs, the relevant portion of fixed indirect production costs incurred in the construction process and the borrowing costs, which can be directly allocated to the purchase or construction of an asset. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling costs. The amount of any inventory write-downs to the net realisable value and any inventory losses are recorded as costs of the period in which a write-down or a loss occurred and they are classified as other operating costs. Reversals of inventory write-downs resulting from increases in their net realisable value are recorded as a reduction of the inventories recognised as cost of the period in which the reversals took place. Inventory issues are valued through detailed identification of the individual purchase prices or costs of construction of the assets which relate to the realisation of the individual separate undertakings. In particular, inventories comprise land and rights to perpetual usufruct of land designated for use as part of construction projects carried out. They also comprise assets held for lease as well as assets taken over as a result of terminated lease agreements.

2.23. Non-current assets held for sale and discontinued operations

The Group classifies a non-current asset (or disposal group) as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. For this to be the case, the asset (or disposal group) must be available for immediate sale in its present condition subject only to terms that are usual and customary for sale of such assets (or disposal groups) and its sale must be highly probable, i.e., the appropriate level of management must be committed to a plan to sell the asset (or disposal group), and an active programme to locate a buyer and complete the plan must have been initiated. Further, the asset must be actively marketed for sale at a price that is reasonable in relation to its current fair value. In addition, the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets held for sale are priced at the lower of: carrying value and fair value less costs to sell. Assets classified in this category are not depreciated.

When criteria for classification to non-current assets held for sale are not met, the Group ceases to classify the assets as held for sale and reclassifies them into appropriate category of assets. The Group measures a non-current asset that ceases to be classified as held for sale (or ceases to be included in a disposal group classified as held for sale) at the lower of:

- its carrying amount at a date before the asset (or disposal group) was classified as held for sale, adjusted for any depreciation, amortization or revaluations that would have been recognised had the asset (or disposal group) not been classified as held for sale, and
- its recoverable amount at the date of the subsequent decision not to sell.

Discontinued operations are a component of the Group that either has been disposed of or is classified as held for sale and represents a separate major line of business or geographical area of operation or is a subsidiary acquired exclusively with a view to resale.

The classification to this category takes places at the moment of sale or when the operation meets criteria of the operation classified as held for sale, if this moment took place previously. Disposal group which is to be taken out of usage may also be classified as discontinued operation.

2.24. Deferred income tax

The Group creates a deferred income tax on the temporary difference arising between the carrying amount of an asset or liability in the statement of financial position and its tax base. A taxable net difference is recognised in liabilities as "Provisions for deferred income tax". A deductible net difference is recognised under "Deferred income tax assets". Any change in the balance of the deferred tax assets and liabilities in relation to the previous accounting period is recorded under the item "Income Tax". The balance sheet method is applied for the calculation of the deferred corporate income tax.

Liabilities or assets for deferred corporate income tax are recognised in their full amount according to the balance sheet method in connection with the existence of temporary differences between the tax value of assets and liabilities and their carrying value. Such liabilities or assets are determined by application of the tax rates in force by virtue of law or of actual obligations at the end of the reporting period. According to expectations such tax rates applied will be in force at the time of realisation of the assets or settlement of the liabilities for deferred corporate income tax.

The main temporary differences arise on account of impairment write-offs recognised in relation to the loss of value of credits and granted guarantees of repayment of loans, amortization of fixed assets and intangible assets, finance leases treated as operating leases for tax purposes, revaluation of certain financial assets and liabilities, including contracts concerning derivative instruments and forward transactions, provisions for retirement benefits and other benefits following the period of employment, and also deductible tax losses.

The Group reviews the carrying amount of a deferred tax assets at the end of each reporting period. The Group reduces the carrying amount of a deferred tax asset to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of that deferred tax asset to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available.

Deferred income tax assets are recognised to the extent it is probable that there will be sufficient taxable profits to allow them to recover. If the forecast amount of income determined for tax purposes does not allow the realisation of the asset for deferred income tax in full or in part, such an asset is recognised to the respective amount, accordingly. The above described principle also applies to tax losses recorded as part of the deferred tax asset.

The Group presents the deferred income tax assets and liabilities netted in the statement of financial position separately for each subsidiary undergoing consolidation. Such assets and provisions may be netted against each other if the Group possesses the legal rights allowing it to simultaneously account for them when calculating the amount of the tax liability.

In the case of the Bank, the deferred income tax assets and provisions are netted against each other separately for each country where the Bank conducts its business and is obliged to settle corporate income tax.

The Group discloses separately the amount of negative temporary differences (mainly on account of unused tax losses or unutilised tax allowances) in connection with which the deferred income tax asset was not recognised in the statement of financial position, and also the amount of temporary differences attached to investments in subsidiaries and associates for which no deferred income tax provision has been formed.

Deferred income tax for the Group is provided on assets or liabilities due to temporary differences arising from investments in subsidiaries and associates, except where, on the basis of any probable evidence, the timing of the reversal of the temporary difference is controlled by the Group and it is possible that the difference will not reverse in the foreseeable future.

Deferred income tax on account of revaluation of available for sale investments and of revaluation of cash flow hedging transactions is accounted for in the same way as any revaluation, directly in other

comprehensive income, and it is subsequently transferred to the income statement when the respective investment or hedged item affects the income statement.

2.25. Assets repossessed for debt

Repossessed collateral represents financial and non-financial assets acquired by the Group in settlement of overdue loans. The assets are initially recognised at fair value when acquired and included in premises and equipment, financial assets or other assets depending on their nature and the Group's intention in respect of recovery of these assets. In case the fair value of repossessed collateral exceeds the receivable from the debtor, the difference constitutes a liability toward the debtor.

Repossessed assets are subsequently measured and accounted for in accordance with the accounting policies relevant for these categories of assets.

2.26. Prepayments, accruals and deferred income

Prepayments are recorded if the respective expenses concern the months succeeding the month in which they were incurred. Prepayments are presented in the statement of financial position under "Other assets".

Accruals include costs of supplies delivered to the Group but not yet resulting in its payable liabilities. Deferred income includes received amounts of future benefits. Accruals and deferred income are presented in the statement of financial position under the item "Other liabilities".

Deferred income comprises reinsurance and co-insurance commissions, resulting from insurance agreements included in reinsurance and co-insurance agreements, which are subject to settlement over the period in the proportional part to the future reporting periods.

Acquisition costs in the part attributable to future reporting periods are subject to settlement, proportionally to the duration of the relevant insurance agreements.

2.27. Leasing

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. Title may or may not eventually be transferred. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

The Group determines whether an arrangement is, or contains, a lease based on the substance of the arrangement and assessment of whether fulfilment of the arrangement is dependent on the use of a specific asset and the arrangement conveys a right to use the asset.

<u>mBank S.A. Group as a lessor</u>

In the case of assets in use on the basis of a finance lease agreement, the amount equal to the net investment in the lease is recognised as receivables and presented as "Loans and advances to customers". The difference between the gross receivable amount and the present value of the receivables is recognised as unrealised financial income.

Revenue from leasing agreements is recognised as follows:

- Interests on finance lease

Revenue from finance lease is recognised on the accruals basis, based on the fixed rate of return calculated on the basis of all the cash flows related to the realisation of a given lease agreement, discounted using the lease interest rate.

- Net revenue from operating lease

Revenue from operating lease and the depreciation cost of fixed assets provided by the Group under operating lease, incurred in order to obtain this revenue are recognised in net amount as other operating income in the profit and loss account.

Revenue from operating lease is recognised as income on a straight-line basis over the lease period, unless application of a different systematic method better reflects the time allocation of benefits drawn from the leased asset.

<u>mBank S.A. Group as a lessee</u>

The leases entered into by the Group are primarily operating leases. The total payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

2.28. Provisions

The value of provisions for contingent liabilities such as unutilised guarantees and (import) letters of credit, as well as for unutilised irreversible unconditionally granted credit limits, is measured in compliance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*.

According to IAS 37, provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is more likely that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated.

Technical-insurance provisions for unpaid claims, benefits and premiums concern insurance activity.

Provision for unpaid claims and benefits is created in the amount of the established or expected final value of future claims and benefits paid in connection with events before the reporting period date, including related claims handling costs.

Provision for unpaid claims and benefits which were notified to the insurer and in relation to which the information held does not enable to assess the value of claims and benefits is calculated using the lump sum method.

Provision for premiums is created individually for each insurance agreement as premium written, attributed to subsequent reporting periods, proportionally to the period for which the premium was written on the daily basis. However, in case of insurance agreements whose risk is not evenly apportioned over the period of duration of insurance, provision is created proportionally to the expected risk in subsequent reporting periods.

At each reporting date, the Group tests for adequacy of technical-insurance provisions to ensure whether the provisions deducted by deferred acquisition costs are sufficient. The adequacy test is carried out using up-to-date estimates of future cash flows arising from insurance agreements, including costs of claims handling and policy-related costs.

If the assessment reveals that the technical-insurance provisions are insufficient in relation to estimated future cash flows, then the whole disparity is promptly recognised in the consolidated income statement through impairment of deferred acquisition costs or/and supplementary provisions.

2.29. Post-employment employee benefits and other employee benefits

Post-employment employee benefits

The Group forms provisions against future liabilities on account of post-employment benefits determined on the basis of an estimation of liabilities of that type, using an actuarial model. The Group uses a principle of recognition of actuarial gains or losses from the measurement of post-employment benefits related to changes in actuarial assumptions in other comprehensive income that will not be reclassified to the income statement. The Group recognizes service cost and net interest on the net defined benefit liability in the "Overhead cost" and in other interest expenses, respectively.

Equity-settled share-based payment transactions

The Group runs programmes of remuneration based on and settled in own shares as well as based on shares of the ultimate parent of the Bank and settled in cash. Equity-settled share-based payment transactions are accounted for in compliance with IFRS 2 *Share-based Payment*. In case of the part of the programme settled in shares, the fair value of the service rendered by employees in return for options and shares granted increases the costs of the respective period corresponding to own equity. The total amount which needs to be expensed over the period when the outstanding rights of the employees for their options and shares to become exercisable are vested is determined on the basis of the fair value of the granted options and shares. There are no market vesting conditions that shall be taken into account when estimating the fair value of share options and shares at the measurement date. Non-market vesting conditions are not taken into account when estimating the fair value of share options and shares but they are taken into account through adjustment on the number of equity instruments. At the end of each reporting period, the Bank revises its estimates of the number of options and shares that are expected to become exercised. In accordance with IFRS 2 it is not necessary to recognise the change in fair value of the share-based payment over the term of the programmes.

Cash-settled share-based payment transactions

In case of the part of the programme based on cash-settled share-based payments based on shares of the ultimate parent of the Bank, the fair value of the service rendered by employees in return for right to options/share appreciation rights increases the costs of the respective period, corresponding to liabilities. Until the liability related to the cash-settled share-based payments transactions is settled, the Bank measures the fair value of the liability at the end of each reporting period and at the date of settlement, with any changes in fair value recognised in profit or loss for the period.

Other employee benefits

From September 2012, in mBank Hipoteczny has been functioning the incentive programme based on phantom shares of this bank which is considered as incentive programme according to IAS 19.

2.30. Equity

Equity consists of capital and own funds attributable to owners of the Bank, and non-controlling interest created in compliance with the respective provisions of the law, i.e., the appropriate legislative acts, the By-laws or the Company Articles of Association.

Registered share capital

Share capital is presented at its nominal value, in accordance with the By-laws and with the entry in the business register.

- Own shares

In the case of acquisition of shares in the Bank by the Bank the amount paid reduces the value of equity as own shares until the time when they are cancelled. In the case of sale or reallocation of such shares, the payment received in return is recognised in equity.

Share premium

Share premium is formed from the share premium obtained from the issue of shares reduced by the attached direct costs incurred with that issue.

- Share issue costs

Costs directly connected with the issue of new shares or reduce the proceeds from the issue recognised in equity.

Retained earnings

Retained earnings include:

- other supplementary capital,
- other reserve capital,
- general banking risk reserve,
- undistributed profit for the previous year,
- net profit (loss) for the current year.

Other supplementary capital, other reserve capital and general banking risk reserve are formed from allocations of profit and they are assigned to purposes specified in the By-laws or other regulations of the law.

Moreover, other reserve capital comprises valuation of employee options.

Dividends for a given year, which have been approved by the General Meeting but not distributed at the end of the reporting period, are shown under the liabilities on account of dividends payable under the item "Other liabilities".

Other components of equity

Other components of equity result from:

- valuation of available for sale financial instruments,
- exchange differences on translation of foreign operations,
- actuarial gains and losses relating to post-employment benefits,
- valuation of derivative financial instruments held for cash flow hedging in relation to the effective portion of the hedge.

2.31. Valuation of items denominated in foreign currencies

Functional currency and presentation currency

The items contained in financial reports of particular entities of the Group, including foreign branches of the Bank, are valued in the currency of the basic economic environment in which the given entity conducts its business activities ("functional currency"). The financial statements are presented in the Polish zloty, which is the presentation currency of the Group and the functional currency of the Bank.

Transactions and balances

Transactions denominated in foreign currencies are converted to the functional currency at the exchange rate in force at the transaction date. Foreign exchange gains and losses on such transactions as well as balance sheet revaluation of monetary assets and liabilities denominated in foreign currency are recognised in the income statement.

Foreign exchange differences arising on account of such monetary items as financial assets measured at fair value through the income statement are recognised under gains or losses arising in connection with changes of fair value. Foreign exchange differences on account of such monetary assets as equity instruments classified as available for sale financial assets are recognised under other comprehensive income.

At the end of each reporting period non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction, and non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured.

When a gain or loss on a non-monetary item is recognised in other comprehensive income, any exchange component of that gain or loss is recognised in other comprehensive income. Coversely, when a gain or loss on a non-monetary item is recognised in profit or loss, any exchange component of that gain or loss is recognised in profit or loss.

Changes in fair value of monetary items available for sale cover foreign exchange differences arising from valuation at amortised cost, which are recognised in the income statement.

Items of the statement of financial position of foreign branches are converted from functional currency to the presentation currency with the application of the average exchange rate as at the end of the reporting period. Income statement items of these entities are converted to presentation currency with the application of the arithmetical mean of average exchange rates quoted by the National Bank of Poland on the last day of each month of the reporting period. Foreign exchange differences so arisen are recognised in other comprehensive income.

<u>Companies belonging to the Group</u>

The performance and the financial position of all the entities belonging to the Group, none of which conduct their operations under hyperinflationary conditions, the functional currencies of which differ from the presentation currency, are converted to the presentation currency as follows:

- assets and liabilities in each presented statement of financial position are converted at the average rate of exchange of the National Bank of Poland (NBP) in force at the end of this reporting period;
- revenues and expenses in each income statement are converted at the rate equal to the arithmetical mean of the average rates quoted by NBP on the last day of each of 12 months of each presented periods; whereas
- all resulting foreign exchange differences are recognised as a distinct item of other comprehensive income.

Upon consolidation, foreign exchange differences arising from the conversion of net investments in companies operating abroad are recognised in other comprehensive income. Upon the disposal of a foreign operation, such foreign exchange differences are recognised in the income statement as part of the profit or loss arising upon disposal.

<u>Leasing business</u>

Gains and losses on foreign exchange differences from the valuation of liabilities on account of credit financing of purchases of assets under operating leasing schemes are recognised in the income statement. In the operating leasing agreements recognised in the statement of financial position the fixed assets subject to the respective contracts are recognised at the starting date of the appropriate contract as converted to PLN, whereas the foreign currency loans with which they were financed are subject to valuation according to the respective foreign exchange rates.

In the case of finance lease agreements the foreign exchange differences arising from the valuation of leasing receivables and liabilities denominated in foreign currency are recognised through the income statement at the end of the reporting period.

2.32. Trust and fiduciary activities

mBank S.A. operates trust and fiduciary activities including domestic and foreign securities and services provided to investment and pension funds.

Dom Maklerski mBanku S.A. operates trust and fiduciary activities in connection with the handling of securities accounts of the clients.

The assets concerned are not shown in these financial statements as they do not belong to the Group. Other companies belonging to the Group do not conduct any trust or fiduciary activities.

2.33. New standards, interpretations and amendments to published standards

These financial statements include the requirements of all the International Accounting Standards and the International Financial Reporting Standards endorsed by the European Union, and the related with them interpretations which have been endorsed and binding for annual periods starting on 1 January 2015.

<u>Published Standards and Interpretations which have been issued and binding for the Group for annual periods starting on 1 January 2015</u>

Standards and interpretations approved by the European Union:

- IFRIC 21, *Levies*, published by International Financial Reporting Standard Interpretations Committee on 20 May 2013, binding for annual periods starting on or after 1 January 2014. In the European Union, Interpretation is applicable for annual periods beginning on or after 17 June 2014.

  The Interpretation provides guidance on when to recognise a liability for a levy imposed by a government, both for levies that are accounted for in accordance with IAS 37 and those where the timing and amount of the levy is certain and does not address whether the liability to pay a levy gives rise to an asset or an expense.

- Annual Improvements to IFRSs 2011 – 2013 Cycle, published by the International Accounting Standards Board on 12 December 2013, approved by EU on 18 December 2014 and binding for annual periods starting on or after 1 July 2014, in EU effective latest for financial years beginning on or after 1 January 2015.

  The improvements to the following standards were implemented during the cycle: IFRS 1 in terms of clarification of using the IFRSs that are effective by the first-time adopter, IFRS 3 in terms of the elimination from its scope the accounting for the formation of joint arrangement defined in IFRS 11 in the financial statements of the joint arrangement itself, IFRS 13 in terms of the clarification of the exception for measuring the fair value of a group of financial assets and financial liabilities based on price that would have been achieved for sale of net long position or transfer net short position in case of exposure to a specific risk, IAS 40 in terms of the clarification the reference between IFRS 3 and IAS 40 related to classification of property as investment property or owner-occupied property.

These financial statements do not include the following standards and interpretations which await endorsement of the European Union or which have been endorsed by the European Union but entered or will enter into force after the balance sheet date.

In relation to standards and interpretations that have been approved by the European Union, but entered or will enter into force after the balance sheet date, the Group did not use the possibility of early application.

<u>Published Standards and Interpretations which have been issued but are not yet binding or have not been adopted early</u>

Standards and interpretations approved by the European Union:

- IAS 19 (Amended), *Defined Benefit Plans: Employee Contributions*, published by the International Accounting Standards Board on 21 November 2013, approved by European Union on 17 December 2014 and binding for annual periods starting on or after 1 July 2014, in EU effective at the latest for financial years beginning on or after 1 February 2015.

  The amendment relates only to contributions for defined benefit plans from employees or third parties. The amendment of the Standard is aimed at clarification and simplification the accounting requirements for contributions independent of the number of years of service, i.e. contributions that are a fixed percentage of the employee's salary, a fixed amount throughout the service period or dependent on the employee's age. In accordance with the amendment of the Standard such contributions should be recognized as a reduction in the service cost in the period in which the related service is rendered, instead of attributing the contributions to the periods of service.

  The Group is of the opinion that the application of the amended standard will have no significant impact on the financial statements in the period of its initial application.

- Amendments to IAS 1, *Disclosure initiative*, published by the International Accounting Standards Board on 18 December 2014, approved by European Union on 18 December 2015 and binding for annual periods starting on or after 1 January 2016.

  The amendments to IAS 1 include the clarification of the material information with particular regard to the reduction of immaterial information in financial statements. Moreover, specific items in financial statements may be the subject to both aggregation and disaggregation depending on its materiality. IAS 1 was also completed with the requirements regarding the presentation of subtotals in financial statements. Additionally, the information presented in the notes of financial statements may be presented in a systematic manner, however in determining a systematic manner, the entity shall consider the effect on the understandability and comparability of its financial statements. The guidelines regarding the identification of significant accounting policies were deleted in the amendments to IAS 1.

The Group is of the opinion that the application of the amended standard will have no significant impact on the financial statements in the period of its initial application.

- Improvements to IFRSs 2010 – 2012 Cycle, published by the International Accounting Standards Board on 12 December 2013, approved by European Union on 17 December 2014, in majority binding for annual periods starting on or after 1 July 2014 and some effective prospectively for transactions occurring on or after 1 July 2014, in EU effective at latest for financial years beginning on or after 1 February 2015.

  The improvements to the following standards were implemented during the cycle: IFRS 2 in terms of changing definitions: "vesting condition", "market condition" and adding definitions: "service condition" and "performance condition", IFRS 3 in terms of clarification of classification a contingent consideration by an acquirer, IFRS 8 in terms of disclosure requirement of judgments made by management in applying the aggregation criteria for operating segments and disclosure of reconciliation of the total of the reportable segments' assets to the total assets, IFRS 13 in terms of clarification of doubts for the possibility of simplified measurement of short-term receivables and payables without discounting, when the effect of not discounting is immaterial, IAS 16 and IAS 38 in terms of proportionate restatement of accumulated depreciation or amortization, respectively, when an item of property, plant and equipment or intangible asset, respectively is revalued, IAS 24 in terms of identifying related party which provides key management personnel services to the reporting entity or to the parent of the reporting entity.

  The Group is of the opinion that the application of the amended standards will have no significant impact on the financial statements in the period of their initial application.

- Amendments to IAS 16 and IAS 38, *Clarification of acceptable methods of depreciation and amortization*, published by the International Accounting Standards Board on 12 May 2014, approved by European Union on 2 December 2015 and binding for annual periods beginning on or after 1 January 2016.

  The amended IAS 16 prohibits the use of a revenue-based method for depreciating a tangible fixed asset. A depreciation method that is based on revenue that is generated by an activity of the entity is not appropriate, because the revenue generated by an activity that includes the use of an asset reflects factors other than the consumption of the economic benefits of the asset.

  The amended IAS 38 includes a rebuttable presumption that a revenue-based method for amortization of an intangible asset is inappropriate for the same reasons as in the case of tangible fixed assets presented in amended IAS 16. However, the presumption in case of amended IAS 38 could be overcome in two circumstances: when it can be demonstrated that revenue is highly correlated with the consumption of the economic benefits embodied in an intangible asset and when the right embodied by an intangible asset is expressed as a total amount of revenue to be generated.

  The Group is of the opinion that the application of the amended standards will have no significant impact on the financial statements in the period of its initial application.

- Amendments to IAS 27, *Equity method in separate financial statements*, published by the International Accounting Standards Board on 12 August 2014, approved by European Union on 18 December 2015, binding for annual periods beginning on or after 1 January 2016.

  The amended IAS 27 re-establish the possibility of equity method application for investments in subsidiaries, joint ventures and associates in separate financial statements. The entity preparing separate financial statements should account for investments in subsidiaries, joint ventures and associates at cost or according to IFRS 9 or using the equity method as described in IAS 28. The dividend from a subsidiary, a joint venture or an associate is recognized in profit and loss or as a reduction from the carrying amount of the investment if the equity method is used.

  The Group is of the opinion that the application of the amended standard will have no significant impact on the financial statements in the period of its initial application.

- Amendments to IFRS 11, *Accounting for acquisitions of interests in joint operations*, published by the International Accounting Standards Board on 6 May 2014, approved by European Union on 24 November 2015 and binding for annual periods beginning on or after 1 January 2016.

  The amended standard requires the acquirer of an interest in a joint operation in which the activity constitutes a business, as defined in IFRS 3 Business Combination, to apply all of the principles on business combinations accounting in IFRS 3 and other IFRSs except for those principles that conflict with the guidance in this IFRS. It applies to the acquisition of both the initial interest and additional interests in a joint operation in which the activity of the joint operation constitutes a business. Moreover, the acquirer shall disclose the information required by IFRS 3 and other IFRSs for business combinations.

The Group is of the opinion that the application of the amended standard will have no significant impact on the financial statements in the period of its initial application.

- Amendments to IAS 16 and IAS 41 *Agriculture: Bearer Plants* published by the International Accounting Standards Board on 30 June 2014, approved by European Union on 23 November 2015 and binding for annual periods beginning on or after 1 January 2016.

  The amended IAS 16 and IAS 41 introduce the obligation of recognizing bearer plants in the same way as tangible assets and of using the requirements of IAS 16 measuring them either at cost or at revaluated amount. IAS 41 still applies to the produce on those bearer plants, which should be measured at fair value less costs to sell. Bearer animals are not covered by the amendments.

  The Group is of the opinion that the application of the amended standards will have no significant impact on the financial statements in the period of its initial application.

- Annual Improvements to IFRSs 2012-2014 Cycle, changing 4 standards, published by the International Accounting Standards Board on 25 September 2014, approved by European Union on 15 December 2015 and binding for annual periods beginning on or after 1 January 2016.

  The improvements to the following standards were implemented during the cycle: IFRS 5 in the situation when an asset is reclassified from being held for sale to being held for distribution to owners or from being held for distribution to owners to being held for sale, then the change in classification is considered a continuation of the original plan of disposal. Additionally, when assets no longer meet the criteria for held for distribution to owners (without meeting the held-for-sale criteria), the entity should cease to apply held-for-distribution accounting in the same way as it ceases to apply the held-for-sale accounting when they no longer meet the held-for-sale criteria; IFRS 7 when an entity transfers a financial asset retaining the right to service that financial asset for a fee that is included in a servicing contract, whether the entity has a continuing involvement as a result of the servicing contract for the purpose of disclosure requirements. Additionally, IFRS 7 clarifies that disclosures regarding offsetting financial assets and financial liabilities are not specifically required for all interim periods, unless it is required by IAS 34; IAS 19 in terms of clarification that high quality corporate bonds used to determine a discount rate of post-employment benefit obligations shall be in the same currency as the currency of the post-employment benefit obligations. Assessment whether there is a deep market in such high quality corporate bonds should be made for the currency, not for a country; IAS 34 in terms of clarifying the meaning of disclosure of information' elsewhere in the interim financial report' and additionally it introduces a requirement to incorporate disclosure in interim financial statement by cross-reference to information in another statement.

  The Group is of the opinion that the application of the amended standards will have no significant impact on the financial statements in the period of their initial application.

Standards and interpretations not yet approved by the European Union:

- IFRS 9, *Financial Instruments*, published by the International Accounting Standards Board on 24 July 2014, represents the final version of the standard, replaces earlier versions of IFRS 9 and completes the International Accounting Standards Board's project to replace IAS 39 *Financial Instruments: Recognition and Measurement*. The new standard addresses classification and measurement of financial assets and financial liabilities, impairment methodology and hedge accounting. IFRS 9 does not include macro hedge accounting, which is a separate project of International Accounting Standards Board. The Group continues to apply IAS 39 accounting for macro hedges. The new standard is effective for annual periods beginning on or after 1 January 2018.

  The Group is of the opinion that the application of the standard will have an impact on the presentation and measurement of these instruments in the financial statements.

- IFRS 14, *Regulatory Deferral Accounts*, published by the International Accounting Standards Board on 30 January 2014, binding for annual periods starting on or after 1 January 2016.

  The Standard permits an entity that adopts IFRS to continue to use, in its first and subsequent IFRS financial statements, its previous accounting policies for the recognition, measurement, impairment and derecognition of regulatory deferral account balances. The Standard requires to present regulatory deferral account balances as separate line items in the statement of financial position and to present movements in those account balances as separate line items in the statement of profit and loss and other comprehensive income. The disclosures to identify the nature of, and risks associated with, the rate regulation that has resulted in the recognition of regulatory deferral account balances are also required.

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The Group is of the opinion that the application of the standard will have no significant impact on the financial statements in the period of its initial application.

- IFRS 15, *Revenue from Contracts with Customers*, published by the International Accounting Standards Board on 28 May 2014, binding for annual periods beginning on or after 1 January 2018.

  Amendments to IFRS 15 were published by International Accounting Standards Board on 11 September 2015 and are binding for annuals periods starting on or after 1 January 2018.

  IFRS 15 introduces new principles of revenue recognition. The core principle is that an entity recognizes revenue to depict the transfer of promised goods and services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. According to a new IFRS 15 revenue is recognized when the customer obtains control of these goods or services. Depending on the fulfilment of certain conditions revenues are either recognized over time throughout the duration of the contract if a performance obligation is satisfied over time, or at a point in time when the customer obtains control of these goods or services.

  The Group is of the opinion that the application of the standard will have no significant impact on the financial statements in the period of its initial application.

- Amendments to IFRS 10 and IAS 28, *Sale or contribution of assets between an investor and its associate or joint venture*, published by the International Accounting Standards Board on 11 September 2014. The date of entry into force has been postponed indefinitely by International Accounting Standards Board.

  The amendments to IFRS 10 and IAS 28 eliminate inconsistency between these standards and clarify the accounting approach in a situation when a parent loses control of a subsidiary as a result of transaction between a parent and its associate or joint venture. The accounting approach depends on whether contribution of assets to an associate or a joint venture constitute a business as defined in IFRS 3 Business Combinations. If assets constitute a business, the amendments introduce a requirement of full recognition gain or loss resulting from the transaction. If assets do not constitute a business, a gain or loss resulting from the transaction is recognized only to the extent of the unrelated investors' interests in that associate or joint venture.

  The Group is of the opinion that the application of the amended standards will have no significant impact on the financial statements in the period of its initial application.

- Amendments to IFRS 10, IFRS 12 and IAS 28, *Investment entities: applying the consolidation exception*, published by the International Accounting Standards Board on 18 December 2014, binding for annual periods starting on or after 1 January 2016.

  The amendments to IFRS 10, IFRS 12 and IAS 28 exempt to the requirement of presenting consolidated financial statements by an entity that is a parent if its ultimate or any intermediate parent produces financial statements that are available for public use and comply with IFRSs, in which subsidiaries are consolidated or are measured at fair value through profit or loss. Additionally, the requirement to consolidation was limited to the situation when an investment entity has a subsidiary that is not itself an investment entity and whose main purpose and activities are providing services that relate to the investment entity's investment activities. Moreover, when applying the equity method in an associate or joint venture that is an investment entity, an investor retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries.

  The Group is of the opinion that the application of the amended standards will have no significant impact on the financial statements in the period of their initial application.

- Amendments to IAS 12, *Recognition of Deferred Tax Assets for Unrealised Losses*, published by the International Accounting Standards Board on 19 January 2016, binding for annual periods starting on or after 1 January 2017.

  Amendments to IAS 12 clarify the requirements on recognition of deferred tax assets for unrealized losses on debt instruments measured at fair value. The amendments introduce the guidance on the identification of deductible temporary differences. Especially the standard confirms that decreases below cost in the carrying amount of a fixed-rate debt instrument measured at fair value for which the tax base remains at cost give rise to a deductible temporary difference. This applies irrespective of whether the debt instrument's holder expects to use it or sale it.

  The Group is of the opinion that the application of the amended standards will have no significant impact on the financial statements in the period of their initial application.

- Amendments to IAS 7, *Disclosure Initiative*, published by the International Accounting Standards Board on 29 January 2016, binding for annual periods starting on or after 1 January 2017.

  Amendments to IAS 7 introduce the requirements to disclose changes in liabilities arising from financing activities in statement of cash flows, including both changes arising from cash flows and non-cash changes. To fulfill the requirement the standard requires a reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities in cash flow statement.

  The Group is of the opinion that the application of the amended standards will have no significant impact on the financial statements in the period of their initial application.

- IFRS 16, *Leases*, published by the International Accounting Standards Board on 13 January 2016, binding for annual periods starting on or after 1 January 2019.

  IFRS 16 introduces new principles for the recognition of leases. The main amendment is the elimination of the classification of leases as either operating leases or finance leases and instead, the introduction of a single lessee accounting model. Applying a single accounting model, a lessee is required to recognize lease assets and corresponding liability in the statement of financial position, except for leases with a term of less than 12 months and leases with underlying asset of low value. A lessee is also required to recognize depreciation costs of lease asset separately from interest costs on lease liabilities in the income statement.

  IFRS 16 substantially carries forward the lessor accounting approach. It means that lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

  The Group is of the opinion that the application of a new standard will have an impact on the recognition, presentation, measurement and disclosure of lease assets and corresponding liability in the financial statements of the Group as lessee. The Group is of the opinion that the application of a new standard will have no significant impact on recognition of previous finance lease in the financial statements of the Group.

2.34. Comparative data

The data for the year 2014 presented in these consolidated financial statements are fully comparable with the data at the end of year 2015 and were not adjusted.

3. Risk management

The mBank Group manages risks on the basis of regulatory requirements and best market practice, by developing risk management strategies, policies and guidelines. The risk management functions and roles are released on all of the levels of the organizational structure, starting at the level of the Supervisory Board down to each business unit of the Group. Risk management is streamlined in unified process run by specialized organizational units.

3.1. General information

Location of risk management disclosures

mBank Group's risk management disclosures for 2015 are included in the Annual Report of the mBank Group and in the Disclosures regarding capital adequacy. The table below presents reference to disclosures regarding various aspects of risk management within the abovementioned documents.

Disclosures regarding capital adequacy of mBank S.A. Group as at 31 December 2015 and Management Board Report are not the part of mBank S.A. Group Consolidated Financial Statements.

Type of risk	Information	Location of information for 2015		
		Annual Report of mBank Group		Disclosures regarding capital adequacy
		Management Board Report	Consolidated Financial Statements	
General information	Location of risk management disclosures	-	p. 36	p. 3
	Glossary of terms	-	p. 37	-
	Key external determinants	-	p. 38	-
	New regulatory standards	-	p. 39	p. 27
Principles of risk management	Division of responsibilities in the risk management process	-	p. 39	-
	Risk culture	-	p. 43	-
	The risk management process documentation	-	p. 45	-
	Internal capital adequacy assessment process (ICAAP)	-	p. 46	p. 28

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	Risk appetite	-	p. 48	-
	Stress tests within ICAAP	-	p. 49	p. 28
	Capital planning	-	p. 50	p. 10
Credit risk	Organization of risk management	p. 102	p. 51	-
	Credit policy	p. 103	p. 52	-
	Collaterals accepted	-	p. 52	p. 51
	Rating system	-	p. 54	-
	Monitoring and validation of models	-	p. 55	-
	Calculating impairment charges and provisions	p. 105	p. 56	p. 57
	mBank Group forbearance policy	-	p. 58	-
	Counterparty risk that arises from derivative transactions	-	p. 63	-
	Concentration risk	-	p. 65	p. 56
Market risk	Organization of risk management	-	p. 67	-
	Tools and measures	p. 111	p. 68	-
	Risk measurement	p. 113	p. 69	-
	Interest rate risk in the banking book	p. 115	p. 73	-
	Currency risk	-	p. 71	-
Liquidity risk and funding	Strategy of liquidity risk	p. 116	p. 76	-
	Tools and measures used in measuring liquidity risk	p. 116	p. 77	-
	The measurement, limiting and reporting the liquidity risk	p. 118	p. 78	-
	Funding sources	-	p. 80	-
Operational risk	Tools and measures	p. 119	p. 83	p. 67
	Operational losses	-	p. 83	p. 68
	Compliance risk	-	p. 84	-
Other risks	Business risk	-	p. 85	-
	Model risk	-	p. 85	-
	Reputational risk	-	p. 86	-
	Capital risk	-	p. 87	-
Capital adequacy		p. 120	p. 156	p. 9
Leverage ratio		p. 34	p. 37, 39	p. 47

<u>Glossary of terms</u>

Add-on - estimated future potential exposure

Collateral - asset that is to be paid or received depending on the current valuation of the derivatives portfolio to mitigate potential credit risk in the future. Currently the main collateral asset is cash.

CCF (Credit Conversion Factor) – estimated level of off-balance sheet items converted to balance sheet items at the date of default.

Common Equity Tier 1 Capital Ratio (CET1 ratio) – shall mean the Common Equity Tier 1 Capital expressed as a percentage of the Total Risk Exposure Amount (TREA).

Coverage ratio of non-liquid assets and limited liquidity assets with own funds and stable external funds (measure M4) - the ratio defined in KNF Resolution No. 386/2008 of 17 December 2008 on establishing liquidity measures binding on banks, calculated as a ratio of own funds diminished by sum of capital requirement on market risk, sum of capital requirement on delivery settlement, counterparty risk and stable external funds to sum of limited liquidity assets and non-liquidity assets.

CRD IV - Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC with further amendments (Capital Requirements Directive IV).

CRR - Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 with further amendments (Capital Requirements Regulation).

EAD (Exposure at Default) – estimated value of exposure in case of default.

Earnings at risk (EaR) - a potential decrease in the annual interest income within 12 months assuming defined change of market interest rates scenarios, fixed volume and structure of balance and off-balance portfolio and unchanged interest rate structure of particular position, therein interest margin.

Economic capital (EC) – the amount of capital required to cover unexpected loss (estimated by the Bank at the assumed confidence level over a one-year time horizon) arising from:

- credit risk,
- market risk,
- operational risk,
- business risk.

EL – statistically **Expected Loss** in case of default.

ICAAP – Internal Capital Adequacy Assessment Process.

Internal capital (IC) – the amount of capital estimated by the Bank required to cover unexpected loss arising from all material risks identified in the Group's activity within the risk inventory process. Internal capital is the sum of economic capital and capital necessary to cover other risks (including hard to quantify risks).

LCR (Liquidity Coverage Ratio) - a relation of liquid assets of the liquidity buffer to the expected net outflows within 30 calendar days.

Leverage ratio – shall mean the relation of Tier 1 Capital to the institution's total exposure measure, understood as the sum of the exposure values of all assets and off-balance sheet items not deducted, when determining the Tier 1 capital.

LGD (Loss Given Default) – estimated loss resulting from the default.

LtV (Loan to Value) – the ratio of the loan value to the property market value.

NSFR (Net Stable Funding Ratio) – a relation of own funds and stable liabilities ensuring stable financing to illiquid assets and receivables requiring stable financing.

PD – Probability of Default.

Ratio of coverage of non-liquidity assets with own funds (measure M3) - the ratio defined in KNF Resolution No. 386/2008 of 17 December 2008 on establishing liquidity measures binding on banks, calculated as a ratio of own funds diminished by sum of capital requirement on market risk to sum of non-liquidity assets.

RBC (**Risk Bearing Capacity)** – shall mean the relations of Risk Coverage Potential (RCP) to the internal capital – internal measure.

RCP (Risk Coverage Potential) - shall mean the amount of own funds adjusted by specific correcting items, in accordance with respective internal regulations in mBank – internal measure.

Short-term liquidity factor (measure M2) - the ratio defined in KNF Resolution No. 386/2008 of 17 December 2008 on establishing liquidity measures binding on banks, calculated as a ratio of primary and supplementary liquidity reserves to unstable external funds.

Short-term liquidity gap (measure M1) – the ratio defined in KNF Resolution No. 386/2008 of 17 December 2008 on establishing liquidity measures binding on banks, calculated as a sum of primary and supplementary liquidity reserves diminished by unstable external funds.

Tier 1 Capital Ratio (T1 ratio) – shall mean the Tier 1 Capital expressed as a percentage of the Total Risk Exposure Amount (TREA).

Total Capital Ratio (TCR) – shall mean the own funds expressed as a percentage of the Total Risk Exposure Amount (TREA).

Total Risk Exposure Amount (TREA) – shall mean the total of risk-weighted exposure amount for credit risk, counterparty credit risk and (multiplied by 12.5) own funds requirements for:

- market risk,
- operational risk,
- other risks, eg. credit valuation adjustment risk, large exposures in the trading book, etc.

Value at risk (VaR) – a measure of potential loss of market value (of financial instrument, portfolio, institution) to which the financial instrument, portfolio, institution is exposed over defined period of time at a given confidence level under normal market conditions.

3.2. Risk management in mBank Group in 2015 – external environment

3.2.1. Key external determinants

Basel III regulatory standards

The new rules on prudential requirements for banks set out in the Capital Requirements Regulation on prudential requirements for credit institutions and investment firms (CRR) and the Capital Requirements Directive (CRD IV) on access to the activity of banks and the prudential supervision, implementing provisions of Basel III, are effective in the European Union as of January 1, 2014. The amendments introduced under Basel III included:

- a universal definition and components of the bank's capital as well as implementation of capital ratio specified for the funds of the highest quality,
- introduction of own funds requirement associated with credit valuation adjustment,
- implementation of financial leverage ratio,
- introduction of additional capital buffers, including a capital conservation buffer, a countercyclical buffer, a global systemically important financial institutions buffer and systemic risk buffer,
- liquidity requirements, measured by the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR).

The new provisions of CRD IV were transposed into a national legislation, which took place in 2015 with the endorsement of the Act on Macro-prudential Supervision over the Financial System and Crisis Management in the Financial System and with an update of the Banking Law. Whereas CRR took effect as of January 1, 2014 without harmonisation with national laws.

Recommendations of the Polish Financial Supervision Authority

In 2015 the Polish Financial Supervision Authority (KNF) issued the following recommendations for banks:

- Recommendation P concerning financial liquidity risk management at banks, which replaced the document issued in 2002. The amended Recommendation takes into account recommendations contained in international guidelines. It includes i.a. recommendations concerning the determination of the bank's tolerance for liquidity risk, recognition of the full range of liquidity risks, the diversification of liquid assets, conducting stress tests in conjunction with liquidity contingency plans, maintaining a surplus of unencumbered, high quality liquid assets and intraday liquidity management.
- Recommendation W concerning model risk management in banks, which sets standards for the process of model risk management, including the principles for building models and assessing their performance, while ensuring proper solutions within corporate governance. The aim of the recommendation is to establish supervisory expectations in terms of efficient process of model risk management, in particular the determination of the bank's tolerance for this type of risk as well as limiting the banking sector's exposure to model risk.

3.2.2. New regulatory standards

Capital ratios

In 2015, the Bank was gradually implementing the provisions of the European Commission's delegated act supplementing or detailing the CRR provisions.

Leverage ratio

In October 2014, the European Parliament approved the delegated act, in force since 2015, introducing modifications in calculating leverage ratio. Bank implemented necessary changes regarding calculation of the leverage ratio. However in light of the guidelines from European and Polish regulator prudential reporting with regard to leverage ratio was conducted under CRR provisions. Bank calculates leverage ratio under CRR provisions and under updated provisions of the delegated act.

Liquidity measures

Since October 2015, the Commission Delegated Regulation (EU) 2015/61 of 10 October 2014 to supplement Regulation (EU) No. 575/2013 of the European Parliament and the Council has been in force. However, pending the publication of a new, final LCR reporting standard, the Bank has been reporting to the National Bank of Poland in accordance with the existing standards. In terms of NSFR, there were carried out adaptations to the guidelines set out in the BIS document "Basel III: the net stable funding ratio" published in December 2014.

3.3. Principles of risk management

3.3.1 Division of responsibilities in the risk management process

1. **Supervisory Board,** through its **Risk Committee,** exercises constant supervision of the Bank's operations in the risk taking area, which includes among others approving the Risk Management Strategy of the Group and supervising its execution.

2. **Management Board of the Bank** accepts the Risk Management Strategy of the Group and is responsible for establishing and implementing the principles of managing individual risk types and for their coherence with the Strategy. Moreover, the Management Board defines the organisational structure of the Bank, ensuring the separation of roles, and allocates the tasks and responsibility to individual units.

   The Management Board undertakes activities aiming at assuring that the Bank conducts a policy enabling a management of all types of risks essential for the Bank's operations and has procedures to this extent, in particular including responsibility for preparing and introducing written strategies and procedures to the extent of: internal control system, risk management system, assessment process of internal capital, capital management and capital planning.

3. **Chief Risk Officer** is responsible for integrated management of the risk and capital of the Bank and the Group in the scope of: defining strategies and policies, measuring, controlling and independent reporting on all risk types (in particular credit risk, market risk, liquidity risk, non-financial risk including operational risk), approving risks models and limits (according to internal regulations), and for processes of managing the risk of the retail credit portfolio and corporate portfolio.

4. **Committees:**

a/ **Business and Risk Forum** is a formal decision and communication platform for the risk management area and organizational units in particular business lines of the Group.

The Business and Risk Forum is constituted by the following bodies:

- Retail Banking Risk Committee (KRD),
- Corporate and Investment Banking Risk Committee (KRK), and
- Financial Markets Risk Committee (KRF).

The committees are composed of the representatives of business lines and respective risk management departments.

Each committee is responsible for the all types of risk generated by business activity of the given business line.

The main function of the above mentioned committees is to develop the principles of credit risk, market risk and liquidity risk management and risk appetite, by taking decisions and making recommendations concerning in particular:

- credit risk policies,
- processes and tools for risk assessment,
- credit risk limitation system,
- assessing the quality and profitability of portfolio of exposures,
- liquidity risk issues such as methodology and limits.

The Bank's internal rules define specific competencies and tasks of the committees constituting the Business and Risk Forum.

b/ **Assets and Liabilities Committee** of the mBank Group (ALCO) is responsible, in particular, for developing, monitoring and managing the structure of assets and liabilities, obligations and off-balance sheet items, with the aim of optimizing funds allocation.

c/ **Capital Management Committee** is responsible, in particular, for managing capital. Based on the decisions made, the Committee issues recommendations for the Management Board of the Bank on measures in respect of capital management, capital level and structure, and on increasing the effectiveness of capital utilization, and recommendations on the internal procedures related to capital management and capital planning.

d/ **Credit Committee of the mBank Group** is responsible, in particular, for the supervision of concentration risk and large exposures at the Group level by taken decisions and made recommendations. The Committee shall also take decisions on debt conversion into shares, stocks, etc. as well as decisions on taking over properties in return for debts (applies to the bank).

e/ **Credit Committee of the Retail Banking** is responsible, in particular, for:

- making individual credit decisions concerning retail clients in the case when the total exposure to such a client, the value of the transaction or the values of AIRB risk parameters (PD/LGD/EL) set for the client/transaction achieve a specified threshold set for this decision-making level,
- making decisions on granting decision-making powers to individual employees of the Bank, or on changing/revoking those powers.

f/ **Data Quality and IT Systems Development Committee** is responsible for the tasks and decision making process in scope of principles and structure of operation of the data quality management system, approving operational standards of data management, assessing the effectiveness of the data quality management system, initiating actions aimed at improving data quality at the Bank, in particular, taking into account the needs related with calculating the regulatory capital requirements of the Bank under the AIRB approach.

g/ **Foreign Branch Supervision Committee of mBank S.A.** is responsible, among others, for issuing recommendations for the Management Board of the Bank on approval of the operational strategy and the rules for stable and prudent management of a particular foreign branch of the Bank, especially with reference to credit risk.

Other units:

1. Organisational units of the Risk Area

The function of management at the strategic level and the function of control of credit, market, liquidity and operational risks and risk of models used to quantify the aforesaid risk types are performed in the Risk Area supervised by the Vice-President of the Management Board, Chief Risk Officer.

The chart below presents the organisational structure of this area:

**organisational unit developing integral structures of foreign branches at mBank S.A.*

The roles played by particular units in the process of identifying, measuring, monitoring and controlling risk, which also includes assessing individual credit risk posed by clients and establishing the client selection rules, have been strictly defined. Within the scope of their powers, the units develop methodologies and systems supporting the aforesaid areas. Furthermore, the risk control units also report the risk and support the major authorities of the Bank.

Retail Risk Department:

- development of risk management principles and processes,
- acceptance of retail banking products, including the impact on the different types of risk and capital requirements,
- development of reports for monitoring of risk management policies,
- development and management of systems supporting the risk assessment and decision-making process,
- setting up decision-making rules,
- making credit decisions (for private individuals and micro-business clients),
- administration of the loan portfolio,
- collection, restructuring and development of policies for these processes,
- credit fraud prevention and operational risk control in the credit process.

Corporate Risk Assessment Department:

- implementation of the Bank's credit policy regarding corporate customers, countries and financial institutions,
- credit risk management in the Bank and the Group subsidiaries in the abovementioned areas.

Corporate Risk Processes Department:

- developing and implementation of corporate credit process and supervision over its effectiveness,
- preparing corporate credit risk management strategy of mBank Group as well as credit policies including policies regarding industrial risk appetite,
- preparing portfolio analysis and reports for the purpose of management of corporate credit risk,
- developing and monitoring the quality of rating models for corporate, financial and retail clients (credit risk modelling),
- settlement and accounting of structured finance and mezzanine transactions and collection operations.

Financial Markets Risk Department:

- identifying, measuring and controlling market risk, liquidity risk, and interest rate risk of the banking book, in particular preparing of limits proposal for above mentioned risk types,
- developing methods for measuring particular risk types, and integrating the control of market risk, liquidity risk, and interest rate risk of the banking book at the Bank and mBank Group,
- measuring and controlling counterparty risk due to transactions assigned to financial markets area and derivatives transactions with bank customers, as well as preparing and developing the methods for determining credit exposure due to derivatives transactions,
- ensuring methodological adequacy of the techniques of valuing financial instruments included in the portfolios of the Financial Markets Department, the Treasury Department, the Brokerage Bureau, the Financial Markets Sales Department and the mezzanine finance transactions of the Structured and Mezzanine Finance Department,
- organising the following processes:
  - process of admitting to trading the financial instruments concluded by organisational units of the financial markets area,
  - process of assessing the adequacy of internal capital (ICAAP) with respect to market risk, liquidity risk, and interest rate risk of the banking book,
  - process of measuring economic capital for market risk,

  and supervising their execution,

- calculating and monitoring of P&L of business units from financial markets area,
- independent operational control of the risk generated by the Financial Markets Department, the Treasury Department and the Financial Markets Sales Department in the scope of trading in financial instruments in particular control of:
  - stop-loss limits utilisation,
  - market conformity of the transactions concluded by business units of financial markets area,
  - and reporting in this respect to the Management Board of the Bank and to collegial bodies of the Bank.

Integrated Risk and Capital Management Department:

- integration of risk and capital within the ICAAP,
- control of capital adequacy as well as planning and limiting risk capital,
- integration of risk valuation (economic capital, reserves, stress tests),
- integration of non-financial risks, including operational risk,
- formulation of risk appetite and coordination of the process of determining strategic risk limits,
- validation of quantitative models,
- Internal Control System Self-assessment (ICS),
- SREP - Supervisory Review and Evaluation Process.

Projects and Risk Architecture Management Department:

- Risk Projects Portfolio Management,
- competence centre in the area of process management,
- development and optimization of the architecture of IT processes and applications of Risk,
- management of the IT applications of Risk (maintenance and development),
- risk data management and cooperation with the Finance Division within the scope of centralized management information system.

Foreign Branches Risk Department:

- credit risk managing in the retail banking, supporting the credit risk assessment process and taking part in the decision making process regarding credits in the foreign branches,
- credits managing/settling in the foreign branches,
- handling the vindication process and performing the control in scope of the operational risk in the credit process for the credit products in foreign branches.

2. Organizational units outside the risk management area are in charge of the management and control of other risks identified in mBank Group's operations (business risk, capital risk, reputational risk, legal risk, IT systems risk, personnel and organisational risk, security risk and compliance risk).

3. Business units take part in managing particular risk types by means of taking risk into account in business decisions, in preparing the product offer and in the client acquisition process. The units assume the ultimate responsibility for taking risk within the set limits and for developing the Bank's results.

4. Control units:

- **Internal Audit Department (DAW)** carries out independent review of the process of identifying, taking, measuring, monitoring and controlling risk as part of its internal control and audit function.
- **Compliance Department (DC)** is responsible for establishing standards of managing the risk of non-compliance of internal regulations and standards of the Bank's operation with applicable law.

3.3.2 Risk culture

Lines of defence

Risk management roles and responsibilities in the Group are organised around the three lines of defence model:

- The first line of defence consists of **Business** (business lines) responsible for risk and capital management. The task of the Business is to take risk and capital into account in all its decisions and within the boundaries of risk appetite defined for the Group.
- The second line of defence where **Risk** (risk management area), **IT Security and Compliance** are major players, assists the Business by creating risk management strategy for each risk and appropriate policies that give guidance to the Business while taking risk minded decisions. The main goal for the second line functions is to support the Business with the implementation of the strategies and policies and to create oversight over the Group's control environment and risk exposure.
- The third line of defence is **Internal Audit**, ensuring independent assessment of the first and the second lines of defence.

Pillars of risk management

Risk management framework in mBank Group rests on **three pillars concept**:

- **Customer Focus** – striving to understand and balance specific needs of the Risk's diverse stakeholders (Business, Management Board, Supervisory Board, shareholders, regulators).
- **One Risk** understood as an integrated approach to risk management and responsibility to the clients for all risks (defined in Risk Catalogue of mBank Group).
- **Risk vs Rate of Return** perspective – supporting business decision-making process on the basis of long-term relationship between risk and rate of return avoiding tail risks.

Vision of Risk

Risk management area is a **key partner** of Business and the Management Board in creating sustainable value of the Bank by providing, over the long period, a **balance** between expected rate of return for shareholders and the Group's stability.

Mission of Risk

Responsibility of Risk is realized by:

- relevant strategies and policies of risk and capital management,
- challenging proposals and decisions of Business,
- independent control and risk reporting.

Implementation of Customer Focus Integrated Risk initiative

The risk control and management process in the mBank Group is subject to continuous improvement with emphasis on the improvement of customer-oriented integrated risk management.

The Customer Focus Integrated Risk initiative has been introduced within the "One Bank" Strategy. The initiative is realized in the following five key streams:

- strengthening the Business-Risk dialogue,
- risk appetite,
- improvement of the credit process,
- strengthening competences of employees in the risk management area,
- simplification and integration of the IT architecture in the risk management area.

Selected projects being implemented in 2015 are described below:

- **Internal Control System Self-assessment (ICS)**

  Implementation of the ICS aims at a comprehensive assessment of operational risk involved in the key processes in the Bank and in the mBank Group subsidiaries, in particular by:

  - identification of material operational risks,

- inventory of control mechanisms dedicated to mitigate those risks,

- assessment of adequacy and effectiveness of control mechanisms,

- and assessment of the risk level and the development and implementation of the necessary corrective action plans.

The Self-assessment implementation was divided into two stages. In mid-2015 the second stage of ICS implementation was completed in the Bank. Thus, the whole activity of the Bank was covered by the process. In Q4 2015, the implementation of the ICS in the Group subsidiaries was started.

Furthermore, the implementation of the ICS in the Bank will enable to optimize and integrate the existing operational risk management tools in order to better adapt the new process of Self-assessment and control to the Group's business profile.

- **CRE Policy** – modification of "Credit policy of financing commercial income-producing real properties by mBank Group" (the first common policy at the Group level). In the course of the dialogue with the Business, a framework for the risk appetite and development of acquisition in this market was determined, particularly CRE definition was developed, risks were identified and their mitigants were introduced, as well as the tools to monitor CRE portfolio at the Group level.
- **MtM Migration.** Risk Area was the key partner in strategic project of migration of retail banking customers to the new transactional platform. The implementation, completed in October 2015, provides all customers with access to a modern platform and its mobile solutions.
- **mMove Project** consisting in optimizing of the process of granting mortgage loans for retail private customers.
- Program of continuous increase of effectiveness of work in the risk management area based on the principles of **Lean Management** with an emphasis on implementing a culture of responsibility and mechanisms for continuous improvement of processes. The aim of the program is to enable the absorption of the increasing number of tasks resulting from the growth of business and rapidly increasing regulatory requirements, without necessity to enlarge significantly the available resources. The program launched in 2015 will be continued in the coming years.

3.3.3 The risk management process documentation

The risk management process implemented in mBank and mBank Group is documented. The key documents are described below.

Strategies and policies:

- **Risk Management Strategy of the mBank S.A. Group**

  The document, developed in connection with the "One Bank" Strategy and the Muliti-year Plan of the mBank Group, defines the risk appetite within mBank Group, including key quantitative and qualitative risk guidelines, as well as existential threats lying beyond its scope.

- **Corporate Credit Risk Management Strategy in mBank S.A. Group**

  The document describes issues connected with credit risk in the corporate area: defines risk appetite level and general principles of corporate credit risk management and limitation in the Group.

- **Retail Credit Risk Management Strategy in mBank S.A. Group**

  The document defines the general, directional guidelines regarding credit risk management in the retail area, including issues such as: formal organization and responsibility for credit risk management, risk appetite, general guidelines for the functioning credit processes, decision-making models and reporting systems.

- **Operational Risk Management Strategy in mBank S.A. Group**

  The document describes the principles and components of operational risk management at the Bank, including, in particular, the following issues: operational risk profile of the Bank, the Bank's appetite for operational risk and operational risk management policies.

- **Market Risk Management Strategy of mBank S.A. Group**

  The document describes key issues concerning market risk management in the Group: specifies conditions influencing market risk profile, defines market risk appetite and provides framework of

  market risk management in the Group by determining organisation, roles and responsibilities, defining market risk management process as well as attitude to the market risk management in the Group subsidiaries.

- **Liquidity Risk Management Strategy of mBank S.A. Group**

  The document describes key issues concerning liquidity risk management in the Group: specifies conditions influencing liquidity risk profile, defines liquidity risk appetite and provides framework of liquidity risk management in the Group by determining organisation, roles and responsibilities, defining liquidity risk management process as well as attitude to the liquidity risk management in the Group subsidiaries.

- **Reputational Risk Management Strategy in mBank S.A. Group**

  The document specifies the principles and components of reputational risk management, including, in particular, the issues of reputational risk profile as well as organization and methods of reputational risk management.

- **Capital Management Policy of mBank S.A. Group**

  The Policy describes organization of capital management, including the main aims, principles and methods of capital management process as well as the Group's strategic objectives in the capital area.

- **Compliance Policy in mBank SA**

  The document stipulates a set of procedures and organisational rules that the Bank fulfils to comply with the requirements of Polish law and compliance rules of the Commerzbank Group, without prejudice to the provisions of Polish law, as well as a set of the basic rules of conduct for the Bank's employees and main processes of compliance risk identification that allows to manage compliance risk on all levels of the Bank's organisation.

- **Model Management Policy**

  The document determines the participants and the framework for model management process, including issues related to the development of models in the Group, their approval, implementation, verification/validation, monitoring, implementation of changes and the associated reporting process.

Limit system:

- **Limit Book. Rules for limitation of risk in mBank Group**

  The document contains a description of standardized framework both for the process and system of limits, which are widely used in managing and controlling risk all over the mBank Group and ensures fine application of the risk appetite to the certain risk limiting in the particular areas, and guarantees fulfilling the regulatory requirements.

ICAAP documentation:

- **Internal Capital Adequacy Assessment Process (ICAAP) in the mBank S.A. Group – Governing Principles**

  The document describes the internal capital adequacy assessment process (including the Risk Bearing Capacity concept) and the course of its individual components.

- **Document describing the rules for estimating capital for hard to quantify risks**
- **The concept of Risk Coverage Potential (RCP)**

3.3.4 Internal capital adequacy assessment process (ICAAP)

The mBank Group adjusts the own funds to the level and type of risk, the mBank Group is exposed to, and to the nature, the scale and the complexity of its operations. For that purpose, the ICAAP (Internal Capital Adequacy Assessment Process) is implemented in the mBank Group. The aim of this process is to maintain own funds at the level adequate to the profile and the level of risk in the mBank Group's operations.

The internal capital adequacy assessment process is composed of six stages implemented by organizational units of mBank and the mBank Group subsidiaries.

The process includes:

- risk inventory in the Group,
- estimation of internal capital for coverage of risk,

- capital aggregation,
- stress tests,
- planning and allocation of economic capital to business lines and the Group subsidiaries,
- monitoring consisting in a permanent identification of risk involved in mBank Group operations and analysis of the level of capital for risk coverage.

The process is reviewed by the Management Board of the Bank and supervised by the Supervisory Board of the Bank on a regular basis.

Material risks in mBank Group's operations

The Management Board is taking activities for ensuring that the Group manages all material risks arising from the implementation of adopted business strategy.

Material risks identified in the Group's operations as a result of the risk inventory process based on rules stipulated within ICAAP are classified to one of the two groups:

- the first group consists of risks included in the process of calculating economic capital;
- the second group comprises other risks (including hard to quantify risks) which are managed through adequate processes. In addition, in accordance with the ICAAP rules in force in the Group, capital buffer to cover other risks may be estimated.

The following risks were recognized as material for the Group as at 31 December 2015:

Risks included in calculating economic capital

Credit risk | Market risk | Operational risk | Business risk

Other risks (including hard to quantify risks)

Liquidity risk | Reputational risk | Model risk | Capital risk

Internal capital

Internal capital is the amount of capital estimated by the Bank and required to cover material risks identified in the mBank Group's operations. Internal capital is the total of:

- the economic capital to cover risks included in economic capital calculation,
- capital necessary to cover other risks (including hard to quantify risks).

The economic capital is measured by means of quantitative methods which make it possible to adequately reflect the risk level.

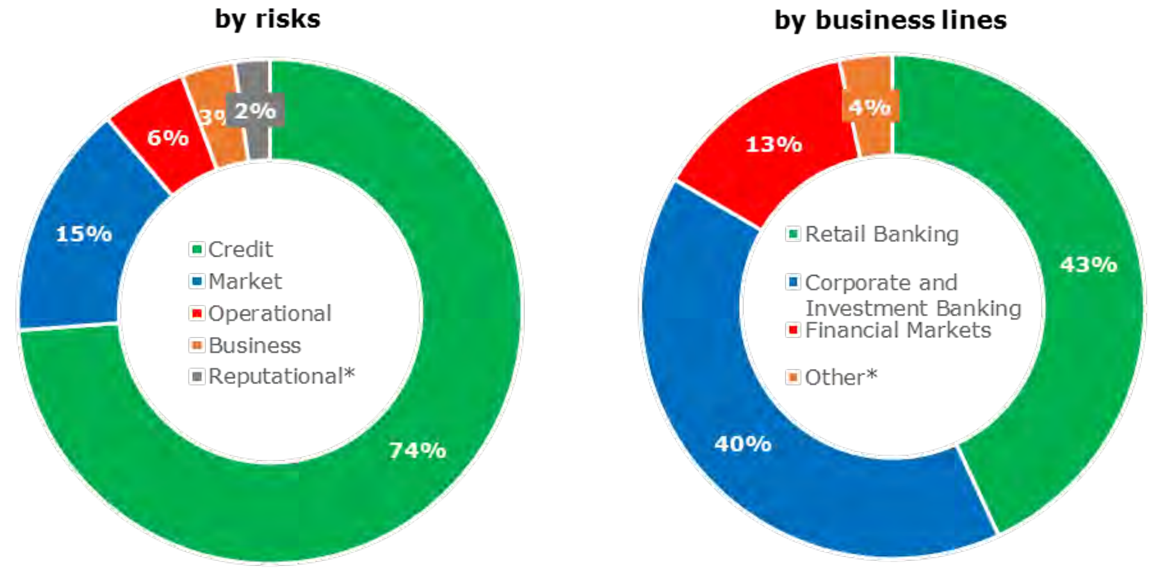
In 2015 (similarly as in 2014), the mBank calculated the economic capital at the 99.91% confidence level over a one-year time horizon, for all risk types. Diversification between different risks was not included while calculating the total of economic capital.

In accordance with internal regulations, the decision concerning the amount of capital for coverage of hard to quantify risks is taken by the Capital Management Committee. In 2015 the Bank maintained capital to cover reputational risk.

Structure of internal capital and total capital requirement

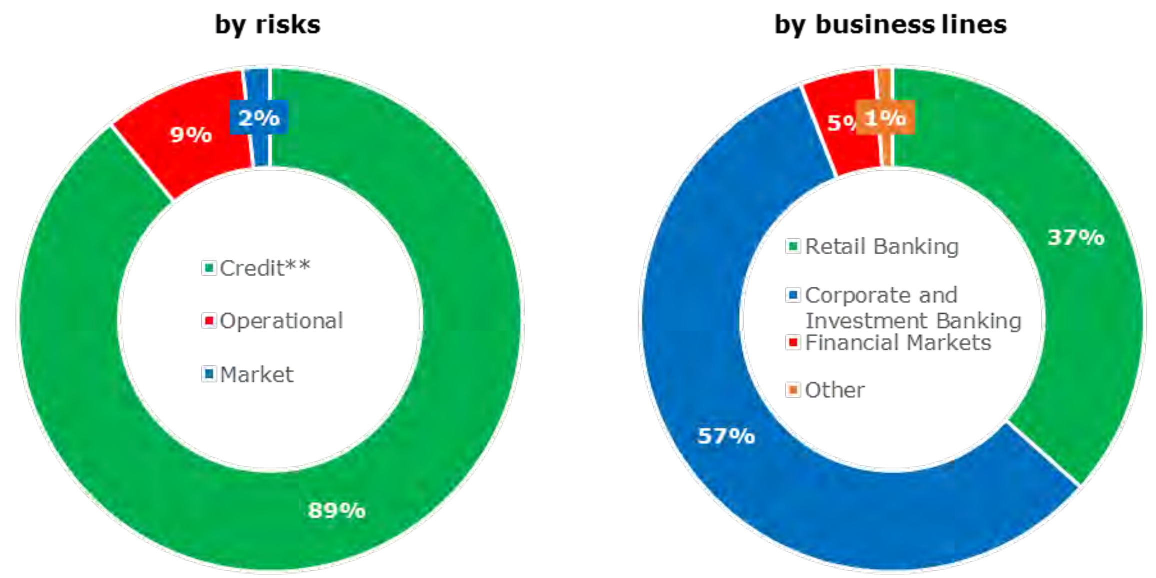
The charts below present the structure of internal capital and the total capital requirements of mBank Group as of 31.12.2015 by risks and business lines.

Structure of internal capital of mBank Group as of 31.12.2015



**Capital for coverage of hard to quantify risks (reputational risk) is not allocated to business lines. Reputational risk is included in „Other" on the chart presenting internal capital structure by business lines.*

Structure of total capital requirement of mBank Group as of 31.12.2015



***The item presenting "Credit" risk includes also supervisory floor resulting from coverage of mLeasing credit exposures by AIRB*

Higher share of market risk in the structure of internal capital (compared to the share in the structure of total capital requirement) results from the fact that the model of economic capital for market risk includes additional risk factors, which (in accordance with the current methodology) do not generate capital requirement (primarily interest rate risk of the banking book and credit spread on the portfolio of Treasury securities in the banking book).

Significantly lower share of internal capital assigned to the Corporate and Investment Banking (compared to the share of this business line in the structure of total capital requirement) results from the diversification effect recognized in the model of economic capital for credit risk. The opposite effect in the case of the Retail Banking stems from taking into account the horizon of mortgage products' maturity (particularly housing loans) in the model of economic capital for credit risk (versus lack of maturity adjustment in regulatory risk weight).

3.3.5 Risk appetite

Risk appetite is defined within the mBank Group as the maximum risk, in terms of both amount and structure, which the Bank is willing and able to incur in pursuing its business objectives under going concern scenario. Risk appetite resulting from the available capital and funding base is the starting point in the Group's risk management, and thus impacts the budgeting process and the capital allocation process.

Risk appetite management framework

The process of risk appetite management embedded within the Group is presented on the diagram below.

Risk appetite is based on assessment of the Group risk profile and risk capacity in the perspective of:

- capital,
- funding,
- non-financial risks,
- Risk Adjusted Performance Measures.

Risk appetite is the starting point for an ongoing dialogue about the risk profile within the organization. During the strategic discussions, the Management Board outlines directions for the development of the Group and particular business lines. The formulated general statements assure the foundation for ongoing dialogue between management and the Board, which materializes in the form of portfolio-specific statements. Risk appetite statements undergo further decomposition into key metrics and targets via the integrated strategic planning process, which are then cascaded down into the organization in operational phase of planning. Documentation of risk appetite and its monitoring activates appropriate control mechanism for protecting the Group's goals.

Capital buffers

Risk appetite is determined below the risk capacity set by the minimum standards on capital adequacy and liquidity set in European and Polish regulations in order to ensure that the Group survives in the case of negative changes in the Group or in its environment thereby providing the ability to assure risk bearing capacity. Level of funding sources and capital position of the Group, both regulatory and internal capital is taken into consideration while defining the risk capacity and risk appetite. The Bank maintains capital and liquid assets on the levels ensuring to meet regulatory requirements under normal and realistic stress conditions.

mBank Group's Risk appetite covers all significant risks and key risk concentrations embedded in its business strategy by setting appropriate capital buffers necessary in case of materialization of selected risk factors related to existing portfolios and planned business and addressing new regulatory requirements as well as potential negative macroeconomic changes.

Risk Bearing Capacity

Risk bearing capacity is expressed in terms of capital and funding resources available for allocation so as to ensure safety in normal scenario and risk scenario. The maximum risk that mBank Group is willing and able to incur, while accepting existential threats resulting from mBank Group business strategy, is subject to the following conditions:

- adequate economic risk-bearing capacity must be ensured (limits must be ensured in normal conditions),
- the internal floor set for regulatory capital ratios must be observed,
- financial liquidity and adequate structural liquidity must be ensured.

The approach of mBank Group to the assessment and control of mBank Group risk bearing capacity covers internal and regulatory requirements.

Risk limit system

To ensure effective allocation of the risk appetite the mBank Group applies a risk limit system. The structure of limits translates the risk appetite into specific constraints on risks incurred in the Group's activity. The concept of limit structure and limit management process is described in the document "Limit book. Rules for limitation of risk in mBank S.A. Group" accepted by the Supervisory Board. Accepted limit values are presented in the Limit Book - limit register.

3.3.6 Stress tests within ICAAP

Stress tests are an essential component of the ICAAP used for managing the Bank and the Group and for capital planning. Stress tests allow an assessment of the Group's resistance in the context of extreme, yet plausible scenarios of external events.

The **integrated stress tests** are conducted assuming scenario of unfavourable economic conditions that may adversely affect the Bank's financial situation in at least a full two-year time horizon (for liquidity risk - in one-year horizon). The risk scenario, ie. the most plausible (in at least a full two-year time horizon) scenario of negative deviations from the base scenario, expressed in terms of macroeconomic and financial ratios is common for all risk types and is aligned with the scenario accepted at the group level of the parent entity of the Bank.

The integrated macroeconomic scenario allows for a comprehensive analysis of all the risk types covered by internal capital and analysis of its impact on the capital adequacy and liquidity of the Bank and the Group.

The stress test results include the following measures:

1/ stressed economic capital (includes capital for credit risk, market risk, operational risk and business risk),

2/ stressed potential risk coverage (RCP),

3/ the liquidity norms under stress conditions.

The internal capital under stress scenario is defined as a product of calculation performed in line with the current methodology of internal capital calculation but on the basis of input parameters typical for stress conditions.

Macroeconomic stress scenarios are updated on quarterly basis or ad hoc, if needed. Based on the stress scenarios the resulting internal capital demand as well as negative financial effects of the adverse economic scenario are simulated.

Additionally, once a year, the Bank carries out **supplementary stress tests** using much more severe risk scenarios and/or events. The Group and the Bank carries out so called **reverse stress tests**, the goal of which is to identify events potentially leading to unviability of the Group and the Bank. Reverse stress tests are used for the verification of capital and liquidity contingency plans of the Group. Reverse stress tests are conducted in inverse mode to classic stress tests (from effect to causes) and serve as their complement. Reverse stress tests are carried out for material risks (internal capital) and are an additional element of the analysis of the Bank's robustness to negative macroeconomic and idiosyncratic factors.

The Group and the Bank take part in **regulatory stress tests** conducted annually by the Polish Financial Supervisory Authority (KNF), in order to determine the impact of assumed macroeconomic stress scenarios on the Group's balance sheet and P&L as well as on external supervisory norms.

3.3.7 Capital planning

Required capital planning – strategic phase

The strategic phase of capital planning takes the form of the strategic dialogue between the Management Board, risk management area, finance area and business lines, resulting in the determination of the desired directions of business development to support the realization of the business goals of the mBank Group.

The Group plans business activities and related risk appetite within its risk bearing capacity and constraints imposed by regulatory requirements which have to be satisfied under both normal and stress conditions.

In view of the above, the planned changes in the size and structure of the Group's business activities, as well as anticipated regulatory changes are taken into account in estimating the required capital during the planning process. The required capital is estimated using risk parameters reflecting macroeconomic expectations assumed in planning process and taking into consideration intended changes in the methodology.

Should the capital required to achieve business goals of the Group be greater than the capital available for allocation, then the said business goals need to be revised.

Following the establishment of strategic directions, the key risk concentrations arising from the current and planned risk profile are examined with the Management Board setting an acceptable level of the associated risk factors. Key risk concentrations are identified based on the reverse stress test analysis. Capital targets are set taking into account the capital needs arising from the potential materialization of key risk factors recognized in reverse stress test procedure and fixed at the levels accepted as corresponding with targeted risk tolerance. Impact of the risk factors on capital is determined through stress test calculations.

The process of setting strategic financial targets is accompanied by strategic allocation of capital resources to individual business areas taking into account longer-term return on capital.

Required capital planning – operational stage

Based on the strategic directions, general balance sheets targets are elaborated upon during operational phase of capital planning (bottom-up). At this stage the capital available is compared with the capital needed (resulting from business growth and stress test results) in order to determine an efficient capital allocation to lower levels.

Business units work out their partial plans based on accepted macroeconomic assumptions, financial targets and the assessment of business growth potential.

In order to determine an acceptable risk profile from the capital consumption perspective, the forecasted volumes (partial plans) and resulting demand for regulatory and economic capital are compared, in an iterative process, with available resources and strategic guidelines.

Limits supporting capital plan

Annually updated limits are set to ensure adequate use of available resources in order to achieve business targets. Multilevel limit structure aims to ensure that risk appetite is translated into specific constraints put on risks of the Group's activities in different business areas.

Available capital base

The final effect of the planning process is determination of target level of regulatory (own funds) and economic (RCP) capital base needed to cover risk concentrations of the current and planned activities, expressed by total regulatory capital requirement and total internal capital.

3.4. Credit risk

3.4.1 Organization of risk management

The mBank Group actively manages credit risk in order to optimise the level of profit in terms of return on risk. Analysis of the risk in the Group operations is continuous. For the purpose of identification and monitoring of credit risk, uniform credit risk management rules are applied across the Bank's structure and its subsidiaries; they are based, among others, on separation of the credit risk assessment function and the sales function at all levels up to the Management Board. A similar approach is applied to administration of credit risk exposures as this function is performed in the risk area and the operating area and is independent from sales functions. The model of Group-wide risk management assumes participation in the process of the Bank's risk management area organizational units as well as the Credit Committee of the mBank Group (KKG). The segregation of responsibilities in the process of credit risk management is as follows:

- **The Retail Risk Department (DRY)** is responsible for management of credit risk and other risk types in mBank's retail banking. The main operational responsibilities of DRY (in the domestic market) include: credit risk rating and credit decision-making for individual exposures and transactions, mitigation of operational risk (credit frauds), supervision over the automated credit process, administration of credit agreements concluded with retail clients and their monitoring, collection of credit receivables via telephone and legal collection of credit receivables. Furthermore, DRY develops rules of credit risk rating, calculating creditworthiness of retail clients and other components of credit policy submitted for the approval by the Retail Banking Risk Committee. Solutions applied on the Polish market are also adapted in foreign branches (in the Czech Republic and Slovakia) – in this respect DRY cooperates closely with the Foreign Branches Risk Department. Moreover, the Department is responsible for implementing the assessment principles in the tools supporting the credit decision-making process, reports on the quality of the credit portfolio, and monitors the quality of data used in the risk rating process. To the extent permitted by external regulations DRY participates in the risk management process of the subsidiaries having credit risk bearing retail products in the offer.
- **The Corporate Risk Assessment Department (DOR)** is responsible for management of the quality of the corporate loans portfolio of the Bank and subsidiaries of mBank Group including restructured exposures and subject to a restructuring. DOR's key functions include: developing credit policy concerning corporate clients, countries and financial institutions as well as guidelines for credit risk strategy in the abovementioned areas; decision-making or participation in decision-making concerning performing and non-performing loans, including their impact on operational risk, reputational risk, liquidity risk and for capital requirements and return on invested capital; analysis, evaluation and control of credit risk of countries, banks, international financial institutions and non-financial clients of the Bank and the Group subsidiaries in the corporate and investment banking area; control of credit risk limits imposed on countries, banks, international financial institutions and non-financial clients of the Bank and the Group subsidiaries in the corporate and investment banking area; implementation of the process of an early warning about the loss of creditworthiness of corporate clients (EW (Early Warning) Process), including the management of the Watch List (WL) and credit risk provisions in the Bank's corporate and investment banking area; monitoring the structure of exposures in the risk portfolio, in particular by sector, and the related concentration risk. The more extensive scope of credit risk controlling functions at the Group level is performed by a dedicated organizational unit: the mBank Group Credit Risk Division at the Corporate Risk Assessment Department. The main functions of the Division include: analysis of credit risk of new exposures of subsidiaries, monitoring credit risk of the largest exposures; participation in the projects of development and modification of the risk management strategy, policies and rules in subsidiaries.
- **Corporate Risk Processes Department (DPR)** responsible for: compiling the corporate credit risk strategy, shaping the credit policy within the corporate banking area, creating through portfolio analyses, including industry-based division, products and concentration; compiling reports and statements for financial supervision bodies, the Bank's governing bodies and the Bank's organisational units, from the scope of credit portfolio of the Bank and mBank Group entities. DPR compiles and introduces rules governing corporate risk process, monitors its efficiency, manages applications supporting credit process and provides support for their users. Within the area of DPR responsibilities lies development and quality control of the rating models for corporate, financial and individual clients of mBank and mBank Group entities. DPR manages the reserves for credit risk in the area of corporate banking, conducts settlement and accounting service of credits and guarantees issued by Structured and Mezzanine Finance Department and collected debts from Restructuring and Debt Collection Department portfolio.
- **Integrated Risk & Capital Management Department (DKR)** – is responsible for the portfolio provision for loans and advances to corporates and retail, integration of risk valuation (economic capital, stress tests, total risk exposure amount (TREA)) and validation of models.

Decision-making for credit exposures in the corporate area. Credit decisions are consistent with the accepted rules set in the Corporate Risk Policy. Levels of decision-making competences are determined by a decision-making matrix. The determination of level of decision-making authority for credit decision is based on EL-rating and total exposure on client/group of affiliated entities. The total exposure includes also exposures on the client/group of affiliated entities in the mBank Group subsidiaries.

Decision-making for credit exposures in the retail banking area. Due to a profile of retail banking clients, the accepted amount of exposure per client and standardisation of products offered to those clients, the credit decision-making process differs from that applied to corporate clients. The decision-making process is automated to a large extent, both in terms of acquiring data on the borrower from internal and external data sources, and in terms of risk assessment by means of scoring techniques and standardised decision-making criteria. The tasks, which are not automated concern mainly the verification of credit documentation and potential derogations when a decision is made with the escalation to the decision-making level in accordance with the applicable rules. In addition, in case of mortgage loans, the value of the collateral is established (internally or with the use of external appraisal report) and its compliance with the binding credit policy including acceptable LtV is assessed. These functions are performed by operating units located within the Retail Risk Department, in complete separation from sales functions.

In mBank Group, mortgage loans to retail customers are also granted by mBank Hipoteczny. The credit process and the principles of risk assessment are consistent with the solutions used in mBank - the main difference is another method of property valuation, i.e. the use of the mortgage lending value (estimated in accordance with the Act on Covered Bonds and Mortgage Banks) instead of market value.

3.4.2 Credit Policy

mBank manages credit risk based on supervisory requirements and market best practices. Credit policies, established separately for retail banking and corporate banking, play the key role in the credit risk management process. Credit policies include e.g.:

- target customer groups,
- minimum acceptable ratings' levels defined by the expected loss value,
- criteria for acceptance of financed subjects and collaterals,
- rules for mitigating concentration risk,
- rules for selected industries and customers segments.

3.4.3 Collateral accepted

Collateral accepted for granted credit products. The collateral policy is an important part of the credit policy. It provides that, in making a decision about granting a credit risk bearing product, the Bank strives to obtain collateral that would be adequate to the accepted risk. The quality of the proposed tangible collateral is assessed according to its liquidity and market value (or the mortgage lending value – in case of mBank Hipoteczny), and the quality of personal collateral is assessed according to the financial situation of the guarantor. Moreover, the impact of collateral on limitation of the impairment of the loan portfolio is a significant factor in the assessment of the collateral's quality. The quality of accepted collateral is linked to the amount of the credit risk bearing product and the level of risk related to granting such a product. The most common forms of accepted collateral include:

- mortgage on real estate,
- cession of receivables (cession of rights),
- registered pledge,
- transfer of ownership to collateral (partial or conditional),
- monetary deposit,
- guarantee deposit or cash blocked,
- bill of exchange,
- guarantees and warranties,
- a letter of comfort issued by a company whose reliability and fairness is known on the international financial markets.

In the case of personal collateral (e.g. warranty, guarantee), the situation and reliability of the entity issuing such collateral is evaluated against the same standards as those applicable to the assessment of borrowers.

Tangible collaterals are evaluated in accordance with the internal rules of the Group. The value of fixed assets (other than vehicles) taken as collateral is determined in most cases on the basis of an estimate prepared by a certified expert. These estimates submitted to the Bank is verified by a team of specialists situated in the Risk Area, who verify the correctness of the market value assumptions and assess the liquidity of the collateral from the Bank's point of view. The following factors are taken, among others, into account in the verification process:

a) for collateral on real estate:

- type of real estate,
- legal status,
- designation in the local land development plan,
- technical description of buildings and structures,
- description of land,

- situation on the local market,
- other price-making factors,

b) for collateral on plant and machinery:

- general application and function in the technological process/possibilities of alternative use,
- technical description and parameters,
- exploitation and maintenance conditions,
- compliance with applicable standards,
- availability of similar devices and machinery,
- current market situation,
- forecasts of demand for specific machinery in connection with the situation in the industrial sectors applying such machinery.

c) for collateral on inventories:

- formal and legal requirements related to specific products,
- saleability,
- warehousing conditions required,
- security and insurance of both the warehouse and the goods stored therein.

Collateral accepted for transactions in derivative instruments. The Bank manages the risk of derivative instruments. Credit exposures arising from concluded derivative transactions are managed as a part of clients' general credit limits, taking into account potential impact of changes in market parameters on the value of the exposure. Existing master agreements with contractors obligate the Bank to monitor the value of exposure to the client on a daily basis and provide for additional collateral against the exposure to be contributed by the client if the exposure value increases or the limit is exceeded. In case of default, the master agreements provide for early settlement of the transaction with the client. mBank applies an Early Warning Process in order to monitor the usage of limits on derivatives and enables the Bank's quick reaction if client's open transaction nears the maximum limit. Moreover, taking into consideration credit risk related to a derivative limit granted to a specific client, the Bank may apply additional collaterals from standard catalogue of collaterals of credit risk-bearing products.

Collateral on securities resulting from buy-sell-back transactions. The Bank accepts collateral in the form of securities in connection with the buy-sell-back transactions concluded. Depending on the agreement such collateral may be sold or repledged.

Collaterals accepted by the mBank Group subsidiaries. The mBank Group subsidiaries accept various forms of legal collateral of credit risk-bearing products. Their list depends on the specific nature of activities, type of offered products and transaction risk.

mBank Hipoteczny applies mortgage on the financed real estate as the basic collateral. Additional collateral may include bills of exchange or civil surety by the borrowing company's owners, as well as pledge on shares in the borrower's company. Loan insurance in an insurance company approved by the Bank may be accepted for a period necessary to effectively set up collateral.

mLeasing applies types of collateral that are most similar to those of mBank. It accepts both standard personal collateral: bill of exchange and civil surety, letters of comfort, guarantees, assuming the debt, debt take over, and tangible collateral: mortgage, registered liens, transfer of ownership of collateral, transfer of receivables and cession of receivables and rights to an insurance policy, and deposits. mLeasing also accepts declarations of voluntary submission for enforcement.

mFaktoring accepts only highly liquid collateral. Apart from own blank bills of exchange, these are mainly bill of exchange surety of the owners of the customer's company, cession of receivables from bank accounts (mainly those maintained by mBank), insurance of receivables, cession of rights from insurance policies in respect of receivables, concluded by customers. In the case of providing services to several companies belonging to one group, a customary form of collateral is a power of attorney to perform cross-settlement of agreements concluded with the particular companies.

3.4.4 Rating system

The rating system is a key element of the credit risk management process in the corporate banking area. It consists of two main elements:

- customer rating (PD-rating) – describing the probability of default (PD),

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- credit rating (EL-rating) – describing expected loss (EL) and taking into consideration both customer risk (PD) and transaction risk (LGD, Loss Given Default – loss resulting from default). EL can be described as PD*LGD. EL indicator is used mainly at the credit decision-making stage.

The rating produces relative credit risk measures, both as percentages (PD%, EL%) and on a conventional scale from 1.0 to 6.5 (PD-rating, EL-rating) for corporations (sales over PLN 30 million) and SMEs (sales below PLN 30 million). PD rating calculation is a strictly defined process, which comprises seven steps including: financial analysis of annual reports, financial analysis of interim figures, assessment of timeliness of presenting financial statements, analysis of qualitative risks, warning indicators, level of integration of the debtor's group, and additional discretionary criteria. Credit rating based on expected loss (EL) is created by combining customer risk rating and transaction risk rating, which results from the value of exposure (EAD, Exposure at Default) and the character and coverage with collateral for transactions concluded with the client (LGD). LGD, described as % of EAD, is a function of possibly executed value of tangible and financial collateral and depends on the type and the value of the collateral, the type of transaction and the ratio of recovery from sources other than collateral.

The rating system generates the borrower's probability of default directly in the form of a PD ratio, expressed as a percentage (continuous scale). Rating classes are calculated on the basis of procedures of dividing percentage PD into groups based on geometric stepladder. In external reporting, the Bank maps the internal PD rating scale onto external ratings. The table below presents the mapping system.

Sub-portfolio	1				2			3		4			5			6	7		8	
PD-rating	1.0 - 1.2	1.4	1.6	1.8	2	2.2	2.4 - 2.6	2.8	3	3.2 - 3.4	3.6	3.8	4	4.2 - 4.6	4.8	5	5.2 - 5.4	5.6 - 5.8	No rating	6.1 - 6.5
S&P	AAA	AA+	AA, AA-	A+, A	A-	BBB+	BBB	BBB-	BB+	BB	BB-	B+	B+	B	B-	B-	CCC+	CCC down to CC-	n/a	C, D-I, D-II
	Investment Grade								Non-Investment Grade											Default

The following models comprised by the rating system are used in the retail banking area:

- Loss Given Default (LGD) model, which covers the entire retail portfolio. In the model, loss is defined as a function dependent on the level of recovery from clients' own payments and possible value of collateral using real estate collected in enforcement procedures,
- Credit Conversion Factor (CCF) model, which covers the entire retail banking portfolio. The model is based on historical data. The Credit Conversion Factor is an integral part of,
- PD model with a modular structure, which integrates application and behavioural models in the retail banking area as well as models which use Credit Information Bureau (BIK) data.

All mBank Group subsidiaries, whose operations are burdened with credit risk, before concluding an agreement and upon its performance, apply a monitoring process to estimate the risk using rating systems applied by the mBank Group. Rating systems that are used by the Group subsidiaries are due to the nature of their business; at the same time the factoring and leasing companies use the PD-rating of the customer, and the leasing company applies additionally credit rating (EL-rating). A rating based on supervisory measures (slotting approach) is applied in the case of mortgage loans and real estate leasing.

3.4.5 Monitoring and validation of models

All models of risk parameters applied in mBank and in the Group subsidiaries, including, i.a., scoring models, PD models, LGD models and CCF models are subject to detailed and annual monitoring by modelling units and are validated by the mBank's independent validation unit.

The monitoring includes tests to check discriminatory power of individual models or their components, stability over time, the materiality of individual deviations of empirical values from theoretical values and the impact on portfolio parameters. In case of identification of some mismatches, the modelling unit recalibrates the respective models.

Reports on the performed monitoring/backtests are presented to the model users and the independent validation unit.

Validation

Validation is an internal, complex process of independent and objective assessment of model operation, which, in case of the AIRB method, meets the supervisory guidelines set out in the CRR. The validation rules are set out in general in the "Model Management Policy" and described in details in other mBank's

internal regulations. The validation covers models directly and indirectly used in the assessment of capital adequacy under the AIRB approach and other models indicated in the Model Register maintained in mBank.

In case of AIRB models there is assured an independence of validation unit in the organizational structures of the Bank or the Group's subsidiary in relation to the units involved in the model's construction/maintenance, ie. the model owner and users. The Validation Division of the Integrated Risk and Capital Management Department (Validation Unit) is responsible for the validation in mBank.

The scope of validation performed by the Validation Unit covers the assessment of:

- models,
- model implementation,
- their application process.

Depending on the materiality and complexity of the model, the validation may be advanced (covers both quantitative and qualitative elements) or basic (mainly focused on the quantitative analyses and selected qualitative elements). The validation results are documented in the validation report containing, in particular, an assessment used for the purpose of approving the model, and recommendations, if any, about the irregularities found.

Validation tasks are performed in accordance with the annual validation plan, approved by the Vicepresident of the Management Board, Chief Risk Officer.

All the models used for the purpose of calculating capital requirements for credit risk under the AIRB method are validated.

IRB Method Change Policy

The Bank implemented the IRB Method Change Policy approved by the Management Board. The Policy contains internal rules for the change management within the IRB approach, based on the supervisory guidelines and taking into account the organizational specifics of the Bank. The Policy specifies the stages of the change management process, defines roles and responsibilities, describes in details the rules of classification of changes as well as the rules and responsibilities related to the need to meet documentary requirements connected with the maintenance of statistical method change register.

3.4.6 Calculating impairment charges and provisions

The method of calculating impairment charges and provisions is consistent with the International Financial Reporting Standards.

Credit exposures with evidence for impairment are identified in order to recognize impairment. Then, a comparison of the carrying value of the gross credit exposure with the value of estimated future cash flows, discounted at the original effective interest rate is made. An impairment is recognized when the discounted value of future cash flows is lower than the gross carrying amount. This results in the impairment charge for balance sheet credit exposure and/or provision for off-balance sheet credit exposure.

Otherwise, impairment is not recognized and the exposure is classified to the IBNR (Incurred But Not Reported loss) portfolio, covered by a group provision.

The amount of provision (for exposure included in IBNR portfolio) is an estimate of incurred loss and is assumed at the expected level of exposure at the impairment date, considering the book value of loss (in percentage terms) and the probability of default.

3.4.6.1 Corporate portfolio

The probability of disclosure of a loss is modelled using logistic regression based on financial indicators and qualitative data on financed entity. The model is calibrated on the Bank's internal data, comprising a several years' period of observation of the corporate portfolio. On the basis of the monitoring period existing in the Bank, it was estimated that 6-8 months (depending on the size of the company) is the average period between the loss event occurrence and the possibility of its identification by the Bank (loss identification period 'LIP'). Therefore, the Bank performs calculations on the basis of 6-8-month horizon for probability of default obtained via scaling the original 12-month PD-rating coming from the corporate PD model. The value of incurred loss is assumed at the level of the expected value of exposure in case of default (EAD) multiplied by PD and LGD.

In the opinion of the Management Board, the profile of the corporate rating system as a model sensitive to changes in economic cycle (Point-in-Time) as well as recognition of interim financial data and warning indicators as rating assessment drivers should ensure adequate reflection of the amounts of the calculated portfolio provision to the changing market environment.

3.4.6.2 Retail portfolio

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For the purpose of measuring impairment in the retail area, the Bank applies two approaches for determining credit risk parameters. In the case of the Polish market, the Bank applies parameters analogous to those derived from the AIRB methodology (advanced internal ratings based approach for calculating capital requirement for credit risk), after necessary adjustments aimed at elimination of differences between AIRB and IAS-90. In the case of the Czech and Slovak markets, risk parameters are estimated based on migration matrices.

12-month loss identification period (LIP) based on the current internal data on banking processes and abilities to detect the incurred losses is applied in the retail area to estimate the probability of default.

3.4.6.3 Impairment triggers - corporate portfolio

The intranet application IMPAIRMENT-KORPO is a tool used to calculate impairment losses for impaired exposures granted to corporate customers and banks. The classification of customers to default portfolio and calculation of impairment write-off is as follows:

a) identifying impairment indicator on individual basis (loss events) and if they exist, classifying a customer to a default category;

b) assessing estimated future cash flows (repayments) both from collateral and from repayments by a customer;

c) calculating impairment losses taking into account the current amount of estimated future recovery discounted at the effective interest rate;

d) booking of impairment losses and provisions.

Loss events were divided into definite ('hard') loss events of which occurrence requires the client to be classified into the default category, and indefinite ('soft') loss events of which occurrence may imply that there is a need to classify the client into the default category. In the case of indefinite loss events, credit analyst assesses additionally whether the event impacted adversely the obligor's creditworthiness. Indefinite loss events have been introduced in order to signal situations that may increase the credit risk of the debtor, which may result in the loss of the debtor's ability to repay loan the Bank.

<u>The list of definite loss events:</u>

1. The number of days past due is above 90 days (14 days in the case of banks) and the overdue amount exceeds PLN 3,000.

2. The Bank has sold exposures with a significant economic loss related to the decrease of the debtor creditworthiness.

3. The Bank performed enforced restructuring of the exposure, which resulted in the change of the loan/transaction service schedule due to the lack of possibility of the obligor to meet his obligations under loan/transaction agreement, as initially stipulated, which resulted in:

a) remitting part of these obligations, or

b) postponing the repayment of the substantial part of the principal, interest or (if it refers to) commission; provided that the lack of approval for restructuring would cause more than 90 calendar days delay in repayment of substantial part of the obligation.

4. Filing by the Bank, the parent or subsidiary entity of the Bank a bankruptcy motion against debtor or filing similar motion in respect of credit obligations of the debtor towards the Bank, the parent or subsidiary entity of the Bank.

5. Bankruptcy of debtor or acquiring by him a similar legal protection resulting in his evasion of or delay in repayment of credit obligations towards the Bank, the parent or subsidiary entity of the Bank.

6. Termination of part or whole credit agreement by the Bank and the beginning of restructuring/collection procedures.

7. Client's fraud.

<u>The list of required conditions for indefinite loss events is prepared separately for each following entity type:</u>

a) governments and central banks,

b) banks,

c) corporations, including specialised lending,

d) local government units,

e) insurers,

f) pension fund managing companies, investment fund managing companies.

Defining separately the conditions for indefinite loss events for particular types of entities aims at reflecting specificity of particular types of entities in identification of loss events.

In order to assess if the impairment loss has occurred, identification of credit exposures with premises for impairment is carried out. Subsequently the comparison of the gross balance sheet credit exposure with the value of estimated future cash flows discounted at the original effective interest rate is carried out, which leads to the conclusion whether the impairment loss has occurred. If the discounted value of future cash flow is higher than the gross balance sheet value, the impairment charge is not recognised.

In case of specific situation, when the future cash flows are clearly dependent on individual events (based on discrete metric), the Bank estimates the probability of such events as the basis for calculating the impairment charge.

3.4.6.4 Impairment triggers - retail portfolio

In the Bank's retail banking in Poland, a debtor-oriented approach, including all exposures of the customers, is applied for identification of impairment triggers. In the foreign branches transactional approach, in which each exposure is analyzed independently, is applied.

The main impairment trigger is delay in repayment, which is identified in different ways depending on the abovementioned approach. In the retail banking in Poland, impairment trigger is identified, when the total of all customer's exposures past due more than 30 days exceeds PLN 500 and the eldest delay exceeds 90 days.

In the Czech and Slovak branches, an individual exposure is considered impaired when the overdue amount exceeds CZK 3000 or EUR 120, respectively, while the delay is more than 90 days.

Additionally, the following events are treated as impairment triggers in all branches:

a. enforced restructuring of debt,
b. bankruptcy of debtor,
c. recognition of the contract as fraudulent,
d. sale of the exposure with considerable economic loss,
e. uncollectable status of debt,
f. payout of low downpayment insurance.

3.4.6.5 Provision coverage of individual sub-portfolios

The table below shows the percentage of the Group's balance sheet and off-balance sheet items relating to loans and advances, guarantees and other financial facilities to individuals, corporate entities an public sector and the coverage of the exposure with impairment provision for each of the Bank's internal rating categories (the description of rating model is included in Note 3.4.4).

Sub-portfolio	31.12.2015		31.12.2014	
	Exposure (%)	Provision coverage (%)	Exposure (%)	Provision coverage (%)
1	4.95	0.02	4.52	-
2	37.38	0.04	31.53	0.04
3	20.22	0.17	17.34	0.13
4	22.02	0.28	25.49	0.33
5	5.53	0.87	5.83	1.04
6	0.64	1.54	0.51	1.69
7	1.80	3.61	2.23	3.81
8	1.03	0.02	4.80	0.01
other *)	2.40	-	2.39	-
Default category	4.03	57.57	5.36	49.03
Total	**100.00**	**2.55**	**100.00**	**2.90**

*) "Other" applies to subsidiaries which do not use similar systems as mBank S.A.

As at 31 December 2015, 42.33% of the loans and advances portfolio for balance sheet and off-balance sheet exposures is categorized in the top two grades of the internal rating system (36.05% as of 31 December 2014).

A distribution of share of exposures for non-default portfolios remained without significant changes compared to 2014. The share of provision coverage for default portfolio visibly increased (from 49.03% to 57.57%).

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3.4.6.6 Repossessed collateral

The Group classifies repossessed collaterals as assets repossessed for debt and measures them in accordance with the adopted accounting policies described in paragraph 2.25. Repossessed collaterals classified as assets held for sale will be put up for sale on an appropriate market and sold at the soonest possible date. The process of selling collaterals repossessed by the Bank is arranged in line with the policies and procedures specified by the units managing the collection process for individual types of repossessed collaterals.

The policy of the companies of the Group is to sell repossessed assets or - in the case of leases - lease them out again to another customer. Cases in which the repossessed collateral is used for own needs are rare – such a step must be economically justified and reflect the Group companies' urgent need, and must at each time be approved by their Management Boards. In 2015 and 2014, the Group did not have any repossessed collaterals that were difficult to sell. As at 31 December 2015, value of repossessed collaterals was PLN 6 768 thousand (31 December 2014: PLN 8 192 thousand) included mainly real estate which constitute collaterals for mortgage loans and leasing assets. The value of repossessed collaterals was included in the item inventories under Note 27.

3.4.7. mBank Group Forbearance Policy

Definition

The mBank Group's forbearance policy is a set of activities relating to negotiation and restructuration of terms of loan agreements which is defined by internal regulations.

The Group offers forbearance to assist customers, who are temporarily in financial distress and are unable to meet their original contractual repayment terms, through agreements with less restrictive terms of repayment, without which financial difficulties would prevent satisfactory repayment under the original terms and conditions of the contract. These agreements may be initiated by the customer or the Group entities and include e.g. debt restructuring, new repayments schedule and capital repayments deferrals with interest repayments kept.

The Group does not consider loans with modified terms as falling under the forbearance policy in the case when changes result from the customer's application and there are no current or anticipated customer's financial difficulties, and, in addition, modifications of the contract meet the criteria of decision-making policy for a healthy portfolio.

The type of concession offered should be appropriate to the nature and the expected duration of the customer's financial distress. Financing entity's belief in the customer's willingness and ability to repay the loan is necessary to conclude an agreement. Prior to granting a concession, an assessment of its impact on improving customer's ability to repay the loan is carried out.

The Group renegotiates loan agreements with customers in financial difficulties to maximise possibility of receivables repayment and minimise the risk of default (situation when client fails to fulfil his contractual obligation).

Exposures with modified terms and conditions under forbearance policy (hereinafter - forborne exposures) are subject to regulatory and internal reporting.

Instruments used

The Group maintains open communication with clients in order to detect any financial difficulties as early as possible and to know the reasons of such difficulties. In case of retail customers with temporary financial difficulties forbearance solutions focus on temporary reductions of contractual payments in form of capital repayments suspension with only interest repayments kept.

For customers under long term financial distress extension of contractual repayment schedule may be offered which can include instalments reduction. In case of debt refinancing, as a rule, client is reclassified into the default category.

For the corporate clients in financial distress, as part of the business support process, the Group offers concessions, starting from participating in debt standstills and finishing on debt restructuring agreements. Debt restructuring agreements may improve Group's security by replacing open financing (overdraft) with factoring or invoice discount and they can waive or ease covenants (additional conditions included in the primary agreement), if it represents optimal strategy for client's business continuity.

The following list does not exhaust all possible actions that are subject to forbearance, but it includes the most common:

- Loan increase,
- Deferral of scheduled repayments,

- Maturity extension/ extension of loan duration,
- Restructuring (medium or long term refinancing),
- Capitalization of interest,
- Interest deferrals,
- Principal deferrals,
- Covenant waiver,
- Standstills.

Risk management

Forbearance activities have been an integral part of Group's risk management area for many years. Forbearance portfolios are subject to regular review and reporting to the area management. The effectiveness of undertaken actions, regularity of restructured transactions' service in respect of types of product and client's segment are subject to assessment. The risk analysis of retail forbearance portfolio is based on portfolio approach and corporate portfolio analysis is based on individual approach.

In corporate banking, the concession granting process is accompanied by impairment test. Recognition of impairment results in client being taken over by the specialised unit dedicated to restructuring. All loans granted to clients being served by restructuring unit have the forbearance status. Clients without impairment, who received the concession, are subject to close monitoring (Watch List – WL) by all units involved in the loan granting process. Their financial situation is subject to close monitoring and they are under constant review to establish whether any of impairment indicators had materialised.

The Group does not use dedicated models to determine level of IBNI provision and impairment provision for forbearance portfolio.

Forbearance exit conditions

The Group ceases to recognise the product as forborne if all of the following conditions are met:

- the agreement is recognised as performing,
- debtor financial situation's analysis showed improvement,
- two years after recognising exposure as performing have passed,
- at least from the middle of the probation period regular capital or interest payments have been made (lack of delays in repayment longer than 31 days) according to the schedule set at the moment of concession granting,
- none of the debtor exposures is overdue more than 31 days in the amount of more than PLN 500.

Portfolio characteristics

The table below presents changes in the carrying value of the forborne exposures in 2015

31.12.2015	Gross carrying amount	Of which defaulted	Provisions created	Net value
As at 31.12.2014	**2 281 718**	**1 749 003**	**745 806**	**1 535 912**
Outputs	(418 141)	(358 851)	(187 837)	(230 304)
New forbearance	505 926	156 103	71 516	434 410
Changes on existing loans	(162 592)	(222 844)	27 124	(189 716)
As at 31.12.2015	**2 206 911**	**1 323 411**	**656 609**	**1 550 302**

The table below presents changes in the carrying value of the forborne exposures in 2014

31.12.2014	Gross carrying amount	Of which defaulted	Provisions created	Net value
As at 31.12.2013	**1 995 592**	**1 526 073**	**588 260**	**1 407 332**
Outputs	(148 406)	(124 487)	(51 335)	(97 071)
New forbearance	605 363	261 236	92 086	513 277
Changes on existing loans	(170 831)	86 181	116 795	(287 626)
As at 31.12.2014	**2 281 718**	**1 749 003**	**745 806**	**1 535 912**

Forbearance portfolio as at 31 December 2015

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31.12.2015	Gross carrying amount	Of which defaulted	Provisions created	Net value
Loans and advances to banks	-	-	-	-
Loans and advances to customers, including:	2 206 911	1 323 411	656 609	1 550 302
Loans to individuals:	696 427	187 684	69 770	626 657
- Current accounts	52 130	5 871	2 472	49 658
- Term loans, including:	644 297	181 813	67 298	576 999
housing and mortgage loans	515 660	116 469	36 393	479 267
Loans to corporate clients:	1 510 484	1 135 727	586 839	923 645
corporate & institutional enterprises	572 640	436 131	244 646	327 994
medium & small enterprises	937 844	699 596	342 193	595 651
Loans and advances to public sector	-	-	-	-
Total	**2 206 911**	**1 323 411**	**656 609**	**1 550 302**

Forbearance portfolio as at 31 December 2014

31.12.2014	Gross carrying amount	Of which defaulted	Provisions created	Net value
Loans and advances to banks	1	-	-	1
Loans and advances to customers, including:	2 281 717	1 749 003	745 806	1 535 911
Loans to individuals:	469 240	186 589	70 746	398 494
- Current accounts	22 222	17 119	6 888	15 334
- Term loans, including:	447 018	169 470	63 858	383 160
housing and mortgage loans	379 103	124 180	51 564	327 539
Loans to corporate clients:	1 812 477	1 562 414	675 060	1 137 417
corporate & institutional enterprises	765 447	693 510	369 616	395 831
medium & small enterprises	1 047 030	868 904	305 444	741 586
Loans and advances to public sector	-	-	-	-
Total	**2 281 718**	**1 749 003**	**745 806**	**1 535 912**

The share of credit forbearance portfolio constitutes 2.74% (2014: 2.91%) of the whole portfolio. The most of forbearance portfolio (60%) is defaulted (2014: 76%). This portfolio is covered in 46% by the special-purpose provision (2014: 42%) and furthermore the risk of the lack of payment is mitigated by collaterals taken in the nominal amount of PLN 1.32 billion (2014: 1.56 billion).

Forborne exposures by type of concession as at 31 December 2015

31.12.2015 Type of concession	Gross carrying amount	Of which defaulted	Provisions created	Net value
Refinancing	404 615	300 604	193 030	211 585
Modification of terms and conditions	1 802 296	1 022 807	463 579	1 338 717
Total	**2 206 911**	**1 323 411**	**656 609**	**1 550 302**

Forborne exposures by type of concession as at 31 December 2014

31.12.2014 Type of concession	Gross carrying amount	Of which defaulted	Provisions created	Net value
Refinancing	87 616	75 919	30 938	56 678
Modification of terms and conditions	2 194 102	1 673 084	714 868	1 479 234
Total	**2 281 718**	**1 749 003**	**745 806**	**1 535 912**

Forborne exposures by geographical breakdown as at 31 December 2015

31.12.2015	Gross carrying amount	Of which defaulted	Provisions created	Net value
Poland	1 780 493	896 993	400 842	1 379 651
Other countries	426 418	426 418	255 767	170 651
Total	**2 206 911**	**1 323 411**	**656 609**	**1 550 302**

Forborne exposures by geographical breakdown as at 31 December 2014

31.12.2014	Gross carrying amount	Of which defaulted	Provisions created	Net value
Poland	1 677 732	1 145 017	535 520	1 142 212
Other countries	603 986	603 986	210 286	393 700
Total	**2 281 718**	**1 749 003**	**745 806**	**1 535 912**

Forborne, not impaired exposures by period of overdue as 31 December 2015

31.12.2015 Overdue period	Gross carrying amount	Of which defaulted	Provisions created	Net value
Not past due	803 512	37 483	4 986	798 526
Past due less than 30 days	92 803	4 490	2 479	90 324
Past due 31 - 90 days	21 788	3 388	626	21 162
Past due over 90 days	10 360	10 360	62	10 298
Total	**928 463**	**55 721**	**8 153**	**920 310**

Forborne, not impaired exposures by period of overdue as 31 December 2014

31.12.2014 Overdue period	Gross carrying amount	Of which defaulted	Provisions created	Net value
Not past due	337 904	81 317	1 495	336 409
Past due less than 30 days	35 576	12 393	217	35 359
Past due 31 - 90 days	1 881	1 093	-	1 881
Past due over 90 days	125 117	125 117	88	125 029
Total	**500 478**	**219 920**	**1 800**	**498 678**

Forborne, impaired exposures by period of overdue as at 31 December 2015

31.12.2015 Overdue period	Gross carrying amount	Of which defaulted	Provisions created	Net value
Not past due	421 074	415 503	200 536	220 538
Past due less than 30 days	47 575	43 235	11 104	36 471
Past due 31 - 90 days	36 698	35 848	17 434	19 264
Past due over 90 days	773 101	773 104	419 382	353 719
Total	**1 278 448**	**1 267 690**	**648 456**	**629 992**

Forborne, impaired exposures by period of overdue as at 31 December 2014

31.12.2014 Overdue period	Gross carrying amount	Of which defaulted	Provisions created	Net value
Not past due	551 981	363 797	184 529	367 452
Past due less than 30 days	108 621	55 558	20 253	88 368
Past due 31 - 90 days	72 579	61 669	32 984	39 595
Past due over 90 days	1 048 059	1 048 059	506 240	541 819
Total	**1 781 240**	**1 529 083**	**744 006**	**1 037 234**

Forborne exposures by the industry as at 31 December 2015

31.12.2015 Sectors	Gross carrying amount	Of which defaulted	Provisions created	Net value
Forestry	231 521	215 010	161 051	70 470
Financial activities	1 837	423	89	1 748
Food sector	32 832	31 971	9 853	22 979
Construction	124 264	104 228	17 845	106 419
Scientific and technical activities	50 834	13 136	8 313	42 521
Education	1 714	1 316	81	1 633
Electronics and household equipment	96 706	5 980	6 876	89 830
Power, power and heating distribution	100 013	100 013	25 876	74 137
Retail trade	82 086	62 017	22 189	59 897
Wholesale trade	84 844	50 527	38 909	45 935
Hotels and restaurants	65 051	53 027	6 998	58 053
Information and communication	65 647	63 792	33 316	32 331
Arts, entertainment	47 718	47 303	35 451	12 267
Metals	207 192	205 038	157 336	49 856
Health care	4 720	4 513	614	4 106
Fuels and chemicals	13 390	7 631	4 288	9 102
Other manufactoring	13 583	12 612	6 764	6 819
Real estate management	284 304	121 374	44 256	240 048
Agriculture	3 799	3 788	3 320	479
Textiles and clothing	5 156	3 353	947	4 209
Transport and logistics	10 410	6 295	2 980	7 430
Services	62 860	56 831	16 098	46 762
Municipal services	257	197	116	141
Other	616 173	153 036	53 043	563 130
Total	**2 206 911**	**1 323 411**	**656 609**	**1 550 302**

Forborne exposures by the industry as at 31 December 2014

31.12.2014 Sectors	Gross carrying amount	Of which defaulted	Provisions created	Net value
Forestry	240 825	220 775	112 399	128 426
Financial activities	964	964	1	963
Food sector	56 040	51 225	22 004	34 036
Construction	154 328	144 880	19 774	134 554
Scientific and technical activities	41 047	2 535	1 535	39 512
Education	20 001	20 001	4 936	15 065
Electronics and household equipment	88 767	82 441	66 739	22 028
Power, power and heating distribution	109 109	109 109	17 619	91 490
Mining	91 303	91 303	45 742	45 561
Retail trade	91 098	82 096	36 920	54 178
Wholesale trade	75 536	44 814	34 603	40 933
Hotels and restaurants	40 543	40 543	13	40 530
Information and communication	41 529	32 723	25 147	16 382
Arts, entertainment	46 424	46 424	11 668	34 756
Construction materials	13 753	13 753	13 753	-
Metals	217 634	208 372	139 783	77 851
Health care	6 174	6 174	819	5 355
Fuels and chemicals	10 968	2 043	627	10 341
Other manufactoring	6 068	6 068	2 982	3 086
Real estate management	393 359	290 378	77 534	315 825
Agriculture	11 269	11 269	10 976	293
Textiles and clothing	10 925	10 925	4 709	6 216
Transport and logistics	23 611	19 717	13 811	9 800
Services	53 392	53 389	12 539	40 853
Municipal services	178	178	178	-
Other	436 873	156 904	68 995	367 878
Total	**2 281 718**	**1 749 003**	**745 806**	**1 535 912**

3.4.8 Counterparty risk that arises from derivatives transactions

The credit exposure on mBank portfolio from derivatives transactions is calculated as the sum of the replacement cost for each transaction (which is its current net present value - NPV) and its estimated future potential exposure (Add-on). Moreover bank uses credit mitigation techniques such as netting and collateralization. Therefore netting is taken into account if there are close-out netting agreements in place, whereas CSA agreements are required to collateralize the exposure. CSAs allow for variation margin to be called if current valuation of the portfolio exceeds the predefined level (threshold). Therefore, credit exposure of the derivatives portfolio is adjusted appropriately based on whether the collateral is paid or received and in accordance with the binding agreements.

Credit exposure control is performed through an integrated system and in real time. In particular the level of the allocated credit exposure limit usage is monitored and checked intraday. Credit exposure limits are subject to limit decomposition into different products and maturities. In case of central clearing houses additionally posted types of collateral (initial margin, default fund) have been taken into account.

The decomposition of the mBank credit exposure of the derivatives portfolio based on the counterparty type is as follows:

- 57% banks,
- 21% corporates,
- 14% central clearing houses (CCP),
- 8% financial institutions.

The decomposition of the mBank credit exposure of the derivatives portfolio based on the internal PD-rating (PDR) as at 31 December 2015 is as follows:

PDR	1	1.2	1.4	1.6	1.8	2	2.2	2.4	2.6	2.8	3	3.2	3.4
Credit exposure (PLN m)	0.0	2.1	216.3	526.7	571.4	100.4	120.4	290.1	172.8	658.2	136.1	23.4	133.0

PDR	3.6	3.8	4	4.2	4.4	4.6	4.8	5	5.2	5.4	5.6	5.8	>5.8
Credit exposure (PLN m)	5.4	19.3	58.1	6.4	6.1	0.0	0.0	0.0	0.0	0.0	0.7	0.1	0.0

Total mBank credit exposure with counterparties without PDR equals to PLN 143 million, whereas total credit exposure of the counterparties with PDR at the level of 3.0 or better accounts for 88% of the total credit exposure of the derivatives portfolio (31 December 2014 respectively: PLN 107 million; 85%).

The PD-rating scale is compliant with scale presented in chapter 3.4.4 Rating system.

Total counterparty risk exposures for mBank of the derivatives portfolio decomposed into current NPV and add-on has been depicted below:

(PLN m)	Banks		CCP		Corporates	
	2015	2014	2015	2014	2015	2014
NPV	107	153	-	-	246	456
add-on	1 727	2 051	445	-	695	701
collateral	(1)	(342)	(14)	-	30	37

In order to reflect credit risk embedded in derivative instruments, the Group uses correction to fair value that takes into account the element of credit risk of the counterparty. Write off due to credit risk of contractor is based on expected loss until maturity of the contract and is calculated at the level of Bank in accordance with the adopted CVA/DVA methodology. The amount of the correction is then allocated to individual transactions. The value of this correction is included in income statement in net trading income.

The table below presents the percentage of derivatives with the correction due to credit risk of the counterparty, which constitute the component of financial assets in the total carrying value for each of the Group's internal rating categories (the rating model is described under Note 3.4.4).

Sub-portfolio	31.12.2015		31.12.2014	
	Fair value %	Provision coverage (%)	Fair value %	Provision coverage (%)
1	29.31	0.16	38.88	0.11
2	34.07	0.10	47.69	0.05
3	29.46	0.53	7.74	0.67
4	3.04	1.63	5.38	0.72
5	3.05	0.74	0.26	3.46
6	0.03	4.21	0.01	0.72
7	0.03	3.11	0.00	3.61
8	1.00	0.05	0.03	-
Default category	0.01	5.53	0.01	-
Total	**100.00**	**0.31**	**100.00**	**0.17**

3.5. Debt Instruments: treasury bonds and other eligible debt securities

31 December 2015	Trading securities			Investment debt securities	Total
Rating	Government bonds	Treasury bills	Other debt securities		
AAA	-	-	-	46 353	46 353
AA- to AA+	-	-	-	827 919	827 919
A- to A+	178 492	-	24 313	28 913 377	29 116 182
BBB+ to BBB-	-	-	219 484	388 301	607 785
BB+ to BB-	-	-	128 406	361 620	490 026
B+ to B-	-	-	-	-	-
Lower than B-	-	-	-	-	-
Unrated	-	-	-	-	-
Total	**178 492**	**-**	**372 203**	**30 537 570**	**31 088 265**

31 December 2014	Trading securities			Investment debt securities	Total
Rating	Government bonds	Treasury bills	Other debt securities		
AAA	-	-	-	46 964	46 964
AA- to AA+	-	-	-	809 850	809 850
A- to A+	617 906	-	73 418	26 297 387	26 988 711
BBB+ to BBB-	-	-	316 363	129 393	445 756
BB+ to BB-	-	-	136 335	133 404	269 739
B+ to B-	-	-	1 975	-	1 975
Lower than B-	-	-	-	-	-
Unrated	-	-	-	-	-
Total	**617 906**	**-**	**528 091**	**27 416 998**	**28 562 995**

96.47% of the investments in debt securities is rated at least on A- credit rating (31 December 2014: 97.49%).

Information about impairment allowance for investment equity securities occurs under Note 23.

3.6. Concentration of assets, liabilities and off-balance sheet items

Geographic concentration risk

In order to actively manage the risk of concentration by country, the Group:

- complies with the formal procedures aimed at identifying, measurement and monitoring this risk,
- complies with the formal limits mitigating the risk by country and the procedures to be followed when the limits are exceeded,
- uses a management reporting system, which enables monitoring the risk level by country and supports the decision-making process related to management,
- maintains contacts with a selected group of the largest banks with good ratings, which are active in handling foreign transactions. On some markets, where the risk is difficult to estimate, the Group avails itself of the services of its foreign correspondent banks, e.g. Commerzbank, and insurance in the Export Credit Insurance Corporation ('KUKE'), which covers the economic and political risk.

As at 31 December 2015 there was no substantial level of geographical concentration in the credit portfolio of mBank Group. In terms of exposure relating to countries other than Poland there was no substantial share of impaired exposures.

Sector concentration risk

Monitoring exposures in sectors, defined in line with Polish Classification Economic Activities, is carried out in individual subsidiaries of the Group.

mBank analyses the sector concentration risk in order to build mBank's corporate portfolio in a safe and effective way. Monitoring and analysis covers all the sectors in which the Bank's exposure exceeds 5% of the total amount of exposures at the end of a given reporting period, and sectors additionally indicated by the Chief Risk Officer.

The Bank manages industrial concentration risk determining industrial limits. Unless the Corporate and Investment Banking Risk Committee (KRK) decides otherwise, an industrial limit for any sector is set on a level not higher than:

- 12% of the gross loan portfolio in the prior reporting period for low risk sectors,
- 10% of the gross loan portfolio in the prior reporting period for medium risk sectors,
- 5% of the gross loan portfolio in the prior reporting period for high risk sectors.

In the case of exceeding any industrial limit or an expectation that such a limit may be exceeded in the next reporting period, activities preventing the exceeding of limits are implemented and any decision in this regard shall be taken by the KRK.

The table below presents the structure of concentration of mBank Group's exposures in particular sectors.

The structure of concentration of carrying amounts of exposure of mBank Group

No.	Sectors	Principal exposure (in PLN million)	%	Principal exposure (in PLN million)	%
		31.12.2015		31.12.2014	
1.	Household customers	46 258 683	56.82	41 560 477	53.71
2.	Real estate management	4 975 227	6.11	4 901 307	6.33
3.	Construction	3 743 369	4.60	2 884 365	3.73
4.	Wholesale trade	3 141 017	3.86	2 977 441	3.85
5.	Retail trade	2 244 062	2.76	2 430 956	3.14
6.	Food sector	1 899 778	2.33	1 705 944	2.20
7.	Transport and logistics	1 858 064	2.28	1 819 827	2.35
8.	Fuels and chemicals	1 789 636	2.20	1 628 617	2.10
9.	Forestry	1 552 832	1.91	1 286 566	1.66
10.	Power, power and heating distribution	1 472 862	1.81	1 422 625	1.84
11.	Metals	1 395 689	1.71	1 266 991	1.64
12.	Public administration	1 161 955	1.43	1 574 513	2.03
13.	Information and communication	1 032 953	1.27	1 197 133	1.55
14.	Financial activities	934 170	1.15	427 299	0.55
15.	Scientific and technical activities	734 330	0.90	586 923	0.76
16.	Hotels and restaurants	645 710	0.79	455 059	0.59
17.	Services	538 987	0.66	453 169	0.59
18.	Electronics and household equipment	517 183	0.64	408 000	0.53
19.	Mining	498 312	0.61	479 192	0.62
20.	Motorization	489 478	0.60	452 873	0.59
21.	Arts, entertainment	448 834	0.55	439 693	0.57
22.	Industry	438 525	0.54	307 850	0.40
23.	Municipal services	369 308	0.45	299 883	0.39

In 2015, the total exposure of the Group in the above sectors (excluding household customers) amounts to 39.16% of the credit portfolio (2014: 38.01%).

The risk of investing in these sectors (in a 3-point scale, i.e., low, medium, high) as at the end of 2015 was estimated by the Bank's sector analysts according to the following table.

No.	Sectors	31.12.2015	31.12.2014
1.	Real estate management	medium	medium
2.	Construction	medium	high
3.	Wholesale trade	medium	medium
4.	Retail trade	medium	medium
5.	Food sector	medium	medium
6.	Transport and logistics	medium	medium
7.	Fuels and chemicals	medium	medium
8.	Forestry	medium	medium
9.	Power, power and heating distribution	medium	medium
10.	Metals	high	high
11.	Public administration	low	low
12.	Information and communication	medium	medium
13.	Financial activities	medium	medium
14.	Scientific and technical activities	medium	medium
15.	Hotels and restaurants	medium	medium
16.	Services	medium	medium
17.	Electronics and household equipment	medium	medium
18.	Mining	high	high
19.	Motorization	medium	medium
20.	Arts, entertainment	high	high
21.	Industry	medium	medium
22.	Municipal services	medium	low

Large exposures concentration risk

The purpose of management of the large exposures concentration risk is an ongoing monitoring of the level of limits set by the CRR Regulation. In order to ensure safety against the risk of exceeding the regulatory limits in mBank:

- internal limits, lower than those specified in the CRR Regulation, are set,
- daily monitoring of large exposures is carried out and the participants of the lending and investment processes are immediately informed in the case of internal limits exceeding.

These activities have a direct impact on the Bank's decisions concerning new exposures and the increase of existing exposures to customers and groups of affiliated customers.

mBank pays particular attention to the correct identification of the scale of risk of significant credit exposures defined in the Bank's internal regulations. In the case of exceeding specified amount of exposure/limit to a customer/group of affiliated customers identified as bulk risk, the financing requires additional decision of the Bank's Management Board irrespective of the PD-rating and the decision-making level.

Bank monitors exposures to a customer or group of affiliated customers considered a large exposure limit ie. exposures after taking into account the effect of the credit risk mitigation (in accordance with art. 401-403 CRR Regulation) and exemptions (art. 390 paragraph. 6, Art. 400, Art. 493, paragraph. 3 CRR Regulation), which are equal or exceed 10% of the eligible capital. At the end of 2015 there was no exposure in line with the above definition.

The Credit Committee of mBank Group, first started in November 2014, is responsible for the supervision over risk concentration and large exposures at the level of mBank subsidiaries.

3.7. Market risk

3.7.1 Organization of risk management

In the process of organisation of the market risk management, the Bank follows rules and requirements set forth in Polish Financial Supervision Authority (KNF) regulations and recommendations, in particular in Recommendations A and I.

The fundamental principle applied in the organisation of the market risk management in the Bank is the separation of risk control and monitoring functions from structures undertaking and operationally managing Bank's risk positions. Monitoring and controlling of the market risk is performed by the Financial Markets Risk Department under supervision of the Vice-president of the Management Board (CRO), while the market risk positions are operationally managed by Financial Markets Department, Brokerage Bureau and Treasury Department reporting to the Vice-president of the Management Board – Head of Financial Markets. The Brokerage Bureau is an organisational unit of the Bank separated from the Financial Markets Department focusing its activity on financial instruments subject to trading on the Warsaw Stock Exchange (WSE).

Debt Securities Issue Department (DCM) is responsible for debt issuance and managing of non-government debt securities in banking book. Moreover, the investment positions sensitive to market risk factors (e.g. prices of shares listed on the WSE) are managed in the Structured and Mezzanine Finance Department. DCM and DFS are operating in the Corporate & Investment Banking area.

Market risk management is performed in a single process by the Financial Markets Risk Department (DRR), which is responsible for measurement of exposures to market risk of the Bank's front-office units portfolios by the use of market risk measures: Value at Risk (VaR) and stress tests. DRR is responsible for control of utilisation of the limits for these risk measures established by the Management Board and the Financial Markets Risk Committee and provides daily and periodical reporting on the market risk exposure to managers of the Bank's front-office units, to the Financial Markets Risk Committee, and directly to the CRO. DRR develops also market risk measurement methodologies, pre-settlement counterparty risk of derivative transactions, and establishes valuation models for financial instruments.

Moreover, the Financial Markets Risk Department is responsible for calculation and reconciliation of financial results on transactions carried out by the front-office units and provides daily valuation of financial instruments to the Finance Area. The valuation of derivative transactions with the Bank's clients is also delivered to the business units responsible for managing clients (corporate and investment banking area). Valuations prepared by DRR are the basis for managing collaterals for concluded transactions on derivative instruments.

DRR is responsible for the administration of the front-office IT systems, i.e. administration of users' access rights to the systems, parameterization in the systems of financial instruments, as well as counterparties and issuers and is responsible for market data input to the systems. DRR monitors utilization of counterparty limits (pre-settlement, settlement, issuer and country risk limits) and escalates if limits are exceeded. Moreover, DRR verifies the market conformity of the transactions concluded by the front-office units and supervises the process of modification and deletion of deals in the front-office systems.

3.7.2 Tools and measures

In the course of Bank's operations, the Bank is exposed to market risk, which is defined as a risk resulting from unfavourable change of the current valuation of the Bank's open positions in interest rate, foreign currency and equity instruments due to changes of the appropriate market risk factors, in particular interest rates, foreign exchange rates, stock share prices and indices, implied volatilities of relevant options and credit spreads.

The Bank identifies market risk primarily on the trading book positions valuated at fair value (either directly to market prices or via models) and as such may lead to losses reported in Bank's financial results. Furthermore, the Bank assigns market risk to its banking positions independently of the accounting rules of calculating financial results on these positions. In particular, in order to reflect the interest rate risk of the retail and corporate banking products with unspecified interest revaluation dates or rates administered by the Bank, the Bank uses the so-called replicating portfolio models. Bank presents active approach to capital management which resulted in case of market risk measurements in capital modelling within 5-year investment horizon. Market risk measures applicable to interest rate banking book positions are based on net present value (NPV) models.

Exposure to market risk is quantified by:

- measurement of the value at risk (VaR),
- measurement of expected loss under condition that this loss exceeds value at risk (ES – Expected Shortfall),
- measurement of the value at risk in stressed conditions (Stressed VaR),
- measurement of economic capital to cover market risk,
- stress tests scenario analyses.

The Value at Risk (VaR) is calculated using historical method on a daily basis for a 1-day and a 10-day holding period and a 95%, 97.5% and 99% confidence level. In this method historical data concerning risk factors concerning last 254 business days are taken into consideration. From September 2015 measurement of the value at risk in stressed conditions was introduced. In case of this measure the calculation is analogous to value at risk calculation, but the only difference is in time of stressed conditions, which is marked out on the basis of 7-year series of value at risk based on following 12-months windows of risk factors changes from last 8 years. In 2015 it was a year which ended up in June 2009. This period is verified at least once a year.

The VaR methodology takes into account the following risk factors:

- interest rates,
- foreign exchange rates,
- shares prices and equity indices and its volatilities,
- credit spreads (to the extent reflecting market fluctuations of debt instruments prices, reflecting credit spread for corporate bonds, and spread between government yield and swap rate for government bonds).

The expected loss under condition that it exceeds value at risk is calculated on the basis of daily VaR calculation as the average of six worst losses.

The economic capital for market risk is a capital to cover losses in the course of one year coming from changes in valuation of financial instruments which built Bank's portfolios and resulting from changes of prices and values of market parameters.

Stress tests are additional measures of market risk, supplementing the measurement of the value at risk, which show the hypothetical changes in the current valuation of the Bank's portfolios, which would take place as a result of realisation of the so-called stress scenarios – i.e. market situations at which the risk factors would reach specified extreme values, assuming taking static portfolio.

Stress tests consist of two parts: standard stress tests designated for standard risk factors: currency exchange rates, interest rates, stock prices and their volatility, as well as a stress test, which involves changes in credit spreads. In this way, there was addressed among others, the need for covering in stress tests analysis the independent effect of basis risk (the spread between interest rates on government bonds and IRS), which the Bank is exposed to, due to maintaining a portfolio of Treasury bonds.

In July 2015 the methodology of stress test calculation was adjusted by additional scenarios of changes in FX rates and credit spreads, but in existing scenarios of interest rates, FX rates and credit spreads changes of values of those factors were introduced.

Market risk, in particular interest rate risk of the banking book is also quantified by calculation of the earnings at risk (EaR) measure for the banking portfolio, which is described in chapter concerning interest rate risk.

In order to mitigate market risk exposure, by decision of Supervisory Board (with respect to mBank Group portfolio), Management Board (with respect to mBank portfolio) and the Financial Markets Risk Committee (with respect to business lines portfolios) limits on VaR at 97,5% confidence level for 1-day holding period and stress tests limits are established.

3.7.3 Risk measurement

Value at Risk, Expected Shortfall

In 2015, Bank's market risk exposure, as measured by the value at risk (VaR, for one day holding period, at 97.5% confidence level), was in relation to the established limits on moderate level. The average utilisation of VaR limit for Financial Markets Department, whose positions consist of trading book portfolios, amounted to 41% (PLN 2.3 million), for the Brokerage Bureau (BM) 13% (PLN 0.2 million), while for the Treasury Department, whose positions are classified solely to the banking book, it was 64% (PLN 27.0 million) for the positions without capital modelling and 56% (PLN 23.5 million) for the positions with capital modelling.

The average utilization of VaR limit for Debt Securities Issue Department (DCM) is 18% (PLN 0.4 million). The average utilisation of the VaR limit for the position of the Structured and Mezzanine Finance Department (DFS) in shares listed in the Warsaw Stock Exchange accounted for 57% (PLN 5.1 million).

In 2015, the VaR figures for mBank's portfolio were driven mainly by portfolios of instruments sensitive to interest rates and separated credit spread – the banking book T-bonds portfolios managed by Treasury Department and the trading book portfolios and interest rate exchange positions managed by Financial Markets Department.

Second most significant portfolio having impact on the Bank's risk profile were positions of DFS, where crucial risk factor remained the rate of PZU shares, due to holding significant investment position in shares of the company. The position was liquidated by sale of PZU shares. The DFM portfolios of instruments sensitive to changes in exchange rates like FX spots, currency options, as well as the exposure of BM to equity price risk and risk of implied volatility of options traded on the Warsaw Stock, had a relatively low impact on the Bank's risk profile.

mBank VaR and ES

The tables below present VaR and Expected Shortfall statistics for the Bank's portfolio.

PLN 000's	2015				2014			
	31.12.2015	Mean	Maximum	Minimum	31.12.2014	Mean	Maximum	Minimum
VaR IR	13 688	16 085	23 329	12 739	16 457	14 693	19 081	8 122
VaR FX	496	685	1 096	453	937	348	1 162	95
VaR EQ	79	5 170	6 588	67	6 243	6 507	7 647	5 836
VaR CS	26 320	23 916	26 345	20 426	25 142	27 245	31 279	25 049
VaR	**29 943**	**27 877**	**34 881**	**21 266**	**33 393**	**29 448**	**36 453**	**15 968**
ES	**40 007**	**37 576**	**45 102**	**28 954**	**42 853**	**37 861**	**45 791**	**21 304**

VaR IR – interest rate risk
VaR FX – currency risk
VaR EQ – equity risk
VaR CS – credit spread risk

VaR and ES of mBank Group

The main sources of market risk of the mBank Group are the Bank's positions. The tables below show VaR statistics (at 97.5% confidence level for a one-day holding period) and expected shortfall for mBank Group (i.e. mBank, mBank Hipoteczny, mLeasing, Dom Maklerski mBanku) in 2015 for individual members of the Group in which market risk positions were identified and value at risk measure decomposition to the VaRs corresponding to the main risk factor types – interest rate risk (VaR IR), foreign exchange risk (VaR FX), and equity prices risk (VaR EQ). The table below presents VaR for mBank as of the end of 2015.

PLN 000's	mBank Group	mBank	mBH	mLeasing	DM mBanku
VaR IR Mean	16 437	16 085	29	348	7
VaR FX Mean	687	685	23	17	22
VaR EQ mean	5 192	5 170	0	0	98
VaR CS Mean	23 916	23 916	0	0	0
VaR Mean	28 265	27 877	40	349	100
VaR Maximum	35 005	34 881	492	462	161
VaR Minimum	21 591	21 266	12	241	47
VaR	**30 158**	**29 943**	**99**	**273**	**56**

For comparison, at the end of 2014 VaR for the mBank Group was PLN 33 513 thousand, including VaR for mBank at PLN 33 393 thousand, mBank Hipoteczny – PLN 53 thousand, mLeasing – PLN 424 thousands and Dom Maklerski mBanku – PLN 112 thousand.

PLN 000's	mBank Group	mBank	mBH	mLeasing	DM mBanku
VaR IR Mean	15 119	14 693	75	436	8
VaR FX Mean	357	348	26	108	20
VaR EQ mean	6 540	6 507	0	0	137
VaR CS Mean	27 245	27 245	0	0	0
VaR Mean	29 678	29 448	86	418	134
VaR Maximum	36 718	36 453	251	627	171
VaR Minimum	16 183	15 968	45	308	71
VaR	**33 513**	**33 393**	**53**	**424**	**112**

The values of Expected Shortfall as of the end of 2015 are presented in table below.

PLN 000's	mBank Group	mBank	mBH	mLeasing	DM mBanku
ES mean	37 822	37 576	55	440	139
ES max	45 275	45 102	558	584	208
ES min	29 198	28 954	16	325	74
ES	**40 232**	**40 007**	**114**	**365**	**95**

The values of Expected Shortfall as of the end of 2014 are presented in table below.

PLN 000's	mBank Group	mBank	mBH	mLeasing	DM mBanku
ES średni	38 129	37 861	128	640	195
ES max	46 012	45 791	314	1 000	253
ES min	21 683	21 304	57	354	118
ES	**43 032**	**42 853**	**83**	**478**	**151**

Stressed Value at Risk

The new value at risk in stressed conditions was introduced from September 2015 (it is observed measure). The table below presents statistics of this measure for mBank for last quarter of 2015.

PLN 000's	2015			
	31.12.2015	Mean	Maximum	Minimum
Stressed VaR IR	37 742	35 742	39 293	31 053
Stressed VaR FX	1 338	1 376	2 933	516
Stressed VaR EQ	4	8 721	13 074	4
Stressed VaR CS	73 992	75 255	77 899	73 530
Stressed VaR	**103 060**	**111 038**	**116 945**	**102 035**

The table below presents statistics of this measure for mBank Group for last quarter of 2015.

PLN 000's	mBank Group	mBank	mBH	mLeasing	DM mBanku
Stressed VaR IR	36 600	35 742	119	728	42
Stressed VaR FX	1 384	1 376	103	41	88
Stressed VaR EQ	8 768	8 721	0	0	75
Stressed VaR CS	75 255	75 255	0	0	0
Stressed VaR Mean	111 503	111 038	192	730	91
Stressed VaR Maximum	117 341	116 945	411	811	124
Stressed VaR Minimum	102 454	102 035	86	667	57
Stressed VaR	**103 580**	**103 060**	**406**	**720**	**113**

Economic capital for market risk

The average utilisation of limit on economic capital for market risk for mBank Group in 2015 amounted to 58% (PLN 754.5 million). The average level of economic capital for mBank was equal to PLN 740.8million. As of end of 2015 the economic capital for market risk for mBank Group was PLN 655.8 million, and for mBank was PLN 643.5 million. For comparison, at the end of 2014 values of this measures were PLN 733.1 million and PLN 717 million, respectively.

Stress testing

The average utilisation of stress test limits for mBank Group in 2015 was 59% (PLN 801.7 million) for portfolio without capital modelling and 56% (PLN 757.0 million) for portfolio including capital modelling.

Average utilisation of stress test limits in mBank in 2015 amounted to 60% (PLN 796.4 million) for portfolio without capital modelling.

The average utilisation of the limits in 2015 for the Treasury Department portfolio without capital modelling was 68% (PLN 643.4 million) and 65% (PLN 615.0 million) including capital modelling. For the Financial Markets Department portfolio the average utilisation was 37% (PLN 93.2 million), for BM portfolio 12% (PLN 1.0 million), for DCM portfolio 59% (PLN 35.9 million) and for DFS portfolio 58% (PLN 28.9 million). The most significant part of presented stress test values constitutes credit spread stress test for government bonds portfolio because stress test scenarios include scenario in which interest rates increase on average by 100 bps.

The table below presents utilisation of stress test for mBank Group (without capital modelling) in 2015 in comparison to 2014:

PLN million	2015				2014			
	31.12.2015	Mean	Maximum	Minimum	31.12.2014	Mean	Maximum	Minimum
Base ST	78	111	139	72	98	89	134	43
CS ST	647	691	772	613	706	701	762	634
Total ST	**725**	**802**	**905**	**705**	**805**	**789**	**894**	**683**

Base stress test – standard stress test
CS stress test – stress test for credit spread scenarios
Total stress test – total stress test (sum of standard stress test and stress test for credit spread scenarios).

3.8. Currency risk

The Group is exposed to changes in currency exchange rates due to its financial assets and liabilities other than PLN. The following tables present the exposure of the Group to currency risk as at 31 December 2015 and 31 December 2014. The tables bellow present assets and liabilities of the Group at balance sheet carrying amount, for each currency.

31.12.2015	PLN	EUR	USD	CHF	CZK	Other	Total
ASSETS							
Cash and balances with the Central Bank	5 581 797	158 265	47 965	14 535	78 932	56 639	**5 938 133**
Loans and advances to banks	891 088	674 235	167 265	2 341	107 015	55 390	**1 897 334**
Trading securities	557 541	-	-	-	-	-	**557 541**
Derivative financial instruments	2 912 454	328 614	48 001	56 263	3 996	-	**3 349 328**
Loans and advances to customers	37 075 852	16 805 432	1 749 824	19 760 541	2 845 762	196 135	**78 433 546**
Hedge accounting adjustments related to fair value of hedged items	-	-	-	-	130	-	**130**
Investments in joint ventures	29 046 825	862 205	-	-	827 919	-	**30 736 949**
Investment securities	7 359	-	-	-	-	-	**7 359**
Intangible assets	518 006	261	-	-	782	-	**519 049**
Tangible fixed assets	735 131	3 592	-	-	5 799	-	**744 522**
Other assets, including tax assets	1 199 624	70 311	56 062	16	3 707	9 410	**1 339 130**
Total assets	**78 525 677**	**18 902 915**	**2 069 117**	**19 833 696**	**3 874 042**	**317 574**	**123 523 021**
LIABILITIES							
Amounts due to the Central Bank	-	-	-	-	-	-	**-**
Amounts due to other banks	2 251 356	491 733	198 557	9 069 323	61	8 301	**12 019 331**
Derivative financial instruments	2 945 888	164 737	63 013	-	-	-	**3 173 638**
Amounts due to customers	61 949 417	12 092 703	1 752 010	532 631	4 498 170	315 935	**81 140 866**
Debt securities in issue	2 558 597	5 519 934	-	788 687	78 977	-	**8 946 195**
Hedge accounting adjustments related to fair value of hedged items - debt securities in issue	-	78 672	-	20 659	767	-	**100 098**
Other liabilities including tax liabilities	1 575 093	121 568	62 356	4 960	42 205	9 016	**1 815 198**
Provisions	219 471	4 614	695	354	280	2	**225 416**
Subordinated liabilities	1 263 940	-	-	2 563 375	-	-	**3 827 315**
Total liabilities	**72 763 762**	**18 473 961**	**2 076 631**	**12 979 989**	**4 620 460**	**333 254**	**111 248 057**
Net on-balance sheet position	**5 761 915**	**428 954**	**(7 514)**	**6 853 707**	**(746 418)**	**(15 680)**	**12 274 964**
Loan commitments and other commitments	**18 776 300**	**1 448 173**	**454 856**	**-**	**330 750**	**2 486**	**21 012 565**
Guarantees, banker's acceptances, documentary and commercial letters of credit	**3 746 579**	**1 150 464**	**161 334**	**-**	**3 542**	**19 981**	**5 081 900**

31.12.2014	PLN	EUR	USD	CHF	CZK	Other	Total
ASSETS							
Cash and balances with the Central Bank	2 928 696	71 888	13 590	1 881	26 591	11 903	**3 054 549**
Loans and advances to banks	2 097 640	795 082	493 600	5 292	249 455	110 346	**3 751 415**
Trading securities	1 163 944	-	-	-	-	-	**1 163 944**
Derivative financial instruments	4 490 735	316 206	32 713	19 807	4 883	1 173	**4 865 517**
Loans and advances to customers	38 523 638	13 315 492	1 331 869	18 949 649	2 268 520	193 182	**74 582 350**
Hedge accounting adjustments related to fair value of hedged items	-	-	-	-	461	-	**461**
Investment securities	26 188 304	676 526	-	-	813 784	-	**27 678 614**
Non-current assets held for sale	285 009	185 903	1 724	-	99 965	4 237	**576 838**
Intangible assets	464 899	293	-	-	434	-	**465 626**
Tangible fixed assets	706 883	3 650	-	-	6 844	-	**717 377**
Other assets, including tax assets	1 019 280	63 441	11 253	-	13 253	21 904	**1 129 131**
Total assets	**77 869 028**	**15 428 481**	**1 884 749**	**18 976 629**	**3 484 190**	**342 745**	**117 985 822**
LIABILITIES							
Amounts due to the Central Bank	-	-	-	-	-	-	**-**
Amounts due to other banks	1 922 740	251 510	3 516	11 189 925	16 138	-	**13 383 829**
Derivative financial instruments	4 516 135	162 691	40 157	-	-	73	**4 719 056**
Amounts due to customers	55 753 910	10 420 148	1 400 101	480 565	3 794 164	573 591	**72 422 479**
Debt securities in issue	2 243 632	7 310 874	-	710 272	76 964	-	**10 341 742**
Hedge accounting adjustments related to fair value of hedged items - debt securities in issue	-	87 587	-	14 380	1 415	-	**103 382**
Liabilities held for sale	178 778	46 812	1 805	2 810	45 837	299	**276 341**
Other liabilities including tax liabilities	1 164 181	99 483	47 275	2 629	39 822	8 018	**1 361 408**
Provisions	170 405	4 306	282	11	1 867	10	**176 881**
Subordinated liabilities	1 251 846	-	-	2 875 878	-	-	**4 127 724**
Total liabilities	**67 201 627**	**18 383 411**	**1 493 136**	**15 276 470**	**3 976 207**	**581 991**	**106 912 842**
Net on-balance sheet position	**10 667 401**	**(2 954 930)**	**391 613**	**3 700 159**	**(492 017)**	**(239 246)**	**11 072 980**
Loan commitments and other commitments	**17 713 880**	**1 450 929**	**384 434**	**-**	**333 067**	**1 092**	**19 883 402**
Guarantees, banker's acceptances, documentary and commercial letters of credit	**2 744 417**	**768 976**	**72 579**	**-**	**2 482**	**21 923**	**3 610 377**

3.9. Interest rate risk

mBank S.A.

In the process of managing interest rate risk of the banking book, the risk monitoring and control functions are performed by the Financial Markets Risk Department supervised by the Vice-president of the Management Board (CRO), whereas operational management of risk positions takes place in the Treasury Department supervised by the Vice-president of the Management Board, Head of Financial Markets. This way the Bank ensures independence of risk measurement, monitoring and control functions from operational activity, which gives rise to the positions taken by the bank.

Interest rate risk of the banking book results from the exposure of the bank's interest income and capital to adverse change in the levels of interest rates. Guided by the KNF recommendations, in particular Recommendation G, the Bank monitors the banking book structure in terms of repricing gap as well as basis risk, yield curve risk and customer option risk.

The basic measures used to control interest rate risk in the banking book are:

- the repricing gap (difference between assets, liabilities and off-balance banking book positions, measured in defined repricing buckets, based on next potential interest rate change of interest rate sensitive products), and
- the net interest earnings exposed to risk (EaR - Earnings at Risk – potential decrease of interest income in one year horizon due to unfavourable change of market interest rates. The measure assumes constant volume and structure of banking book, constant construction of interest rate, constant interest margin and parallel shift of the yield curve. EaR is calculated for 5 main currencies - PLN, CHF, EUR, CZK, USD).

The mBank Group has set BPV (basis point value +1bp) limit for total mBank Group exposure for interest rates for tenors above 20 years and above 30 years. As of end of 2015 utilisation of these limit for tenors above 20 years was equal to 0,5% (PLN 466), and limit for tenors above 30 years was zero and has not been exceeded.

Moreover, the Bank performs also stress test analyses aimed to estimate the impact of adverse interest rate fluctuations on net interest earnings and the economic value of the banking portfolio. Interest rate risk of the banking book is also quantified using market risk measures: Value at Risk and stress tests.

Exposure to interest rate risk is limited for the banking portfolio by means of repricing gap limits (management action triggers) and market risk limits imposed on the value at risk (VaR) and stress tests. The utilisation of all those limits is monitored and controlled on a daily basis.

Interest income subject to risk

As of 31 December 2015 and 31 December 2014, a sudden, permanent and unfavourable shift of market interest rates by 100 basis points for all maturities would result in decrease in the interest income within 12 months after the year-end date by the following amounts:

(PLN mln)	2015				2014			
	31.12.2015	Mean	Maximum	Minimum	31.12.2014	Mean	Maximum	Minimum
PLN	99.4	55.4	122.2	8.4	32.8	28.4	69.8	4.2
USD	3.7	2.4	7.5	0.7	1.0	1.4	4.0	0.2
EUR	52.5	37.3	63.1	0.0	4.5	6.6	12.6	1.4
CHF	2.4	8.1	38.8	0.0	13.3	0.8	15.7	0.0
CZK	2.7	2.3	4.8	1.3	2.3	4.2	8.5	2.2

To calculate these values, the Bank assumed that the structure of financial assets and liabilities disclosed in the financial statements as of above indicated dates would be fixed during the year and the Bank would not take any measures to change related exposure to interest rate change risk. In calculation there were included positions resulted from modelling of repricing period according to replicating portfolio method.

Stress tests

The Bank runs also other analyses of the changes of the economic value of the banking book under stress test scenarios. Under the stress test, which assumes unfavourable shift of the interest rates for respective currencies by 200 bps, the economic value of the banking book at the end of 2015 would change by PLN 497.92 million (at the end of 2014: PLN 377.5 million). During the calculation of these values no correlation between currencies was taken into account and it was assumed that taking into account small interest rate values after the negative shift cannot become less than or equal to zero.

Important position in banking portfolio, in respect of fair value calculations, is debt securities portfolio in PLN (NBP bills, Polish Treasury bonds and bills). Interest rate risk of this portfolio is calculated additionally using stress test methodology (described above in p. 3.7). The methodology includes changes of market interest rates scenarios as well as credit spread, which in case of treasury debt securities may reflect basis risk (spread changes between government and swap curve).

mBank Hipoteczny S.A.

Repricing date misfit gap and interest earnings at risk (EaR) based on the former are the key interest rate risk measures at mBank Hipoteczny S.A.

As at 31 December 2015 and 31 December 2014 a sudden, lasting and disadvantageous change of market interest rates by 100 basis points for all maturities would result in decrease in the annual interest income by the following amounts:

EaR (PLN 000's)	31.12.2015	31.12.2014
for position expressed in PLN	7 518	4 585
for position expressed in USD	5	3
for position expressed in EUR	312	316

To calculate these values, the Bank assumed that the structure of financial assets and liabilities disclosed in the financial statements as of above indicated dates would be fixed during the year and the mBank Hipoteczny would not take any measures to change related exposure to interest rate change risk.

mLeasing Sp. z o.o.

Market risk means a potential loss caused by disadvantageous changes of market prices or parameters affected by market prices. The Company is exposed to risk arising from open currency positions and non-adjustment of products charged with the interest rate risk within the scope of maturity and/or revaluation periods.

The Company applies a global measure to measure the value of bank portfolio exposed to currency and interest rate risk, namely VAR (Value at Risk). This is a synthetic measure of currency and interest rate risk.

The sum of VAR of interest rate and VAR of exchange rate constitutes the global VAR of the Company. VAR of the interest rate risk presents the impact of interest rate changes on the value of the Company's portfolio. VAR of exchange rate risk presents the impact of changes of exchange rates on estimation of items of balance-sheet assets and liabilities until the date of their revaluation (change of interest).

Pursuant to the decision of the Risk Committee of mBank SA concerning the rules of monitoring the level of market risk in subsidiaries belonging to the mBank Group, mBank provides indicated values of risk measures for the portfolio of mLeasing.

The amount of VAR (97.5% confidence level, holding period 1 day) cannot exceed the basic VAR limit for mLeasing applied by mBank SA in a given period (PLN 1 milion at the end of 2015).

The table below presents VAR values as at 31.12.2015 and 31.12.2014, calculated using the parameters specified above.

PLN 000's	VaR	
	31.12.2015	31.12.2014
Interest rate risk	267	407
Currency risk	6	17
Total VaR	**273**	**424**

mBank S.A. Group interest rate risk

The following tables present the Group's exposure to interest rate risk. The tables present the Group's financial instruments at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

31.12.2015	Up to 1 month	1-3 months	3-12 months	1-5 years	More than 5 years	Non-interest bearing	Total
ASSETS							
Cash and balances with the Central Bank	2 558 894	-	-	-	-	3 379 239	**5 938 133**
Loans and advances to banks	1 462 615	131 653	119 035	10 056	-	173 975	**1 897 334**
Trading and investment securities	11 839 915	407 071	4 500 509	13 445 724	895 046	206 225	**31 294 490**
Loans and advances to customers	57 686 531	12 893 190	3 907 016	3 464 555	239 563	242 691	**78 433 546**
Other assets and derivative financial instruments	738 581	653 572	1 190 512	680 643	101 110	956 102	**4 320 520**
Total assets	**74 286 536**	**14 085 486**	**9 717 072**	**17 600 978**	**1 235 719**	**4 958 232**	**121 884 023**
LIABILITIES							
Amounts due to the Central Bank	-	-	-	-	-	-	**-**
Amounts due to other banks	5 604 991	6 390 976	21 310	-	-	2 054	**12 019 331**
Amounts due to customers	64 014 736	9 217 228	6 566 507	1 028 305	196 722	117 368	**81 140 866**
Debt securities in issue	809 068	1 350 802	1 402 511	2 952 326	2 431 488	-	**8 946 195**
Subordinated liabilities	1 435 282	1 891 372	500 661	-	-	-	**3 827 315**
Other liabilities and derivative financial instruments	607 593	670 412	1 223 740	618 912	86 002	1 731 070	**4 937 729**
Total liabilities	**72 471 670**	**19 520 790**	**9 714 729**	**4 599 543**	**2 714 212**	**1 850 492**	**110 871 436**
Total interest repricing gap	**1 814 866**	**(5 435 304)**	**2 343**	**13 001 435**	**(1 478 493)**		

31.12.2014	Up to 1 month	1-3 months	3-12 months	1-5 years	More than 5 years	Non-interest bearing	Total
ASSETS							
Cash and balances with the Central Bank	2 124 756	-	-	-	-	929 793	**3 054 549**
Loans and advances to banks	3 088 814	74 917	164 886	380	-	422 418	**3 751 415**
Trading and investment securities	10 385 364	210 285	4 985 791	12 826 940	173 210	260 968	**28 842 558**
Loans and advances to customers	58 298 128	9 212 909	3 293 937	2 613 027	25 505	1 138 844	**74 582 350**
Other assets and derivative financial instruments	778 870	863 502	2 047 725	992 435	94 510	883 439	**5 660 481**
Total assets	**74 675 932**	**10 361 613**	**10 492 339**	**16 432 782**	**293 225**	**3 635 462**	**115 891 353**
LIABILITIES							
Amounts due to the Central Bank	-	-	-	-	-	-	**-**
Amounts due to other banks	7 512 690	5 858 317	10 083	-	-	2 739	**13 383 829**
Amounts due to customers	58 714 053	9 319 680	3 955 680	284 873	-	148 193	**72 422 479**
Debt securities in issue	1 013 216	543 244	3 704 809	2 656 217	2 424 256	-	**10 341 742**
Subordinated liabilities	605 518	2 270 219	1 251 987	-	-	-	**4 127 724**
Other liabilities and derivative financial instruments	617 056	868 643	2 088 779	922 384	79 951	1 491 897	**6 068 710**
Total liabilities	**68 462 533**	**18 860 103**	**11 011 338**	**3 863 474**	**2 504 207**	**1 642 829**	**106 344 484**
Total interest repricing gap	**6 213 399**	**(8 498 490)**	**(518 999)**	**12 569 308**	**(2 210 982)**		

3.10. Liquidity risk

Sources of liquidity risk

The liquidity risk is understood as the risk of failure to fund assets and meet payment obligations arising from balance sheet and off-balance sheet items owed by the Bank in a timely manner and at a market price.

The reasons for liquidity risk may appear with respect to assets, liabilities and off-balance sheet liabilities and receivables.

As regards to **assets**, their main sources of liquidity risk are market Liquidity Risk and untimely repayments of loans. Market liquidity risk is a threat of complete or partial impossibility of liquidating the assets held, or the possibility of selling these assets only at an unfavourable price. It is covered in liquidity analysis by taking conservative assumptions regarding the liquidity of assets (Liquidity Reserves in particular) and capacity for their liquidation reflected in liquidation profile (in ANL Stress scenario). For this reason in a market crisis scenario (ANL Plegde scenario) it is assumed to use lombard credit offered by NBP collateralized by eligible securities taking into account adequate haircuts applied by NBP. Liquidity Risk from untimely repayments of the loans is related to rapid materialization of credit risk related to the market of the retail or commercial real estate.

As regards to **liabilities**, the risks posed by funding and withdrawal of funds by the clients are the most common source of the Liquidity Risk. The former is a type of risk in terms of which, should the crisis occur, funding can be acquired only at a higher price, and in an extreme situation, it is not possible to acquire funding or renew existing. The latter is a type of threat associated with uncertainty as to the behaviour of clients whose decisions (for instance, about withdrawal of deposited funds) may weaken the Bank's ability to service its current financial obligations.

A source of risk for **off-balance sheet liabilities** is a risk posed by clients' behaviour and unexpected drawdown of granted lines. It also concerns the use of intraday and overdraft lines by custody and corporate clients. Materialisation of such a risk may be experienced as severe especially in the case of high concentration of commitments. In respect of derivatives transactions concluded embedded with CSA agreements (Credit Support Annex) or settled by CCP, Liquidity Risk can materialize in consequence of adverse and severe changes in market conditions resulting in sudden decrease in valuation of derivatives instruments and related to necessity of pledging the collateral.

Daily operations of the Bank require settlements of various payment operations. Such activity generates high level of liquidity needs during a business day. Intraday liquidity facility (technical credit) on a systemic level is offered by NBP to allow for undisturbed flow of cash in the banking system. In order to use the facility Bank maintains adequate portfolio of eligible securities.

Taking into account **mBank Group** the liquidity risk is also identified as a possibility of unexpected growth in significant liquidity needs of subsidiaries of mBank. In line with the decision of the Bank's Management Board of 25 November 2014 a centralised approach to the management of the Group's financing was introduced in order to increase the effectiveness of the used liquidity resources and to ensure better tenor match of financing with assets. Subsidiaries are financed through the agency of DS, mBank Hipoteczny obtains funding on the market through the issue of covered bonds and from mBank, while mLeasing and other subsidiaries obtain funds almost solely from mBank. The risk of unexpected growth in significant liquidity needs of the subsidiaries of mBank may occur as a result of e.g. no possibility of obtaining external financing (mBank Hipoteczny) or unexpected increase in materialisation of credit risk.

Liquidity risk may appear as a result of usage of inappropriate models in liquidity analysis (e.g. deposit base stable part model), which may lead to underestimation of Liquidity Risk. It is monitored by verification and back-testing models pursuant to Model Management Policy.

Organization of risk management

In order to ensure that the liquidity risk management process is effective, the Management Board of the Bank lies down an adequate organizational structure and delegates powers to dedicated units and Committees. The existing process covers the liquidity risk management area at both the strategic and operational level, and the liquidity risk measurement and control area.

Liquidity risk management aims at ensuring and maintaining the Bank's and the Group's ability to fulfil both current and future liabilities taking into account the cost of liquidity. The liquidity management process consists of procedures that aim at identification, measurement, controlling, monitoring, reducing and defining the acceptable level of exposure to risks. This process can be divided into two main elements in the operational sense: the part involving all forms of liquidity management and the part of controlling and monitoring liquidity risk. The mBank Group Assets and Liabilities Management Committee, the Financial Markets Risk Committee and the Management Board of the Bank are responsible for liquidity management on the strategic level. Below mentioned organisational units are responsible for liquidity management and control.

- **The Financial Markets Settlement and Services Department (DOF)** – is responsible for operational supervision over cash flows in accounts.
- **The Treasury Department (DS) -** performs treasury functions for the Bank and within the scope of intraday liquidity risk management is responsible for providing necessary funds for settlements in the Bank's accounts, implementing strategic recommendations made by the mBank Group Assets and Liabilities Management Committee, calibrating the structure of the future cash flows within the limits imposed by the Management Board and the Financial Markets Risk Committee, maintaining defined securities portfolios kept to secure liquidity within the limits imposed by the Management Board, the Financial Markets Risk Committee and the mBank Group Assets and Liabilities Management Committee. The Treasury Department is supported in these functions by the Financial Institutions Department, in relation to funding from domestic and foreign banks and international financial institutions, and the Financial Markets Department, in relation to issues of the Bank's debt securities. Moreover DS is responsible for monitoring of liquidity risk and financing of subsidiaries of mBank Group in terms of compliance with internal documentation of the Bank, participating as an observer on behalf of the Bank in ALCO meetings of the subsidiaries of mBank Group (in particular mBank Hipoteczny S.A.).
- **The Financial Markets Risk Department (DRR)** is in charge of controlling and monitoring liquidity risk of the Bank on the strategic level and reporting to the Vice-president of the Management Board - Chief Risk Officer, the Financial Markets Risk Committee and the mBank Group Assets and Liabilities Management Committee. The Department monitors financial liquidity on a daily basis using methods based on cash flow analysis. Liquidity risk measurement is based

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on the regulatory model and an internal model, which has been established taking into consideration the specific character of the Bank, the volatility of the deposit base, the level of funding concentration, and the projected development of particular portfolios.

mBank S.A.

The objective of liquidity risk management is to ensure and maintain the Bank's ability to fulfil both current and future commitments. The Bank achieves this objective by diversifying stable funding sources in terms of client group (from whom acquires deposits), product and currency groups, and at the same time, optimizes its balance sheet in terms of profitability. Long-term activities of mBank in this scope are carried out taking into account conditions on funding capacity and business profitability.

In 2015, the liquidity situation was monitored and kept at a level adequate to the Bank's needs by adjusting the deposit base and securing additional funding sources depending on the development of lending activity and other funding needs.

Tools and measures used in measuring liquidity risk

As part of liquidity risk management, a range of risk measures are being analysed. The basic measure reflecting the Bank's liquidity situation is the mismatch account of future cash flows, and the mismatch gap related with it. It covers all the assets, liabilities and off-balance sheet items of the Bank in all the currencies and time-bands set by the Bank. In 2015, the Bank held liquidity surplus, adequate to Bank's business activity and current market situation, in the form of a portfolio of liquid treasury and money market securities that may be pledged or sold at any time without any considerable loss in value. In accordance with KNF Resolution No. 386/2008 on establishing liquidity measures binding on banks, the Bank calculates the supervisory liquidity measures. In 2015, the supervisory limits on short-term and long-term liquidity measures were not exceeded. Moreover, in line with the Resolution, the Bank conducts an in-depth analysis of long-term liquidity and sets internal limits (management action triggers) on involvement in long-term assets. Relevant analysis of the stability and structure of the funding sources, including the core and concentration level of term deposits and current accounts are performed. Additionally, the Bank analyses the variability of the balance sheet and off-balance sheet items, in particular the open credit line facilities and current account and overdrafts limits utilisation.

The ongoing analysis covers not only liquidity under normal conditions, but also on the assumption of a potential liquidity loss. In order to determine the Bank's resistance to major unfavourable events, the Bank conducts scenario analyses covering extreme assumptions on the operation of financial markets and behavioural events relative to the Bank's clients. For this purpose two scenarios are performed on regular basis: ANL Stress reflecting idiosyncratic crisis and ANL Pledge reflecting market wide crisis.

Main assumptions in ANL Stress scenario:

- outflow of customer deposits,
- materialization of undrawn commitments,
- sale of liquid securities in the market in estimated amounts,
- use of central bank secured lending for unsold amount of liquid securities.

Main assumptions in ANL Pledge scenario:

- outflow of customer deposits,
- materialization of undrawn commitments,
- inability to sell Liquidity Reserve in the market,
- use of central bank secured lending for unsold amount of liquid securities

Liquidity stress tests are used in the Bank for operational management of liquidity risk and are reported to the Financial Markets Risk Committee, Assets and Liabilities Committee of the mBank Group (ALCO) as well as Supervisory Board of the Bank. In addition, the scenarios used in Bank's Contingency Plan are consistent with those used in liquidity stress testing. In order to implement the requirements of amended Recommendation P new scenarios have been worked out.

Execution of the strategy of ensuring liquidity of the Bank consists in active management of the structure of future cash flows and keeping a relevant liquidity gap surplus adequate to the liquidity needs, resulting from the activity and structure of the balance sheet of the Bank, obligations to subsidiaries and the current market situation. For this purpose the Bank keeps a surplus of liquid and unencumbered assets constituting the Liquidity Reserves, for which there is a possibility of pledging, transaction on repo market or selling at any time without significant loss in value. Liquidity Reserves were composed of Polish Government debt securities in PLN and EUR, bills issued by the National Bank of Poland in PLN and Czech Republic's Government debt securities in CZK. Values of these Reserves amounted to:

Value of Liquidity Reserves (in PLN million)	
31.12.2015	31.12.2014
22 900	22 541

In the Group the Liquidity Reserves are held also by mBank Hipoteczny S.A. Both mBank S.A. and mBank Hipoteczny are subject to compliance with the same regulatory measures imposed on banks. Liquidity Reserves of mBank Hipoteczny S.A. were composed of Polish Government debt securities in PLN and bills issued by the National Bank of Poland in PLN and amounted to:

Value of Liquidity Reserves (in PLN million)	
31.12.2015	31.12.2014
675	530

In order to support the process of liquidity risk management, a system of early warnings indicators was developed in the Bank. It is composed of indicators monitoring the level of regulatory and internal limits and additionally, indicators monitoring significant changes of market factors, as well as changes in the Bank's balance sheet.

Due to the use by the Bank of FX swap i CIRS instruments to convert surpluses in local currencies into foreign currencies, internal limits were introduce on the use of these instruments. Moreover, in order to limit the concentration in FX swaps, the amounts obtained in such transactions are monitored in monthly time bands up to 1 year.

Other measures of liquidity risk are calculated and reported in the Bank as follows:

- concentrations of funding sources,
- stability of deposit base,
- early withdrawals of deposits,
- ratio of long-term funding for the real estate market.

The Bank includes product's liquidity in its liquidity risk management framework. It is reflected in terms of measuring of market liquidity of Treasury bonds, which make up Liquidity Reserves. The analysis is performed on monthly basis and takes account of market liquidity determinants such as: market trading, order book depth, purchase/sale transaction spread and issue volume. The measurement of market liquidity is included in the ANL Stress risk measure, where the scenario structure provides for liquidating State Treasury bonds denominated in PLN held by the Bank in line with market trading in particular series of bonds. A similar check is carried out in the context of the market potential of pledging particular bond series.

The measurement, limiting and reporting the liquidity risk

At the Bank, there is a reporting process of liquidity risk. It covers both daily information delivery to entities engaged in operational management of liquidity risk and entities controlling liquidity risk management on operational level, as well as regular reporting to higher management levels for the purpose of making strategic decisions on liquidity risk.

Daily reporting covers:

- regulatory measures,
- liquidity gaps for mBank, mBank Group and material subsidiaries from liquidity risk perspective with the utilization of limits imposed on these measures,
- intraday liquidity,
- other internal liquidity risk measures.

Weekly reporting covers:

- Early Warnings Indicators (EWI).

Monthly reporting covers:

- regulatory measures and internal liquidity measures to Financial Markets Risk Committee (KRF),
- regulatory measures, internal liquidity measures and forecasts of liquidity measures based on business development forecasts to Assets and Liabilities Committee of the mBank Group.

Regulatory measures and internal liquidity measures are reported on a quarterly basis to mBank's Supervisory Board.

For the purpose of current monitoring of liquidity, the Bank establishes values of realistic, cumulated gap of cash flows misfit. The gap is calculated on the basis of contractual cash flows (Note 3.10.1). Cash flows

in portfolios of non-banking customers' deposits, overdrafts and term loans are mainly amended. In the calculation of the liquidity measures the Bank takes into account the possibilities of raising the funds by selling or pledging the debt securities from Bank's Liquidity Reserves.

Value of realistic, cumulative gap of cash flows misfit (in PLN million)				
Time range	gap (31.12.2015)		gap (31.12.2014)	
	bucket	cumulative	bucket	cumulative
up to 1 working day	10 494	10 494	10 021	10 021
up to 3 working days	(5 946)	4 548	(3 184)	6 837
up to 7 calendar days	(5 946)	4 548	(3 184)	6 837
up to 15 calendar days	3 610	8 158	587	7 424
up to 1 month	775	8 933	3 745	11 169
up to 2 months	1 637	10 570	1 528	12 697
up to 3 months	442	11 012	623	13 320
up to 4 months	427	11 439	411	13 731
up to 5 months	(256)	11 183	166	13 897
up to 6 months	74	11 257	350	14 247
up to 7 months	247	11 504	(387)	13 860
up to 8 months	196	11 700	220	14 080
up to 9 months	52	11 752	(118)	13 962
up to 10 months	(516)	11 236	(2 879)	11 083
up to 11 months	(1 674)	9 562	(145)	10 938
up to 12 months	588	10 150	242	11 180

The above values should be interpreted as liquidity surplus in relevant time buckets. Despite positive dynamics of non-banking term deposits and current accounts increases (PLN 10.18 billion – with fixed exchange rate as of 31 December 2015 used in calculations) exceeding dynamics of loans portfolio development (PLN 2.85 billion – with fixed exchange rate as of 31 December 2015 used in calculations) decrease of liquidity gap as of the end of 2015 has been noticed.

Liquidity outflow resulted from repurchase of PLN 385 million of own bonds and EUR 500 million of bonds issued under the Euro Medium Term Note Program (EMTN) by the company mFF, accompanied by reduction of debts towards main shareholder, Commerzbank A.G., in amount of CHF 1 010 million (repayment of CHF 850 million borrowings and CHF 160 million subordinated debts). Simultaneously, taking into account in cash flow mismatch cumulated gap, debt from Commerzbank remained to be repaid in 2016 in amount of CHF 800 million.

Additional factor, that negatively influenced liquidity were sudden FX rates changes (especially CHF), resulting in collateral calls due to FX swap and CIRS transactions. As a result of these changes ANL Stress methodology has been completed by additional liquidity outflow due to collateral calls of FX swap and CIRS transactions (position value as of the end of 2015 – PLN 905 million).

Moreover the Bank calculates the amount of additional collateral requirement resulting from signed agreements with the counterparties that the Bank would have to deliver in case of potential rating downgrade. As of 31 December 2015 the maximum amount was PLN 1.84 million.

In 2015 Bank's liquidity remained at a safe level which was reflected in surplus of liquid assets over short-term liabilities according to ANL Stress terms and supervisory liquidity measures.

ANL Stress gap mismatch in terms up to 1 month and up to 1 year within 2015 and supervisory liquidity measures M1, M2 and LCR are presented in the following table:

Measure*	2015			
	31.12.2015	Mean	Maximum	Minimum
ANL Stress 1M	8 933	8 355	13 968	3 442
ANL Stress 1Y	10 150	9 752	13 886	4 551
M1	13 388	9 655	14 789	4 657
M2	1.47	1.34	1.59	1.15
M3	4.68	5.22	6.08	4.29
M4	1.33	1.30	1.33	1.25
LCR	144%	132%	154%	111%

(*) – ANL Stress measures and M1 are in PLN m, whereas M2, M3 and M4 are relative measures expressed as decimal fraction.

Short-term liquidity supervisory measures (M1, M2) in 2015 remained on safe level with a minimum value of PLN 4.7 billion (M1) above the limit of 0. The long-term coverage ratios (M3, M4) are characterized by high stability on safe level, above minimum established by regulatory authority equals 1. In particular, M3 oscillated between 4.29 and 6.08 in 2015, whereas M4 between 1.25 and 1.33. The LCR measure remained on safe level, significantly exceeds 100%.

Funding sources

The strategic assumptions concerning the diversification of funding sources and profitable structure of the balance sheet are reflected in the financial plan of mBank Group defined by selected measures, e.g. L/D ratio (Loans to Deposits). The Bank measures a specific relation of loans to deposits in order to maintain a stable structure of its balance sheet. In 2015, L/D ratio improved from 103.0% to 96.6%. The Bank aims at building a stable deposit base by offering to clients deposit and investment products, regular and specific-purpose savings offerings, as well as operating deposits of the subsidiaries. Means acquired from the Bank's clients constitute the major funding source for the business activity. The second largest funding source is the portfolio of long-term loans from banks (with maturities over 1 year), in particular from Commerzbank (Note 28). The loans together with subordinated loans (Note 31) are the core funding source for the portfolio of mortgage loans in CHF. According to the suspension of granting new mortgage loans in CHF, Bank's receivables in this currency have been decreasing successively along with credit repayments. The funds obtained from the repayment of the said loans are used to reduce the Bank's debt in CHF owed mBank's main shareholder. In 2015, the debt to Commerzbank A.G. was reduced by CHF 1 010 million (repayment of CHF 850 million borrowings and CHF 160 million subordinated debts).

Moreover, in order to acquire funding (also in foreign currencies) the Bank uses mid-term and long-term instruments, including credit line facilities within Commerzbank Group and on the international market (debts from EBI – equivalent of PLN 3.6 billion remaining to repay as of the end of 2015) as well as FX swap and CIRS transactions. In 2015 the Group repurchased part of bonds issued under the Euro Medium Term Note Program (EMTN), reducing commitments by EUR 500 million (commitment as of the end of 2014 – EUR 1.5 billion, as of the end of 2015 – EUR 1 billion), at the same time in 2015, the Bank recorded increase in net liabilities due to FX swap and CIRS.

In the Group except mBank, only mBank Hipoteczny has access to external funding via issuance of mortgage covered bonds.

When making funding-related decisions, in order to match the term structure of its funding sources with the structure of long-term assets, the Group takes into consideration the supervisory liquidity measures and limits, as well as the internal liquidity risk limits.

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Liquidity risk in mBank Group is generated mainly by mBank's items. Nevertheless, liquidity risk level in mBank Group subsidiaries, where liquidity risk was deemed significant, is also a subject to monitoring. In subsidiaries generating the greatest liquidity risk (mHipoteczny, mLeasing and mDom Maklerski) the Bank monitors the level of liquidity risk on a daily basis. The data provided by these companies allow for reporting contractual cash-flow mismatch as well as calculation of a realistic cash-flows mismatch based of ANL Stress model and modelling assumptions for selected products according to risk profiles, funding possibilities and products specificity of the subsidiary. The levels of realistic, cumulative cash-flow mismatch in mBank Group presented in the following table:

Value of realistic, cumulative gap of cash flows misfit (in PLN million)				
Time range	gap (31.12.2015)		gap (31.12.2014)	
	bucket	cumulative	bucket	cumulative
up to 1 working day	12 064	12 064	11 275	11 275
up to 3 working days	(5 686)	6 378	(2 946)	8 329
up to 7 calendar days	(5 686)	6 378	(2 946)	8 329
up to 15 calendar days	3 610	9 988	564	8 893
up to 1 month	761	10 749	3 696	12 589
up to 2 months	1 506	12 255	1 536	14 125
up to 3 months	426	12 681	791	14 916
up to 4 months	327	13 008	420	15 336
up to 5 months	(230)	12 778	161	15 497
up to 6 months	80	12 858	442	15 939
up to 7 months	253	13 111	(419)	15 520
up to 8 months	243	13 354	299	15 819
up to 9 months	51	13 405	(106)	15 713
up to 10 months	(485)	12 920	(3 182)	12 531
up to 11 months	(1 639)	11 281	(103)	12 428
up to 12 months	620	11 901	289	12 717

In other subsidiaries, due to lower total assets and simpler amounts products, the process is carried out on a monthly basis and is based on aggregated information about mismatch of cash-flows in contractual terms, delivered by these subsidiaries to Financial Markets Risk Department.

3.10.1 Cash flows from transactions in non-derivative financial instruments

The table below shows cash flows the Group is required to settle, resulting from financial liabilities. The cash flows have been presented as at the year-end date, categorised by the remaining contractual maturities. The amounts denominated in foreign currencies were converted to Polish zloty at the average rate of exchange announced by the National Bank of Poland at the year-end date. The amounts disclosed in maturity dates analysis are undiscounted contractual cash flows.

Liabilities (by contractual maturity dates) as at 31.12.2015

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Amounts due to the Central Bank	-	-	-	-	-	**-**
Amounts due to other banks	2 851 640	96 521	3 222 019	6 185 231	-	**12 355 411**
Amounts due to customers	63 745 088	7 217 641	6 974 481	5 357 648	4 754 575	**88 049 433**
Debt securities in issue	5 958	15 659	576 440	5 444 067	3 865 127	**9 907 251**
Subordinated liabilities	1 018 826	1 596	39 277	1 774 492	1 441 788	**4 275 979**
Other liabilities	1 169 584	17 687	197 087	10 046	654	**1 395 058**
Total liabilities	**68 791 096**	**7 349 104**	**11 009 304**	**18 771 484**	**10 062 144**	**115 983 132**
Assets (by remaining contractual maturity dates)						
Total assets	**21 446 385**	**5 963 310**	**20 516 069**	**51 501 499**	**46 524 777**	**145 952 040**
Net liquidity gap	**(47 344 711)**	**(1 385 794)**	**9 506 765**	**32 730 015**	**36 462 633**	**29 968 908**

Liabilities (by contractual maturity dates) as at 31.12.2014

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Amounts due to the Central Bank	-	-	-	-	-	**-**
Amounts due to other banks	2 157 014	20 941	3 028 226	8 467 080	12 423	**13 685 684**
Amounts due to customers	57 838 987	7 595 466	3 475 053	2 444 201	2 401 412	**73 755 119**
Debt securities in issue	397 577	69 873	2 756 909	4 897 972	3 046 975	**11 169 306**
Subordinated liabilities	896 043	7 675	62 494	2 247 576	1 507 545	**4 721 333**
Technical-insurance provisions	17 074	38 865	60 647	12 752	5 749	**135 087**
Other liabilities	934 160	37 438	188 628	6 961	5 749	**1 172 936**
Total liabilities	**62 240 855**	**7 770 258**	**9 571 957**	**18 076 542**	**6 979 853**	**104 639 465**
Assets (by remaining contractual maturity dates)						
Total assets	**16 277 193**	**5 301 846**	**17 202 800**	**47 581 194**	**41 644 406**	**128 007 439**
Net liquidity gap	**(45 963 662)**	**(2 468 412)**	**7 630 843**	**29 504 652**	**34 664 553**	**23 367 974**

The assets which ensure the payment of all the liabilities and lending commitments comprise cash in hand, cash at the Central Bank, cash in transit and treasury bonds and other eligible bonds; amounts due from banks; loans and advances to customers.

In the normal course of business, some of the loans granted to customers with the contractual repayment date falling due within the year, will be prolonged. Moreover, a part of debt securities, were pledged as collateral for liabilities. The Group could ensure cash for unexpected net outflows by selling securities and availing itself of other sources of financing, such as the market of securities secured with assets.

3.10.2 Cash flows from derivatives

Derivative financial instruments settled in net amounts

Derivative financial instruments settled in net amounts by the Group comprise:

- Futures,
- Forward Rate Agreements (FRA),
- Options,
- Warrants,
- Interest rate swaps (IRS),
- Cross currency interest rate swaps (CIRS),
- Security forwards.

The table below shows derivative financial liabilities of the Group, which valuation as of end of 2015 was negative, grouped by appropriate remaining maturities as at the balance sheet date and are presented as contractual maturities apart from Other up to 1 month and Futures contracts which are presented as net present value (NPV). The amounts denominated in foreign currencies were converted to Polish zloty at the average rate of exchange announced by the National Bank of Poland at the balance sheet date.

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Derivatives settled on a net basis	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Forward Rate Agreements (FRA)	4 405	12 096	2 815	505	-	**19 821**
Overnight Index Swaps (OIS)	78	331	616	93	-	**1 118**
Interest Rate Swaps (IRS)	74 196	360 473	692 750	1 645 746	279 670	**3 052 835**
Cross Currency Interest Rate Swaps (CIRS)	14 888	(2 452)	(18 874)	(8 278)	984	**(13 732)**
Options	(2 766)	1 377	(11 212)	(141)	(2)	**(12 744)**
Other	113	2 064	3 576	381	-	**6 134**
Total derivatives settled on a net basis	**90 914**	**373 889**	**669 671**	**1 638 306**	**280 652**	**3 053 432**

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Derivatives settled on a net basis	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Forward Rate Agreements (FRA)	20 938	29 491	66 344	13 027	-	**129 800**
Overnight Index Swaps (OIS)	1 605	347	7 587	-	-	**9 539**
Interest Rate Swaps (IRS)	111 390	430 978	911 220	2 676 074	549 025	**4 678 687**
Cross Currency Interest Rate Swaps (CIRS)	11 028	884	(4 969)	4 757	-	**11 700**
Options	2 806	(1 014)	(10 521)	(14 553)	128	**(23 154)**
Futures contracts	-	11	-	-	-	**11**
Other	147	-	5 944	-	-	**6 091**
Total derivatives settled on a net basis	**147 914**	**460 697**	**975 605**	**2 679 305**	**549 153**	**4 812 674**

Derivative financial instruments settled in gross amounts

Derivative financial instruments settled in gross amounts by the Group comprise foreign exchange derivatives: currency forwards and currency swaps.

The table below shows derivative financial liabilities/assets of the Group, which will be settled on a gross basis, grouped by appropriate remaining maturities as at the Balance Sheet date. The amounts denominated in foreign currencies were converted to Polish zloty at the average rate of exchange announced by the National Bank of Poland at the balance sheet date.

31.12.2015

Derivatives settled on a gross basis	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Currency derivatives:						
-outflows	15 078 298	4 600 883	8 408 120	1 051 490	-	**29 138 791**
-inflows	15 109 535	4 588 461	8 480 786	1 034 073	-	**29 212 855**

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Derivatives settled on a gross basis	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Currency derivatives:						
-outflows	13 082 812	5 126 921	3 776 553	416 470	-	**22 402 756**
-inflows	13 094 178	5 133 165	3 769 438	412 353	-	**22 409 134**

The amounts disclosed in the table are undiscounted contractual outflows/inflows.

The amounts presented in the table above are nominal cash flows of currency derivatives, which have not been settled, while the Note 20 shows nominal values of all open derivative transactions.

Detailed data concerning liquidity risk related to off-balance sheet items are presented in the Note 36.

3.11. Operational risk

Operational risk is understood as the risk of loss resulting from a mismatch or unreliability of internal processes, people or systems or external events. In accordance with the Risk Catalogue of mBank Group, operational risk includes, in particular, the following sub-categories:

- legal risk,
- IT systems risk,
- personnel and organizational risk,
- security risk,
- compliance risk.

Operational risk does not include reputational risk, however materialization of operational risk may increase reputational risk.

Organization of risk management

Operational risk management is performed in mBank and, at the consolidated level, in mBank Group.

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- **The Integrated Risk and Capital Management Department (DKR)** is responsible for the measurement, control and monitoring of operational risk level in the Bank and in mBank Group.

  Within the scope of its operational risk control function, the DKR closely co-operates with other units and projects within the Bank involved in operational risk, in particular with the Compliance Department, the Legal Department, the Internal Audit Department and the Security Department. The results of operational risk control and monitoring are reported to the Risk Committee of the Supervisory Board, the Management Board of the Bank, the committees of Business and Risk Forum of mBank Group, and the Chief Risk Officer.

While organizing the operational risk management process, the Bank takes into account regulatory requirements. Resolutions and recommendations of the Polish Financial Supervision Authority (including Recommendation M, Recommendation H and Recommendation D) are the starting point for preparation of framework for the operational risk control and management system in the Bank and the Group.

General principle of operational risk management in the Bank is to minimize it that is to reduce the causes of operational events, the probability of their occurrence and the severity of potential consequences. Cost vs benefits analysis is considered while deciding on an acceptable operational risk level.

Tools and measures

Operational risk control and management consists of a set of activities aimed at identifying, monitoring, measurement, assessment, reporting as well as reduction, avoidance, transfer or acceptance of operational risk, the Bank is exposed to in particular areas of its operations. It is based on quantitative and qualitative methods and tools for operational risk control. The tools applied by the Bank intend to cause-oriented operational risk management and focus on bottom-up approach to identify risk.

Qualitative tools are aimed at establishing (within the Bank and the mBank Group) consistent qualitative assessment of internal and external factors affecting the operational risk management process.

The basic qualitative tool is the self-assessment of internal control system carried out by the organizational units. It presents an assessment of the level of operational risk for the Bank, as well as for individual processes and organizational units. Since 2014, the Bank started to replace the existing Business Environment Assessment Surveys with the Internal Control System Self-assessment (ICS) process, which will enable to identify and assess the most important operational risks and control mechanisms in the Group, and then to develop and implement necessary corrective action plans. In mid-2015 the second stage of ICS implementation was completed in the Bank. Thus, the whole activity of the Bank was covered by the process. In Q4 2015, the implementation of the ICS in the Group subsidiaries was started.

In addition, in order to control operational risk, mBank collects data about operational risk events and losses of the Group, collects and monitors key risk indicators, and develops and performs operational scenario analyses in order to identify exposure to potential high-severity events. At the same time, the communication with all areas of the Bank (business and support areas) is maintained for the purpose of monitoring and taking preventive actions once the risk of critical events has been signalled in any area.

Operational losses

The vast majority of the Group's operational losses refers to the following business lines (separated in accordance with the CRR Regulation): commercial banking, retail banking and trading and sales.

In terms of losses by risk category, the Group incurs the highest losses in three categories of operational risk: (i) crimes committed by outsiders; (ii) execution, delivery and process management; (iii) customers, products and business practices.

The following table presents the distribution of actual net losses (net of recoveries) by operational risk category, incurred by the mBank Group in 2015:

Operational risk category	Distribution	Value of losses in relation to the value of gross profit
Crimes committed by outsiders	55%	1.4%
Customers, products and business practices	33%	0.9%
Execution, delivery and process management	11%	0.3%
Other	1%	0.0%
Total	100%	2.6%

The level of operational risk losses is constantly monitored and regularly reported to the management and Supervisory Board. Monitoring takes place at the level of individual transactions and at the level of the value of total losses. In the case of single operational events with a high loss or a total of losses exceeding the set thresholds, analysis of the causes and development of corrective action plans that will reduce the occurrence of similar losses in the future is required.

3.11.1 Compliance risk

Compliance risk management in mBank is realized according, in particular, with the Compliance policy at mBank S.A., which stipulates a set of procedures and organisational rules that the Bank fulfils to comply with the requirements of Polish law and compliance rules of the Commerzbank Group, without prejudice to the provisions of Polish law. The Policy includes also a set of basic rules of conduct for the Bank's employees and main processes of compliance risk identification that allow to manage compliance risk on all levels of the Bank's organisation.

The compliance risk is understood as a consequence of failure to observe the law, internal regulations and standards of conduct adopted by the Bank. Compliance risk management aims to mitigate the risk connected with the Bank's failure to observe and comply with the law, internal regulations, and the standards of conduct adopted by the Bank. Non-compliance of the Bank's operation with internal regulations, mentioned above, is understood as non-compliance of the internal regulations with the generally applicable law and standards of conduct adopted by the Bank, including the failure to implement recommendations issued by the Polish Financial Supervision Authority and other supervisory authorities executing theirs task towards financial institutions.

Providing compliance of the Bank's internal regulations with the provisions of law (Polish and international) and adopted by the Bank standards of conduct as well as observing internal rules by the Bank employees aims to mitigate the compliance risk and to eliminate or minimize the possibility of occurrence of the following risks: legal, reputational, imposed sanctions and financial losses as well as the one resulting from discrepancies in interpretation of the law.

All the Bank employees are responsible for implementation of the provisions hereof, in line with their scope of responsibilities as well as granted authorisations.

Compliance Department is responsible for coordination and supervision of the compliance management process. In particular the Compliance Department is:

1/ developing and implementing guidelines, rules and standard procedures at the Bank in the compliance area, including common standards applicable in the Commerzbank AG Group, subject to stipulations of the Polish legal requirements,
2/ exercising supervision over the execution of tasks from the compliance area, including advisory and merit-based instruction as well as controlling organisational units of the Bank responsible for their execution,
3/ exercising supervision, including advisory and merit-based instruction, over implementing common standards of operation in the compliance area within mBank Group by relevant compliance forces in foreign branches and in subsidiaries,
4/ identifying risk in the compliance area,
5/ introducing control policies and procedures in the scope of operation of Compliance Department, to minimise the risks hereof,
6/ adjusting hereof and internal regulations, whose owner is Compliance Department, to the changing legal conditions and standards of conduct,
7/ carrying out and monitoring training sessions on the compliance area for employees of the Bank,
8/ maintaining ongoing contacts with the unit responsible for the performance of the compliance area in Commerzbank AG Group for the purpose of the implementation of common standards.

The supervision over introduction by the mBank's Group entities common rules in the compliance area is exercised in particular on the basis of concluded contracts and additional agreements that specify, among others the reporting obligations of the subsidiaries and rules of supervision visits in those entities conducted by authorised organizational units of the Bank.

3.12. Business risk

Business risk shall mean the risk of potential losses resulting from deviation between actual net operating income and plan. Net operating income is calculated as operating revenues deducted by operating costs. The calculation of deviations between actual and planned values is done separately for revenues and costs. Business risk includes, in particular, strategic risk connected with the possibility of occurrence of negative financial consequences as a result of wrong or disadvantageous decisions or their wrong implementations. It is assumed, that the results of the strategic decisions are reflected in deviations of operating profit in one-year horizon.

Business risk management is performed in mBank and, at the consolidated level, in mBank Group.

- **Controlling and Management Information Department** is responsible for ongoing monitoring of financial results of business units and preparing forecasts of the Group's results; development of methodology and measurement of economic capital for business risk and preparing information on the changes of its level, as well as for the stress testing of business risk.

One of the tools used by the Bank in order to manage and effectively reduce business risk is an ongoing monitoring of financial results of all business units and preparation of forecasts of the Group's future financial results. In case of high fluctuations, the Controlling and Management Information Department is responsible for the analysis of their causes. The results of the analysis are included in the form of notes to the financial results of the Bank and the Group provided to the Management Board.

Business risk is included in the calculation of economic capital of mBank and mBank Group.

3.13. Model risk

Model risk is understood as the risk of negative consequences connected with the decisions made on the basis of the output data of models which have been improperly constructed or are improperly administered. Model risk may result in financial losses or in the loss of potential profits, improper business or strategic decisions or negatively influence the bank's reputation.

The following specific subcategories can be distinguished in particular in model risk:

- **Data risk** understood as the risk arising from necessity to use data of unsatisfactory quality, completeness and reliability and/or outdated in the models construction and validation.
- **Assumptions/methodology risk** understood as the risk arising from incorrect assumptions or over-simplification made in the model construction or resulting from the usage of inappropriate mathematical, statistical techniques, improper expert solutions or incorrect usage of them while developing the model.
- **Models administration risk** understood as the risk of incorrect usage of models or their improper operation because of inadequate documentation, monitoring, validation and updates of these models, including assessing the adequacy of the model for current conditions.

Model risk management is coordinated by the Integrated Risk and Capital Management Department through its Validation Unit.

- **Integrated Risk and Capital Management Department (Validation Unit)** performs the following tasks: develops policies and organizes the process of managing models used for the purposes of the management and measurement of credit risk, market risk, interest rate risk in the banking book, liquidity risk as well as other risks deemed material in the process of calculating regulatory and economic capital; organizes and monitors the process of model risk assessment in the Bank's organizational units and the Group subsidiaries responsible for model development and ensures consistency of model risk assessment within the Group.

Model risk is managed on a systemic basis by a proper internal regulations concerning monitoring and validation of models.

The Model Management Policy determines the participants and the framework for model management process, including issues related to the development of models in the Group, their approval, implementation, verification/validation, monitoring, implementation of changes and the associated reporting process.

With regard to the Recommendation W on model risk management in the banks, published in July 2015 by the Polish Financial Supervision Authority, mBank commenced adaptation works in terms of:

- development of principles of models' classification and model risk measurement and monitoring in line with regulatory requirements,
- implementation of the required reporting system concerning model risk at different levels of the organization,
- supplementing the existing models' management process, particularly in the field of documentation, with elements indicated in the Recommendation.

Implementation date of the above mentioned Recommendation is defined as 30 June 2016.

3.14. Reputational risk

In today's competitive environment, the reputation of a company is increasingly gaining in importance. Banks, as public trust companies, not only are expected to be profitable and offer shareholders an adequate return, but also to be ethical, environmentally friendly, and socially responsible.

The aim of management of reputational risk, defined as a risk resulting from a negative perception of the image of the Bank or other member in the Group among its stakeholders, is to identify, assess and address reputational risk in specific processes in order to safeguard and enhance the good name of mBank and mBank Group.

The Bank's business units, foreign branches, and subsidiaries are directly responsible for any reputational risk arising from their own business activities. The key role in reputational risk management is played by the Communication and Marketing Strategy Department, which is in charge of shaping the image and brand of the Bank and mBank Group.

- **Communication and Marketing Strategy Department** is responsible for: development of external communication strategy of mBank and mBank Group and realisation of mBank external communication strategy; planning and realisation of marketing activities for business lines, with exclusion of retail banking (where the responsibility rests with the **Retail Banking Marketing Department**); planning and coordination of activities of mBank and mBank Group in regards to marketing research relating to brand positioning as well as realization of activities in the area of marketing research; development and realization of strategy relating to corporate responsibility; monitoring of activities related to the Bank's image, reputation and identification in accordance with the Bank's strategic positioning; management of crisis situations which bear the reputational risk for the Bank and the mBank Group.

  Substantial functions in the reputational risk management process are performed by other organizational units of the Bank, that is: Compliance Department, Employee and Organization Culture Development Department, Corporate Banking Management Department, Business Support Department, Retail Banking Business Development Department, and **Integrated Risk and Capital Management Department**, which is responsible for: development of reputational risk management strategy in cooperation with other organizational units and supervision over the Internal Control System Self-assessment (ICS), including also aspects of reputational risk.

The following tools and methods are used in mBank to monitor and manage reputational risk:

- mBank's values (client-centric organization, simplicity, professionalism, engagement and forward looking), which are the mBank's code used while building either business relations or internal inside of the Group,
- engagement culture survey – perception of mBank by its employees,
- Corporate Social Responsibility - responsible activities for the benefit of customers, employees, the environment and local communities (including employee volunteer projects) and participation in projects of the mBank Foundation,
- monitoring of press publications, comments in the Internet, social media or internet forums,
- customer satisfaction analysis in retail and corporate banking,
- new product process - reputational risk is one of the topics analyzed within new products' implementation process,
- analysis of customers' complaints.

Reputational Risk Management Strategy of mBank Group describes rules and components of reputational risk management, and emphasizes, in particular, such issues as: reputational risk profile and organization and methods of reputational risk management

In 2015, the "Strategy for corporate sustainability and responsibility of mBank SA" for the years 2016-2020 has been adopted. It focuses on 5 key areas of responsibility, which are as follows:

- building stable and long-term customer relations (Goal: "We want to understand, respect and share our clients' values. We want to be open. We want to think and feel like they do."),
- pursuing socially responsible credit policy (Goal: "We want to be a responsible lender."),
- building an exceptional team (Goal: "We want to build an exceptional team, competence and skills. We want to share what's best about us with others. We want to be unique."),
- limiting the Bank's environmental footprint (Goal: "We want to limit our impact on the natural environment.")
- enhancing the mechanisms of responsible corporate management, including supply chain management (Goal: "We want to enhance our management approach.").

As an organization managed in accordance with the concept of corporate social responsibility, mBank wants to provide services to its clients and generate profits for its shareholders taking social, ethical and environmental aspects into consideration. Therefore, certain restrictions have been introduced on providing services to companies whose operations might be controversial from the social point of view.

3.15. Capital risk

Capital risk management is performed in mBank and, at a consolidated level, in mBank Group.

- **Controlling and Management Information Department** is responsible for: development of the capital management policy of mBank Group; measurement of efficiency of the capital utilization and monitoring ratios of return on capital in the Bank's organizational units and the Group subsidiaries, and updating the respective methodology; preparation of forecast of changes of own funds as well as capital adequacy ratios for the Bank and mBank Group.
- **Integrated Risk and Capital Management Department** is responsible for: monitoring of capital adequacy, risk bearing capacity and risk profile of the Group; organization of the processes of planning, forecasting and monitoring regulatory and internal capital; development of the risk bearing capacity concept and the methodology of limiting regulatory and internal capital; monitoring regulatory requirements regarding the application of AIRB method in calculating capital requirements, sensitivity analyses, stress tests and analyses of influence of new products and new calculation methods for the level of capital requirements and regulatory capital ratios; preparation of reports and information for the statutory bodies of the mBank and for the purposes of consolidated supervision in regards to capital adequacy, risk bearing capacity and risk profile of the Bank and mBank Group.

In order to prevent materialization of capital risk, understood as risk resulting from the lack of sufficient capital assurance to absorb unexpected losses, the Bank applies a capital management process.

The capital management in mBank Group is organised as a process including planning, steering and controlling within the frames of economic capital, regulatory capital and internal capital. Within the framework of capital management process, regular monitoring of capital adequacy and effectiveness is conducted, aimed at assurance that adequate and optimum level of capital is maintained in mBank Group. This is supported by analysis and stress testing procedures, designed to provide in depth view on current capital position, as well as possible development in the future.

The capital management in mBank Group is a multi-level process including all subsidiaries and organisational units whose activity influences the level of own funds requirements as well as the value of internal capital.

The capital management process in mBank Group is documented. The Capital Management Policy constitutes the core documentation in this respect. It is directly linked to the General Business Strategy and Risk Management Strategy as well as the Multi-year Financial Plan of mBank Group and with the ICAAP documentation.

The underlying assumption of the Capital Management Policy is to ensure effective planning and deployment of the capital base within the mBank and mBank Group. The goal of the Policy is to set up the effective decision-making process for capital management. This is provided mainly by applying risk appetite guidelines and developing guidelines to assure sufficient capital to cover risks identified in business activity, as well as defining the organisational framework for the efficient functioning of capital management system.

The Capital Management Policy is based on two fundamental pillars:

- maintenance of optimal level and structure of own funds, assuring capital adequacy above the established minimum requirement (including risk appetite defined by the Management Board) as well as ensuring coverage against all material risks identified in mBank Group's activity,
- effective use of the capital base, guaranteeing achievement of expected returns, including return on regulatory capital and risk adjusted capital.

In addition, the document focuses on capital management in an environment of capital shortage.

3.16. Fair value of financial assets and liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value measurement assumes that the transaction of selling the asset or transferring a liability occurs either:

- on the main market for the asset or liability,
- in the absence of a main market, for the most advantageous market for the asset or liability.

The main and the most advantageous markets must be both available to the Group.

Following market practices the Group values open positions in financial instruments using either the mark-to-market approach or is applying pricing models well established in market practice (mark-to-model method) which use as inputs market prices or market parameters, and in few cases parameters estimated internally by the Group. All significant open positions in derivatives (currency or interest rates) are valued by marked-to-model using prices observable in the market. Domestic commercial papers are marked to model (by discounting cash flows), which in addition to market interest rate curve uses credit spreads estimated internally.

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The Group assumed that the fair value of short-term financial liabilities (less than 1 year) is equal to the balance sheet values of such items.

In addition, the Group assumes that the estimated fair value of financial assets and financial liabilities longer than 1 year is based on discounted cash flows using appropriate interest rates.

The following table presents a summary of balance sheet values and fair values for each group of financial assets and liabilities not recognised in the statement of financial position of the Group at their fair values.

	31.12.2015		31.12.2014	
	Carrying value	Fair value	Carrying value	Fair value
Financial assets				
Loans and advances to banks	**1 897 334**	**1 895 673**	**3 751 415**	**3 748 671**
Loans and advances to customers	**78 433 546**	**78 962 650**	**74 582 350**	**75 070 826**
Loans and advances to individuals	**44 726 181**	**45 635 346**	**40 080 064**	**40 874 882**
current accounts	5 214 087	5 283 808	4 848 799	4 927 627
term loans including:	39 512 094	40 351 538	35 231 265	35 947 255
- housing and mortgage loans	33 692 879	34 412 912	29 969 161	30 553 308
Loans and advances to corporate entities	**32 004 393**	**31 635 612**	**31 531 987**	**31 236 748**
current accounts	3 771 327	3 737 886	3 460 379	3 435 981
term loans	25 788 441	25 453 099	22 915 949	22 645 108
- corporate & institutional enterprises	5 667 803	5 591 521	5 557 635	5 516 855
- medium & small enterprises	20 120 638	19 861 578	17 358 314	17 128 253
reverse repo / buy sell back transactions	1 031 029	1 031 029	3 838 553	3 838 553
other	1 413 596	1 413 598	1 317 106	1 317 106
Loans and advances to public sector	**1 519 617**	**1 508 337**	**1 923 026**	**1 911 923**
Other receivables	**183 355**	**183 355**	**1 047 273**	**1 047 273**
Financial liabilities				
Amounts due to other banks	**12 019 331**	**11 813 534**	**13 383 829**	**13 508 323**
Amounts due to customers	**81 140 866**	**81 266 808**	**74 422 479**	**72 501 565**
Debt securities in issue	**8 946 195**	**8 890 686**	**10 341 742**	**10 425 444**
Subordinated liabilities	**3 827 315**	**3 919 644**	**4 127 724**	**4 105 811**

The following sections present the key assumptions and methods used by the Group for estimation of the fair values of financial instruments:

Loans and advances to banks and loans and advances to customers. The fair value for loans and advances to banks and loans and advances to customers is disclosed as the present value of future cash flows using current interest rates including appropriate credit spreads and is based on the expected maturity of the respective loan agreements. The level of credit spread was determined based on market quotation of median credit spreads for Moody's rating grade. Attribution of a credit spread to a given credit exposure is based on a mapping between Moody's rating grade and internal rating grades of the Group. To reflect the fact that the majority of the Group's exposures is collateralised whereas the median of market quotation is centred around unsecured issues, the Group applied appropriate adjustments.

Available for sale financial assets. Listed available for sale financial instruments held by the Group are valued at fair value. The fair value of debt securities not listed at an active market is calculated using current interest rates taking into account credit spreads for an appropriate issuer.

Financial liabilities. Financial instruments representing liabilities for the Group include the following:

- Contracted borrowings;
- Deposits;
- Issues of debt securities;
- Subordinated liabilities.

The fair value for these financial liabilities with more than 1 year to maturity is based on cash flows discounted using interest rates. For loans received from Commerzbank in CHF, the Group used the curve based on quotations of Commerzbank CDS for exposures in EUR and quotations of issued bonds under EMTN programme in EUR and CHF. For the loans received from European Investment Bank in EUR the Group used the EBI yield curve. With regard to the own issue as part of the EMTN programme the market price of the relevant financial services has been used.

In the case of deposits, the Group has applied the curve constructed on the basis of quotations of money market rates as well as FRA and IRS contracts for appropriate currencies and maturities. In case of subordinated liabilities the Group used curves based on cross-currency basis swap levels taking into account the original spread on subordinated liabilities and their maturities.

In case of covered bonds and other debt securities issued by mBank Hipoteczny, for the purpose of the disclosures swap curves and forecasted initial spreads for certain issues are used.

The Group assumed that the fair values of these instruments with less than 1 year to maturity was equal to the carrying amounts of the instruments.

The table below presents the fair value hierarchy of financial assets and liabilities measured at fair value in accordance with the assumptions and methods described above, exclusively for disclosure as at 31 December 2015 and 31 December 2014.

31.12.2015	Including:	Level 1 Quoted prices in active markets	Level 2 Valuation techniques based on observable market data	Level 3 Other valuation techniques
VALUATION ONLY FOR PURPOSES OF DISCLOSURE				
FINANCIAL ASSETS				
Loans and advances to banks	1 895 673	-	-	1 895 673
Loans and advances to customers	78 962 650	-	-	78 962 650
FINANCIAL LIABILITIES				
Amounts due to other banks	11 813 534	-	9 143 977	2 669 557
Amounts due to customers	81 266 808	-	1 631 894	79 634 914
Debt securities in issue	8 890 686	5 144 935	-	3 745 751
Subordinated liabilities	3 919 644	-	3 919 644	-
Total financial assets	**80 858 323**	**-**	**-**	**80 858 323**
Total financial liabilities	**105 890 672**	**5 144 935**	**14 695 515**	**86 050 222**

31.12.2014	Including:	Level 1 Quoted prices in active markets	Level 2 Valuation techniques based on observable market data	Level 3 Other valuation techniques
VALUATION ONLY FOR PURPOSES OF DISCLOSURE				
FINANCIAL ASSETS				
Loans and advances to banks	3 748 671	-	-	3 748 671
Loans and advances to customers	75 070 806	-	-	75 070 806
FINANCIAL LIABILITIES				
Amounts due to other banks	13 508 323	-	11 442 821	2 065 502
Amounts due to customers	72 501 565	-	5 558 939	66 942 626
Debt securities in issue	10 425 444	7 338 400	-	3 087 044
Subordinated liabilities	4 105 811	-	4 105 811	-
Total financial assets	**78 819 477**	**-**	**-**	**78 819 477**
Total financial liabilities	**100 541 143**	**7 338 400**	**21 107 571**	**72 095 172**

Level 1

Level 1 includes the fair value of bonds issued by the Bank's subsidiary mFinance France (Note 30). For the purpose of disclosures the Group applied market price of the issued debt securities.

Level 2

Level 2 includes the fair value of long-term loans received from banks, the fair value of long-term deposits placed by customers and the fair value of the loan received from the EIB (Note 29). In addition, at level 2, the Group has presented subordinated liabilities.

The fair value of financial liabilities included in level 2 with more than 1 year to maturity is based on cash flows discounted using interest rates. For received loans in EUR the Bank used the swap curve amended by the spread determined based on observable Commerzbank CDS quotations in EUR for various maturities and a fixed spread which represents the assumed credit spread differential for Bank risk (derived from market quotation of bond issued under the EMTN programme). For the loans in other currencies, the above spreads for EUR were applied and cross currency swaps quotations to EUR. In case of the loans received from European Investment Bank in EUR, the Bank used EIB yield curve and the value of margin which was agreed upon the last contract for a loan. Based on that assumption, the spread of Bank to market swap curve was estimated. In case of deposits the Bank used the curve based on money market rates, as well as FRA contracts and IRS contracts for appropriate currencies and maturities. For debt securities in issue the Bank used the prices directly from the market for these securities. For the purpose of measurement of subordinated liabilities the Bank used obtained primary market spreads of subordinated bonds issued by the Bank and if required corresponding cross-currency basis swap levels for the respective maturities.

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Level 3

Level 3 includes the fair value of loans and advances to banks and loans and advances to customers. The fair value for loans and advances to banks and loans and advances to customers is disclosed as the present value of future cash flows using current interest rates including appropriate credit spreads and is based on the expected maturity of the respective loan agreements. The level of credit spread was determined based on market quotation of median credit spreads for Moody's rating grade. Attribution of a credit spread to a given credit exposure is based on a mapping between Moody's rating grade and internal rating grades of mBank. To reflect the fact that the majority of the Bank's exposures is collateralised whereas the median of market quotation is centred around unsecured issues, the Bank performed appropriate adjustments.

Level 3 includes also the fair value of the mortgage bonds and other debt securities issued by mBank Hipoteczny. For the valuation of the Group has applied the technique of estimation of interest flow using swap curve and discounting with the rate amended by credit spread which is obtainable in case of issue depending on currency and maturity of financial instrument.

Moreover, level 3 includes short term liabilities due to banks and customers.

The following table presents the hierarchy of fair values of financial assets and liabilities recognised in the statement of financial position of the Group at their fair values.

31.12.2015	Including:	Level 1 Quoted prices in active markets	Level 2 Valuation techniques based on observable market data	Level 3 Other valuation techniques
RECURRING FAIR VALUE MEASUREMENTS				
FINANCIAL ASSETS				
TRADING SECURITIES	**557 541**	**183 658**	**2 654**	**371 229**
Debt securities	**550 695**	**179 466**	**-**	**371 229**
- government bonds	178 492	178 492	-	-
- deposit certificates	73 124	-	-	73 124
- banks bonds	248 156	974	-	247 182
- corporate bonds	50 923	-	-	50 923
Equity securities	**6 846**	**4 192**	**2 654**	**-**
- listed	4 192	4 192	-	-
- unlisted	2 654	-	2 654	-
DERIVATIVE FINANCIAL INSTRUMENTS	**3 349 328**	**-**	**3 348 908**	**420**
Derivative financial instruments held for trading	**3 151 873**	**-**	**3 151 453**	**420**
- interest rate derivatives	2 783 388	-	2 783 388	-
- foreign exchange derivatives	348 317	-	348 317	-
- market risks derivatives	20 168	-	19 748	420
Derivative financial instruments held for hedging	**197 455**	**-**	**197 455**	**-**
- derivatives designated as fair value hedges	146 694	-	146 694	-
- derivatives designated as cash flow hedges	50 761	-	50 761	-
INVESTMENT SECURITIES	**30 736 949**	**22 279 327**	**7 442 384**	**1 015 238**
Debt securities	**30 537 570**	**22 278 572**	**7 442 384**	**816 614**
- government bonds	22 238 625	22 238 625	-	-
- money bills	7 442 384	-	7 442 384	-
- banks bonds	233 158	-	-	233 158
- corporate bonds	583 456	-	-	583 456
- communal bonds	39 947	39 947	-	-
Equity securities	**199 379**	**755**	**-**	**198 624**
- unlisted	199 379	755	-	198 624
TOTAL FINANCIAL ASSETS	**34 643 818**	**22 462 985**	**10 793 946**	**1 386 887**

31.12.2015	Including:	Level 1 Quoted prices in active markets	Level 2 Valuation techniques based on observable market data	Level 3 Other valuation techniques
FINANCIAL LIABILITIES				
Derivative financial instruments	**3 173 638**	**-**	**3 173 638**	**-**
Derivative financial instruments held for trading	**3 171 624**	**-**	**3 171 624**	**-**
- interest rate derivatives	2 811 493	-	2 811 493	-
- foreign exchange derivatives	342 407	-	342 407	-
- market risks derivatives	17 724	-	17 724	-
Derivative financial instruments held for trading	**2 014**	**-**	**2 014**	**-**
- derivatives designated as fair value hedges	2 014	-	2 014	-
Total financial liabilities	**3 173 638**	**-**	**3 173 638**	**-**
TOTAL RECURRING FAIR VALUE MEASUREMENTS				
FINANCIAL ASSETS	**34 643 818**	**22 462 985**	**10 793 946**	**1 386 887**
FINANCIAL LIABILITIES	**3 173 638**	**-**	**3 173 638**	**-**

Assets Measured at Fair Value Based on Level 3 - changes in 2015	Debt trading securities	Equity trading securities	Derivative financial instruments	Debt investment securities	Equity investment securities
As at the beginning of the period	**527 067**	**22**	**469**	**309 761**	**30 696**
Gains and losses for the period:	**931**	**(18)**	**(49)**	**14 312**	**160 974**
Recognised in profit or loss:	931	(18)	(49)	3 967	1 827
- Net trading income	*931*	*(18)*	*(49)*	-	*99*
- Gains less losses from investment securities, investments in subsidiaries and associates	-	-	-	*3 967*	*1 728*
Recognised in other comprehensive income:	-	-	-	*10 345*	*159 147*
- Available for sale financial assets	-	-	-	*10 345*	*159 147*
Purchases	1 870 076	-	-	308 663	9 850
Redemptions	(281 307)	-	-	(49 980)	-
Sales	(7 594 537)	-	-	(984 211)	(2 753)
Issues	5 848 999	-	-	1 218 069	-
Settlements	-	-	-	-	(381)
Transfers into Level 3	-	-	-	-	*238*
Transfers out of Level 3	-	*(4)*	-	-	-
As at the end of the period	**371 229**	**-**	**420**	**816 614**	**198 624**

With regard to financial instruments valuated in repetitive way to the fair value classified as level 1 and 2 in hierarchy of fair value, any cases in which transfer between these levels may occur, are monitored by Financial Market Risk Department on the basis of internal rules. In case if there is no market price used to a direct valuation for more than 5 working days, the method of valuation is changed, i.e. change from marked-to-market valuation to marked-to-model valuation under the assumption that the valuation model for the respective type of this instrument has been already approved. The return to marked-to-market valuation method takes place after a period of at least 10 working days in which the market price was available on a continuous basis. If there is no market prices for a debt treasury bonds the above terms are respectively 2 and 5 working days.

Transfers between levels in 2015	Transfer into level 1	Transfer out of level 1	Transfer into level 2	Transfer out of level 2
Investment securities	**4**	**(238)**	**-**	**-**
Equity securities	4	(238)	-	-

In 2015, one transfer has been observed from level 1 to level 3 of fair value hierarchy which resulted from the liquidation process of the issuer.

Moreover, in 2015 there has been observed one transfer from level 3 to level 1 of fair value hierarchy which resulted from the effect of valuation techniques revision applied to minority stakes of low value held by the Bank.

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31.12.2014	Including:	Level 1 Quoted prices in active markets	Level 2 Valuation techniques based on observable market data	Level 3 Other valuation techniques
RECURRING FAIR VALUE MEASUREMENTS				
FINANCIAL ASSETS				
TRADING SECURITIES	**1 163 944**	**629 361**	**7 494**	**527 089**
Debt securities	1 145 997	618 930	-	527 067
- government bonds	617 906	617 906	-	-
- banks bonds	473 097	1 024	-	472 073
- corporate bonds	54 994	-	-	54 994
Equity securities	**17 947**	**10 431**	**7 494**	**22**
- listed	10 431	10 431	-	-
- unlisted	7 516	-	7 494	22
DERIVATIVE FINANCIAL INSTRUMENTS	**4 865 517**	**-**	**4 865 048**	**469**
Derivative financial instruments held for trading	**4 711 124**	**-**	**4 710 655**	**469**
- interest rate derivatives	4 406 512	-	4 406 512	-
- foreign exchange derivatives	295 564	-	295 564	-
- market risks derivatives	9 048	-	8 579	469
Derivative financial instruments held for hedging	**154 393**	**-**	**154 393**	**-**
- derivatives designated as fair value hedges	102 226	-	102 226	-
- derivatives designated as cash flow hedges	52 167	-	52 167	-
INVESTMENT SECURITIES	**27 678 614**	**22 858 617**	**4 479 540**	**340 457**
Debt securities	**27 416 998**	**22 627 697**	**4 479 540**	**309 761**
- government bonds	22 586 122	22 586 122	-	-
- money bills	4 479 540	-	4 479 540	-
- banks bonds	24 907	-	-	24 907
- corporate bonds	284 854	-	-	284 854
- communal bonds	41 575	41 575	-	-
Equity securities	**261 616**	**230 920**	**-**	**30 696**
- listed	229 961	229 961	-	-
- unlisted	31 655	959	-	30 696
TOTAL FINANCIAL ASSETS	**33 708 075**	**23 487 978**	**9 352 082**	**868 015**

31.12.2014	Including:	Level 1 Quoted prices in active markets	Level 2 Valuation techniques based on observable market data	Level 3 Other valuation techniques
FINANCIAL LIABILITIES				
Derivative financial instruments	**4 719 056**	**-**	**4 718 186**	**870**
Derivative financial instruments held for trading	**4 714 774**	**-**	**4 713 904**	**870**
- interest rate derivatives	4 390 412	-	4 390 412	-
- foreign exchange derivatives	305 857	-	305 443	414
- market risks derivatives	18 505	-	18 049	456
Derivative financial instruments held for trading	**4 282**	**-**	**4 282**	**-**
- derivatives designated as fair value hedges	3 592	-	3 592	-
- derivatives designated as cash flow hedges	690	-	690	-
Total financial liabilities	**4 719 056**	**-**	**4 718 186**	**870**
TOTAL RECURRING FAIR VALUE MEASUREMENTS				
FINANCIAL ASSETS	**33 708 075**	**23 487 978**	**9 352 082**	**868 015**
FINANCIAL LIABILITIES	**4 719 056**	**-**	**4 718 186**	**870**

Assets Measured at Fair Value Based on Level 3 - changes in 2014	Debt trading securities	Equity trading securities	Derivative financial instruments	Debt investment securities	Equity investment securities
As at the beginning of the period	**346 263**	**6**	**450**	**133 042**	**40 206**
Gains and losses for the period:	**12 053**	**16**	**19**	**6 736**	**(696)**
Recognised in profit or loss:	12 053	16	19	-	(710)
- Net trading income	*12 053*	*16*	*19*	-	-
- Gains less losses from investment securities, investments in subsidiaries and associates	-	-	-	-	*(710)*
Recognised in other comprehensive income:	-	-	-	*6 736*	*14*
- Available for sale financial assets	-	-	-	*6 736*	*14*
Purchases	3 121 268	-	-	61 902	8 610
Redemptions	(344 563)	-	-	-	-
Sales	(11 866 323)	-	-	(198 072)	(15 947)
Issues	9 260 092	-	-	304 918	-
Settlements	(1 723)	-	-	1 235	(2 390)
Transfers into Level 3	-	-	-	-	*913*
As at the end of the period	**527 067**	**22**	**469**	**309 761**	**30 696**

Transfers between levels in 2014	Transfer into level 1	Transfer out of level 1	Transfer into level 2	Transfer out of level 2
Investment securities	**898**	**-**	**-**	**(1 811)**
Equity securities	898	-	-	(1 811)

In 2014 there have been observed three movements from level 2 to level 3 in the total amount of PLN 913 thousand and one movement from level 2 to level 1 in the amount of PLN 898 thousand. These transfers resulted from the effect of valuation techniques revision applied to minority stakes of low value held by the Group.

According to the fair value methodology applied by the Group, financial assets and liabilities are classified as follows:

- Level 1: prices quoted on active markets for the same instrument (without modification);
- Level 2: valuation techniques based on observable market data or other valuation methods for which all significant input data are based on observable market data;
- Level 3: valuation methods for which at least one significant input data is not based on observable market data.

Level 1

As at 31 December 2015, at level 1 of the fair value hierarchy, the Group has presented the fair value of held for trading government bonds in the amount of PLN 178 492 thousand (see Note 19) and the fair value of investment government bonds in the amount of PLN 22 238 625 thousand (see Note 23) (31 December 2014 respectively: PLN 617 906 thousand and PLN 22 586 122 thousand). Level 1 also includes the fair value of local government bonds in the amount of PLN 39 947 thousand (31 December 2014: PLN 41 575 thousand), and the fair value of bonds issued by banks in the amount of PLN 974 thousand (31 December 2014: PLN 1 024 thousand).

In addition, as at 31 December 2015 level 1 includes the value of the shares of listed companies in the amount of PLN 4 192 thousand (31 December 2014: PLN 241 351 thousand, including value of PZU S.A. shares in the amount of PLN 229 961 thousand).

These instruments are classified as level 1 because their valuation is directly derived by applying current market prices quoted on active and liquid financial markets.

Level 2

Level 2 of the fair vale hierarchy includes the fair values of bills issued by NBP in the amount of PLN 7 442 384 thousand (31 December 2014: PLN 4 479 540 thousand;), whose valuation is based on a NPV model (discounted future cash flows) fed with interest rate curves generated by transformation of quotations taken directly from active and liquid financial markets.

In addition, the level 2 category includes the valuation of derivative financial instruments borne on models consistent with market standards and practices, using parameters taken directly from the markets (e.g., foreign exchange rates, implied volatilities of fx options, stock prices and indices) or parameters which transform quotations taken directly from active and liquid financial markets (e.g., interest rate curves).

As at 31 December 2015 and 31 December 2014, level 2 also includes the value of options referencing on the WIG 20 index. For options on WIG 20 index an internal model (based on implied volatility model) using market parameters is applied.

Level 3

Level 3 of the hierarchy presents the fair values of commercial debt securities issued by local banks and companies (bonds and deposit certificates) in the amount of PLN 1 187 843 thousand (31 December 2014: PLN 836 828 thousand).

The above mentioned debt instruments are classified as level 3 because in addition to parameters which transform quotations taken directly from active and liquid financial markets (interest rate curves), their valuation uses credit spread estimated by the Bank by means of an internal credit risk model and reflecting credit risk of securities issuer. The model uses parameters (e.g., rate of recovery from collateral, rating migrations, default ratio volatilities) which are not observed on active markets and hence were generated by statistical analysis.

Impact of change in credit spreads on the fair value of debt securities classified as level 3 is presented in the table below. The amount reflects change in credit risk in relation to purchase date by the Group.

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Issuer	Change of fair value resulting from change in credit risk	
	31.12.2015	31.12.2014
Credit institutions	1 549	544
Non-financial customers	2 537	2 163
Total	**4 086**	**2 707**

Moreover, level 3 covers mainly the fair value of equity securities amounting to PLN 198 624 thousand (31 December 2014: PLN 30 718 thousand). As at 31 December 2015 this amount includes the value of Visa Europe Ltd shares in the amount of PLN 167 243 thousand which was valuated at fair value on the basis on information held by the Bank in connection with the takeover transaction of Visa Europe Ltd by Visa Inc. which was described under Note 23. The other equity securities presented at level 3 have been valuated using the market multiples method. The market multiples method, consists of valuating the equity capital of a company by using a relation between the market values of the own equity capital or market values of the total capital invested in comparable companies (goodwill) and selected economic and financial figures.

3.17. Other activities

The Group provides custody, trustee, corporate administration, investment management and advisory services to third parties. In connection with these, the Group makes decisions concerning the allocation, purchase and sale of a wide variety of financial instruments. Assets held in a fiduciary capacity are not included in these financial statements.

4. Major estimates and judgments made in connection with the application of accounting policy principles

The Group applies estimates and adopts assumptions which impact the values of assets and liabilities presented in the subsequent period. Estimates and assumptions, which are continuously subject to assessment, rely on historical experience and other factors, including expectations concerning future events, which seem justified under the given circumstances.

Impairment of loans and advances

The Group reviews its loan portfolio in terms of possible impairments at least once per quarter. In order to determine whether any impairment loss should be recognised in the income statement, the Group assesses whether any evidence exists that would indicate some measurable reduction of estimated future cash flows attached to the loan portfolio. The methodology and the assumptions (on the basis of which the estimated cash flow amounts and their anticipated timing are determined) are regularly verified. The rules of determining write-downs and provisions for impairment of credit exposures have been described under Note 3.4.6.

Fair value of derivatives and other financial instruments

The fair value of financial instruments not listed on active markets is determined by applying valuation techniques. All the models are approved prior to being applied and they are also calibrated in order to assure that the obtained results indeed reflect the actual data and comparable market prices. As far as possible, observable market data originating from an active market are used in the models. Methods for determining the fair value of financial instruments are described in Note 3.16.

Impairment of available for sale financial assets

The Group reviews its debt securities classified as available for sale investments at each reporting date to assess whether they are impaired. This requires similar judgment as applied to the individual assessment of loans and advances. The Group also records impairment charges on available for sale equity investments when there has been a significant or prolonged decline in the fair value below their cost. The determination of what is 'significant' or 'prolonged' requires professional judgment. In making this judgment, the Group evaluates, among other factors, historical share price movements and duration and extent to which the fair value of an investment is less than its cost.

Deferred tax assets

Deferred tax assets are recognised in respect of tax losses to the extent that it is probable that future taxable profit will be available, against which the losses can be utilised. Judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits.

Revenue and expenses from sale of insurance products bundled with loans

Revenue and expenses from sale of insurance products bundled with loans are split into interest income and fee and commission income based on the relative fair value analysis of each of these products.

The remuneration included in fee and commission income is recognised partly as upfront income and partly including deferring over time based on the analysis of the stage of completion of the service.

Now, the Group leads in case of insurance policies bundled with loans to upfront recognition less than 10% of bancassurance income associated with cash and car loans and 0% to approximately 25% of bancassurance income associated with mortgage loans. Recognition of the remaining part of the income is spread over the economic life of the associated loans. Expenses directly linked to the sale of insurance products are recognised using the same pattern.

Liabilities due to post-employment employee benefits

The costs of post-employment employee benefits are determined using an actuarial valuation. The actuarial valuation involves making assumptions about discount rates, future salary increases, mortality rates and other factors. Due to the long–term nature of these liabilities, such estimates are subject to significant uncertainty.

Leasing classification

The Group makes judgement classifying lease agreements as finance lease or operating lease based on the economic substance of the transaction basing on professional judgment whether substantially all the risk and rewards incidental to ownership of an asset were transferred or not.

Classification for forborne exposures

In accordance with the Group's forbearance policy presented under Note 3.4.7, the Group classifies exposure / customers which are subject to the forbearance policy on the basis of professional judgment.

5. Business segments

Following the adoption of "management approach" of IFRS 8, operating segments are reported in accordance with the internal reporting provided to the Bank's Management Board (the chief operating decision-maker), which is responsible for allocating resources to the reportable segments and assesses their performance.

The classification by business segments is based on client groups and product groups defined by homogenous transaction characteristics. The classification is consistent with sales management and the philosophy of delivering complex products to the Bank's clients, including both standard banking products and more sophisticated investment products. The method of presentation of financial results coupled with the business management model ensures a constant focus on creating added value in relations with clients of the Bank and Group companies and should be seen as a primary division, which serves the purpose of both managing and perceiving business within the Group.

From the beginning of 2015, the Group has adjusted the assignment of two subsidiaries to segments: mLeasing Sp. z o.o. and mBank Hipoteczny S.A. From the results of mLeasing Sp. z o.o., previously assigned, according to split of customers, to Corporate and Investment Banking sub-segment and Retail Banking segment, activities regarding funding were excluded and assigned to Financial Markets sub-segment. The results of mBank Hipoteczny S.A., previously assigned to the Retail Banking segment, were divided into the Corporate and Investment Banking sub-segment and Retail Banking segment (according to split of customers into corporate and retail) as well as to the Financial Markets sub-segment, to which activities regarding funding, including issuance of covered bonds, were assigned.

According to above-mentioned changes, the comparative data concerning business segments of the Group were restated to reflect changes in presentation made to the current financial year.

The Group conducts its business through different business segments, which offer specific products and services targeted at specific client groups and market segments. The Group currently conducts its operations through the following business segments:

- The Retail Banking segment, which divides its customers into mBank customers and Private Banking customers and which offers a full range of the Bank's banking products and services as well as specialized products offered by a number of subsidiaries belonging to the Retail Banking segment. The key products in this segment include current and savings accounts (including accounts in foreign currencies), term deposits, lending products (retail mortgage loans and non-mortgage loans such as cash loans, car loans, overdrafts, credit cards and other loan products), debit cards, insurance products, investment products, brokerage and leasing services offered to both individual customers and to micro-businesses. The results of the Retail Banking segment include the results of foreign branches of mBank in the Czech Republic and Slovakia. The Retail Banking segment also includes the results of: mWealth Management S.A., Aspiro S.A., as well as the results of retail segments of mLeasing Sp. z o.o., Dom Maklerski mBanku S.A. and mBank Hipoteczny S.A. Moreover this segment includes the result of BRE Ubezpieczenia TUiR S.A. and AWL I Sp. z o.o. until the date of their sale as well as the result of BRE Ubezpieczenia Sp. z o.o. and BRE Agent Ubezpieczeniowy Sp. z o.o. until the date of their merger with Aspiro. In 2015, this segment also includes the Group's result on sale of BRE Ubezpieczenia TUiR S.A.

- The Corporates and Financial Markets segment, which is divided into two sub-segments:
  - *Corporate and Investment Banking* sub-segment (business line), which targets small, medium and large-sized companies and public sector entities. The key products offered to these customers include transactional banking products and services including current account products, multi-functional internet banking, tailor-made cash management and trade finance services, term deposits, foreign exchange transactions, a comprehensive offer of short-term financing and investment loans, cross-border credit, project finance, structured and mezzanine finance services, investment banking products including foreign exchange options, forward contracts, interest rate derivatives and commodity swaps and options, structured deposit products with embedded options (interest on structured deposit products are directly linked to the performance of certain underlying financial instruments such as foreign exchange options, interest rate options and stock options), debt origination for corporate clients, treasury bills and bonds, non-government debt, medium-term bonds, buy sell back and sell buy back transactions and repo transactions, as well as leasing, factoring and brokerage services. The Corporate and Investment Banking sub-segment includes the results of the following subsidiaries: mFaktoring S.A., Garbary Sp. z o.o., Tele-Tech Investment Sp. z o.o. as well as the results of corporate segments of mLeasing Sp. z o.o., Dom Maklerski mBanku S.A. and mBank Hipoteczny S.A. Moreover this segment includes the results of Transfinance a.s. until the date of sale of the company and results of MLV 45 Sp. z o.o. spółka komandytowa until the date of adopting a resolution of liquidation of the company.
  - *Financial Markets* sub-segment (business line) consists primarily of treasury, financial markets, and financial institutions operations, manages the liquidity, interest rate and foreign exchange risks of the Bank, its trading and investment portfolios, and conducts market making in PLN denominated cash and derivative instruments. The Bank also maintains an extensive correspondent banking network and also develops relationships with other banks providing products such as current accounts, overdrafts, stand alone and syndicated loans and loans insured by KUKE to support the Polish export market. This sub-segment also includes the results of mFinance France S.A. as well as the results of mLeasing Sp. z o.o and mBank Hipoteczny S.A. with regard to activities concerning funding.
- Operations which are not included in the Retail Banking segment and the Corporates and Financial Markets segment are reported under "Other". This segment includes the results of mLocum S.A., mCentrum Operacji Sp. z o.o. and BDH Development Sp. z o.o.

The principles of segment classification of the Group's activities are described below.

Transactions between the business segments are conducted on regular commercial terms.

Allocation of funds to the Group companies and assigning them to particular business segments results in funding cost transfers. Interest charged for these funds is based on the Group's weighted average cost of capital and presented in operating income.

Internal fund transfers between the Bank's units are calculated at transfer rates based on market rates. Transfer rates are determined on the same basis for all operating units of the Bank and their differentiation results only from currency and maturity structure of assets and liabilities. Internal settlements concerning internal valuation of funds transfers are reflected in the results of each segment.

Assets and liabilities of a business segment comprise operating assets and liabilities, which account for most of the statement of financial position, whereas they do not include such items as taxes or loans.

The separation of the assets and liabilities of a segment, as well as of its income and costs, is done on the basis of internal information prepared at the Bank for the purpose of management accounting. Assets and liabilities for which the units of the given segment are responsible as well as income and costs related to such assets and liabilities are attributed to individual business segments. The financial result of a business segment takes into account all the income and cost items attributable to it.

The business operations of particular companies of the Group are fully attributed to the appropriate business segments (including consolidation adjustments).

The primary basis used by the Group in the segment reporting is business line division. In addition, the Group's activity is presented by geographical areas reporting broken down into Poland and foreign countries because of the place of origin of income and expenses. Foreign countries segment includes activity of mBank's foreign branches in Czech Republic and Slovakia as well as activity of foreign subsidiary mFinance France S.A. (until the end of 2014, this segment also included the activity of the company Transfinance a.s.). The activity of the company mFinance France S.A., after the elimination of income and expenses and assets and liabilities related to the issue of bonds under the EMTN programme, is presented in the "Foreign countries" segment. The cost of the EMTN programme as well as the related assets and liabilities are presented in the segment "Poland".

Business segment reporting on the activities of mBank S.A. Group
for the period from 1 January to 31 December 2015
(PLN'000)

	Corporates & Financial Markets		Retail Banking (including Private Banking)	Other	Total figure for the Group	Statement of financial position reconciliation/ income statement reconciliation
	Corporate and Investment Banking	Financial Markets				
Net interest income	**755 179**	**191 746**	**1 565 578**	**(1 130)**	**2 511 373**	**2 511 373**
- sales to external clients	749 959	607 685	1 151 618	2 111	2 511 373	
- sales to other segments	5 220	(415 939)	413 960	(3 241)	-	
Net fee and commission income	**376 722**	**(1 804)**	**507 286**	**14 972**	**897 176**	**897 176**
Dividend income	**14 226**	**139**	**77**	**3 098**	**17 540**	**17 540**
Trading income	**215 769**	**(17 419)**	**95 671**	**(1 086)**	**292 935**	**292 935**
Gains less losses from investment securities, investments in subsidiaries and associates	**19 138**	**5 802**	**194 032**	**95 436**	**314 408**	**314 408**
Investments in joint ventures	**-**	**-**	**-**	**(141)**	**(141)**	**(141)**
Other operating income	**65 254**	**708**	**52 168**	**127 729**	**245 859**	**245 859**
Net impairment losses on loans and advances	**(177 783)**	**(754)**	**(224 262)**	**(18 423)**	**(421 222)**	**(421 222)**
Overhead costs	**(620 795)**	**(89 550)**	**(968 428)**	**(175 823)**	**(1 854 596)**	**(1 854 596)**
Amortisation	**(74 939)**	**(8 552)**	**(112 638)**	**(3 521)**	**(199 650)**	**(199 650)**
Other operating expenses	**(35 345)**	**(150)**	**(48 816)**	**(101 516)**	**(185 827)**	**(185 827)**
Operating profit	**537 426**	**80 166**	**1 060 668**	**(60 405)**	**1 617 855**	**1 617 855**
Gross profit of the segment	**537 426**	**80 166**	**1 060 668**	**(60 405)**	**1 617 855**	**1 617 855**
Income tax					(313 727)	(313 727)
Net profit attributable to Owners of mBank S.A.					1 301 246	1 301 246
Net profit attributable to non-controlling interests					2 882	2 882
Assets of the segment	**35 057 604**	**41 162 527**	**46 210 195**	**1 092 695**	**123 523 021**	**123 523 021**
Liabilities of the segment	**30 224 844**	**33 481 611**	**46 866 764**	**674 838**	**111 248 057**	**111 248 057**
Other items of the segment						
Expenditures incurred on fixed assets and intangible assets	157 002	8 922	185 493	4 427	355 844	

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Business segment reporting on the activities of mBank S.A. Group

for the period from 1 January to 31 December 2014

(PLN'000)

	Corporates & Financial Markets		Retail Banking (including Private Banking)	Other	Total figure for the Group	Statement of financial position reconciliation/ income statement reconciliation
	Corporate and Investment Banking	Financial Markets				
Net interest income	**746 495**	**139 698**	**1 611 284**	**(6 819)**	**2 490 658**	**2 490 658**
- sales to external clients	741 668	542 826	1 207 278	(1 114)	2 490 658	
- sales to other segments	4 827	(403 128)	404 006	(5 705)	-	
Net fee and commission income	**387 861**	**(5 989)**	**506 058**	**13 760**	**901 690**	**901 690**
Dividend income	**17 223**	**191**	**78**	**2 500**	**19 992**	**19 992**
Trading income	**184 109**	**69 739**	**115 119**	**189**	**369 156**	**369 156**
Gains less losses from investment securities, investments in subsidiaries and associates	**10 074**	**45 299**	**(700)**	**(2 747)**	**51 926**	**51 926**
Other operating income	**98 128**	**865**	**114 477**	**133 452**	**346 922**	**346 922**
Net impairment losses on loans and advances	**(211 584)**	**(1 065)**	**(303 285)**	**31**	**(515 903)**	**(515 903)**
Overhead costs	**(598 456)**	**(87 297)**	**(858 616)**	**(36 174)**	**(1 580 543)**	**(1 580 543)**
Amortisation	**(73 752)**	**(8 814)**	**(104 255)**	**(3 201)**	**(190 022)**	**(190 022)**
Other operating expenses	**(40 573)**	**273**	**(63 226)**	**(137 650)**	**(241 176)**	**(241 176)**
Operating profit	**519 525**	**152 900**	**1 016 934**	**(36 659)**	**1 652 700**	**1 652 700**
Gross profit of the segment	**519 525**	**152 900**	**1 016 934**	**(36 659)**	**1 652 700**	**1 652 700**
Income tax					(363 390)	(363 390)
Net profit attributable to Owners of mBank S.A.					1 286 668	1 286 668
Net profit attributable to non-controlling interests					2 642	2 642
Assets of the segment	**32 399 510**	**43 101 622**	**41 637 447**	**847 243**	**117 985 822**	**117 985 822**
Liabilities of the segment	**25 731 503**	**40 092 161**	**40 384 484**	**704 694**	**106 912 842**	**106 912 842**
Other items of the segment						
Expenditures incurred on fixed assets and intangible assets	165 487	9 711	120 867	1 586	297 651	

Geographical areas reporting on the acivities of mBank Group for the period from 1 January to 31 December	2015			2014		
	Poland	Foreign Countries	Total	Poland	Foreign Countries	Total
Net interest income	2 383 730	127 643	**2 511 373**	2 369 399	121 259	**2 490 658**
Net fee and commission income	871 654	25 522	**897 176**	875 745	25 945	**901 690**
Dividend income	17 540	-	**17 540**	19 992	-	**19 992**
Trading income	288 215	4 720	**292 935**	363 388	5 768	**369 156**
Gains less losses from investment securities, investments in subsidiaries and associates	314 408	-	**314 408**	51 926	-	**51 926**
Investments in joint ventures	(141)	-	**(141)**	-	-	**-**
Other operating income	242 745	3 114	**245 859**	345 279	1 643	**346 922**
Net impairment losses on loans and advances	(411 834)	(9 388)	**(421 222)**	(480 714)	(35 189)	**(515 903)**
Overhead costs	(1 750 584)	(104 012)	**(1 854 596)**	(1 473 145)	(107 398)	**(1 580 543)**
Amortisation	(195 794)	(3 856)	**(199 650)**	(185 911)	(4 111)	**(190 022)**
Other operating expenses	(182 917)	(2 910)	**(185 827)**	(238 129)	(3 047)	**(241 176)**
Operating profit	1 577 022	40 833	**1 617 855**	1 647 830	4 870	**1 652 700**
Gross profit of the segment	1 577 022	40 833	**1 617 855**	1 647 830	4 870	**1 652 700**
Income tax			(313 727)			(363 390)
Net profit attributable to Owners of mBank S.A.			1 301 246			1 286 668
Net profit attributable to non-controlling interests			2 882			2 642
Assets of the segment, including:	119 572 565	3 950 456	**123 523 021**	114 548 848	3 436 974	**117 985 822**
- tangible assets	1 253 137	10 434	1 263 571	1 171 783	11 220	1 183 003
- deferred income tax assets	366 088	-	366 088	266 382	6 034	272 416
Liabilities of the segment	104 825 293	6 422 764	**111 248 057**	101 151 600	5 761 242	**106 912 842**

6. Net interest income

	Year ended 31 December	
	2015	**2014**
Interest income		
Loans and advances including the unwind of the impairment provision discount	2 584 546	2 833 184
Investment securities	750 745	836 567
Cash and short-term placements	49 855	73 327
Trading debt securities	51 092	47 882
Interest income on derivatives classified into banking book	157 511	138 097
Interest income on derivatives concluded under the fair value hedge	46 618	18 429
Interest income on derivatives concluded under the cash flow hedge	14 140	1 400
Other	5 998	7 368
Total interest income	**3 660 505**	**3 956 254**
Interest expense		
Arising from amounts due to banks	(95 330)	(190 634)
Arising from amounts due to customers	(696 042)	(892 120)
Arising from issue of debt securities	(264 991)	(229 293)
Arising from subordinated liabilities	(78 966)	(77 254)
Other	(13 803)	(76 295)
Total interest expense	**(1 149 132)**	**(1 465 596)**

Interest income related to impaired financial assets amounted to PLN 109 715 thousand (for the period ended 31 December 2014: PLN 159 113 thousand).

Net interest income per client groups is as follows:

	Year ended 31 December	
	2015	**2014**
Interest income		
From banking sector	383 567	404 700
From clients, including:	3 276 938	3 551 554
- corporate clients	1 109 637	1 154 100
- individual clients	1 445 073	1 607 090
- public sector	722 228	790 364
Total interest income	**3 660 505**	**3 956 254**
Interest expense		
From banking sector	(179 456)	(251 492)
From clients, including:	(694 138)	(967 818)
- corporate clients	(284 296)	(410 506)
- individual clients	(372 457)	(463 685)
- public sector	(37 385)	(93 627)
From debt securities in issue	(275 538)	(246 286)
Total interest expense	**(1 149 132)**	**(1 465 596)**

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7. Net fee and commission income

	Year ended 31 December	
	2015	**2014**
Fee and commission income		
Payment cards-related fees	342 310	413 614
Credit-related fees and commissions	287 273	254 302
Commissions for agency service regarding sale of insurance products of external financial entities	149 760	116 675
Fees from brokerage activity and debt securities issue	122 970	119 537
Commissions from bank accounts	165 764	157 474
Commissions from money transfers	102 849	97 627
Commissions due to guarantees granted and trade finance commissions	48 977	46 581
Commissions for agency service regarding sale of other products of external financial entities	113 457	88 291
Commissions on trust and fiduciary activities	22 337	21 108
Fees from portfolio management services and other management-related fees	14 915	13 438
Fees from cash services	39 686	38 648
Other	23 629	32 306
Fee and commission income	**1 433 927**	**1 399 601**
Fee and commission expense		
Payment cards-related fees	(204 864)	(194 993)
Commissions paid to external entities for sale of the Bank's products	(98 449)	(78 001)
Commissions paid for agency service regarding sale of insurance products of external financial entities	(1 565)	(4 209)
Discharged brokerage fees	(31 644)	(29 915)
Cash services	(40 666)	(36 110)
Fees to NBP and KIR	(10 614)	(10 757)
Other discharged fees	(148 949)	(143 926)
Total fee and commision expense	**(536 751)**	**(497 911)**

Decrease of payment cards related fees in 2015 in relation to 2014 was mainly caused by double reduction of the interchange fees introduced on 1 July 2014 and 29 January 2015.

	Year ended 31 December	
	2015	**2014**
Fee and commission income from insurance contracts		
- Income from insurance intermediation	149 760	97 822
- Income from insurance policies administration	-	18 853
Total fee and commission income from insurance contracts	**149 760**	**116 675**

8. Dividend income

	Year ended 31 December	
	2015	**2014**
Trading securities	217	243
Securities available for sale	17 323	19 749
Total dividend income	**17 540**	**19 992**

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9. Net trading income

	Year ended 31 December	
	2015	2014
Foreign exchange result	**288 708**	**233 048**
Net exchange differences on translation	250 273	311 760
Net transaction gains/(losses)	38 435	(78 712)
Other net trading income and result on hedge accounting	**4 227**	**136 108**
Interest-bearing instruments	(8 599)	110 045
Equity instruments	1 457	(1 524)
Market risk instruments	3 559	(1 810)
Result on fair value hedge accounting, including:	11 417	29 059
- Net profit on hedged items	2 954	(108 241)
- Net profit on fair value hedging instruments	8 463	137 300
Ineffective portion of cash flow hedge	(3 607)	338
Total net trading income	**292 935**	**369 156**

Significantly weaker net trading income from interest bearing instruments in 2015 compared to 2014 results from the evolution of long term market interest rates, which in 2014 were characterized by a significant but gradual decline, while in 2015 remained stable.

"Foreign exchange result" includes profit/(loss) on spot transactions and forward contracts, options, futures and on translation of assets and liabilities denominated in foreign currencies. "Interest-bearing instruments" include the profit/(loss) on money market instrument trading, swap contracts for interest rates, options and other derivative instruments. "Equity instruments" include the valuation and profit/(loss) on global trade in equity securities. "Market risk instruments" include profit/(loss) on: bond futures, index futures, security options, stock exchange index options, and options on futures contracts as well as the result from securities forward transactions and commodity swaps.

The Group applies fair value hedge accounting and cash flow hedge accounting. Detailed information on hedge accounting are included in Note 21 "Hedge accounting".

10. Other operating income

	Year ended 31 December	
	2015	2014
Income from sale or liquidation of fixed assets, intangible assets, assets held for sale and inventories	141 534	149 766
Income from insurance activity net	23 898	96 237
Income from services provided	22 175	24 009
Net income from operating lease	9 533	11 157
Income due to release of provisions for future commitments	8 057	5 081
Income from recovering receivables designated previously as prescribed, remitted or uncollectible	4 254	2 233
Income from compensations, penalties and fines received	105	229
Other	36 303	58 210
Total other operating income	**245 859**	**346 922**

Income from sale or liquidation of tangible fixed assets, intangible assets as well as assets held for disposal comprises primarily income of the company mLocum S.A. from developer activity.

Income from services provided is earned on non-banking activities.

In 2015, net income from insurance activities include income realised by BRE Ubezpieczenia TUiR S.A. in the first quarter of 2015, i.e. until the sale of the company BRE Ubezpieczenia TUiR S.A. by mBank S.A. Group.

Income from insurance activity net comprises income from premiums, reinsurance and co-insurance activity, reduced by claims paid and costs of claims handling and adjusted by the changes in provisions for claims connected with the insurance activity conducted within mBank Group.

Net income from operating lease consists of income from operating lease and related depreciation cost of fixed asset provided by the Group under operating lease, incurred to obtain revenue.

Net income from insurance activity generated in 2015 and 2014 is presented below.

	Year ended 31 December	
	2015	2014
Income from premiums		
- Premiums attributable	65 764	234 851
- Change in provision for premiums	(17 358)	(39 899)
Premiums earned	**48 406**	**194 952**
Reinsurer's shares		
- Gross premiums written	(16 307)	(66 607)
- Change in unearned premiums reserve	(66)	(2 416)
Reinsurer's share in premiums earned	**(16 373)**	**(69 023)**
Net premiums earned	**32 033**	**125 929**
Claims and benefits		
- Claims and benefits paid out in the current year including costs of liquidation before tax	(14 809)	(63 099)
- Change in provision for claims and benefits paid out in the current year including costs of liquidation before tax	(7 996)	(19 902)
- Reinsurer's share in claims and benefits paid out in the current year including costs of liquidation	11 047	46 141
- Change in provision for reinsurer's share of claims and benefits paid out in the current year including costs of liquidation	4 396	10 212
Claims and benefits net	**(7 362)**	**(26 648)**
- Other costs net of reinsurance	(746)	(3 183)
- Other operating income	5	440
- Costs of expertise and certificates concerning underwriting risk	(32)	(301)
Total net income from insurance activity	**23 898**	**96 237**

Net income from operating lease generated in 2015 and 2014 is presented below.

	Year ended 31 December	
	2015	2014
Net income from operating lease, including:		
- Income from operating lease	55 308	61 576
- Depreciation cost of fixed assets provided under operating lease	(45 775)	(50 419)
Total net income from operating lease	**9 533**	**11 157**

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11. Overhead costs

	Year ended 31 December	
	2015	2014
Staff-related expenses	(854 814)	(844 131)
Material costs, including:	(633 855)	(627 613)
- logistics cost	(334 034)	(330 228)
- IT costs	(118 842)	(109 267)
- marketing costs	(117 168)	(126 232)
- consulting costs	(54 173)	(54 522)
- other material costs	(9 638)	(7 364)
Taxes and fees	(28 339)	(29 811)
Contributions and transfers to the Bank Guarantee Fund	(278 155)	(70 790)
Cintributions to the Borrowers Support Fund	(52 077)	-
Contributions to the Social Benefits Fund	(7 356)	(6 993)
Other	-	(1 205)
Total overhead costs	**(1 854 596)**	**(1 580 543)**

The increase of costs in the item "Contribution and transfers to the Bank Guarantee Fund" has been caused by mBank and mBank Hipoteczny being obliged to contribute in the amount of PLN 141 716 thousand via the BFG fund in the bail-out of Spółdzielczy Bank Rzemiosła i Rolnictwa w Wołominie (the Co-operative Crafts and Agriculture Bank in Wołomin) depositors, as well as an increase of rates of fees payable to the BFG in 2015 compared to 2014.

On 9 September 2015 the Parliament of the Republic of Poland passed the "Act on support for borrowers that are in a financial distress and took a housing loan". The act sets principles for providing returnable financial support to natural persons obliged to repay housing loans who are in a financial distress as well as the terms and conditions for using it. The support will be paid from the Borrowers Support Fund, financed by contributions made by lenders proportionally to their share in the volume of housing loans portfolio granted to households which is above 90 days past due in respect of principal or interest repayment.

According to the information dated on 5 January 2016 received from the Council of the Borrowers Support Fund, the payments of mBank and mBank Hipoteczny due to the Fund amounts to PLN 51 727 thousand and PLN 350 thousand respectively. mBank Group made appropriate provisions (Note 33 "Provisions") and their costs have been included as overhead costs in the mBank Group consolidated financial result for the year 2015. The payment was made on 18 February 2016.

"Material costs" includes operating lease payment costs of tangible assets (mainly real estate) of PLN 27 836 thousand (2014: PLN 27 678 thousand).

Staff-related expenses in 2015 and 2014 are presented below.

	Year ended 31 December	
	2015	2014
Wages and salaries	(692 750)	(682 454)
Social security expenses	(107 509)	(102 000)
Employee contributions related to post-employment benefits	(522)	(616)
Remuneration concerning share-based payments, including:	(19 696)	(24 814)
- share-based payments settled in mBank S.A. shares	(14 459)	(14 251)
- cash-settled share-based payments	(5 237)	(10 563)
Other staff expenses	(34 337)	(34 247)
Staff-related expenses, total	**(854 814)**	**(844 131)**

Cash-settled share-based payments relate to the cost of 2008 incentive programme for the Management Board Members of the Bank in its part based on Commerzbank shares. Detailed information regarding

incentive programmes to which share-based payments relate, is included under the Note 44 "Share-based incentive programmes".

12. Other operating expenses

	Year ended 31 December	
	2015	2014
Costs arising from sale or liquidation of fixed assets, intangible assets, assets held for resale and inventories	(106 882)	(115 713)
Provisions for future commitments	(17 716)	(57 958)
Costs arising from provisions created for other receivables (excluding loans and advances)	(4 282)	(7 396)
Donations made	(2 624)	(2 669)
Costs of sale of services	(1 685)	(1 438)
Compensation, penalties and fines paid	(2 471)	(1 869)
Costs arising from receivables and liabilities recognised as prescribed, remitted and uncollectible	(244)	(3 584)
Impairment provisions created for tangible fixed assets and intangible assets	(2 013)	(8 090)
Other operating costs	(47 910)	(42 459)
Total other operating expenses	**(185 827)**	**(241 176)**

In 2015 and 2014 the cost of impairment provisions created for tangible fixed assets and intangible assets relate mainly to an impairment loss of value of the property in the amount of PLN 2 000 thousand and PLN 6 869 thousand respectively.

Costs arising from sale or liquidation of fixed assets, intangible assets, assets held for resale and inventories comprise primarily the expenses incurred by mLocum in connection with its developer activity.

In 2015, provisions for future commitments include provisions for legal proceedings of PLN 8 762 thousand (2014: PLN 51 705 thousand) (Note 33).

Costs of services provided concern non-banking services.

13. Net impairment losses on loans and advances

	Year ended 31 December	
	2015	2014
Net impairment losses on amounts due from other banks (Note 18)	(212)	(1 114)
Net impairment losses on loans and advances to customers (Note 22)	(425 082)	(521 444)
Net impairment losses on contingent liabilities (Note 33)	4 072	6 655
Total net impairment losses on loans and advances	**(421 222)**	**(515 903)**

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14. Income tax expense

	Year ended 31 December	
	2015	2014
Current tax	(408 726)	(324 716)
Deferred income tax (Note 34)	94 999	(38 674)
Total income tax	**(313 727)**	**(363 390)**

Profit before tax	**1 617 855**	**1 652 700**
Tax calculated at Polish current tax rate (19%)	(307 392)	(314 013)
Effect of different tax rates in other countries	1	5
Income not subject to tax *)	49 196	9 856
Costs other than tax deductible costs **)	(50 135)	(48 732)
Other positions affecting income tax	959	(402)
Deferred tax losses incurred by mBank branch in the Czech Republic in the previous years	(6 034)	(7 512)
Inactive tax losses	(322)	(2 592)
Income tax expense	**(313 727)**	**(363 390)**

Effective tax rate calculation		
Profit before income tax	1 617 855	1 652 700
Income tax	(313 727)	(363 390)
Effective tax rate	**19.39%**	**21.99%**

*) includes i.e. a positive results of branches in Czech Republic and Slovakia (excluded from taxation in Poland).

**) includes non-deductible costs according to Article 16 item 1 of Corporate Income Tax Act from 15 February 1992 (Journal of Laws No 21, item 86).

Information about deferred income tax is presented under Note 34. The tax on the Group's profit before tax differs from the theoretical amount that would arise using the basic tax rate of the parent as presented above.

15. Earnings per share

Earnings per share for 12 months

	Year ended 31 December	
	2015	2014
Basic:		
Net profit attributable to Owners of mBank S.A.	1 301 246	1 286 668
Weighted average number of ordinary shares	42 221 351	42 189 705
Net basic profit per share (in PLN per share)	**30.82**	**30.50**
Diluted:		
Net profit attributable to Owners of mBank S.A., applied for calculation of diluted earnings per share	1 301 246	1 286 668
Weighted average number of ordinary shares	42 221 351	42 189 705
Adjustments for:		
- share options	25 809	31 590
Weighted average number of ordinary shares for calculation of diluted earnings per share	42 247 160	42 221 295
Diluted earnings per share (in PLN per share)	**30.80**	**30.47**

According to IAS 33, the Bank prepares a calculation of the diluted earnings per share taking into account contingently issuable shares as part of the incentive programmes described in the Note 44. The calculations did not include those elements of the incentive programmes, which were antidilutive for the presented periods that could potentially dilute basic earnings per share in the future.

The basic earnings per share are computed as the quotient of the Bank stockholders' share of the profit and the weighted average number of ordinary shares during the year.

The diluted earnings per share are calculated by adjusting the weighted average number of ordinary shares as if all possible ordinary shares causing the dilution were replaced with shares. The Bank has one category of potential ordinary shares causing the dilution: share options. The number of diluting shares is computed as the number of shares that would be issued if all share options were executed at the market price, determined as the average annual closing price of the Bank's shares.

16. Other comprehensive income

Disclosure of tax effects relating to each component of other comprehensive income	Year ended 31 December 2015			Year ended 31 December 2014		
	Before-tax amount	Tax (expense) benefit	Net amount	Before-tax amount	Tax (expense) benefit	Net amount
Items that may be reclassified subsequently to the the income statement	**(162 456)**	**47 331**	**(115 125)**	**326 427**	**(93 066)**	**233 361**
Exchange differences on translation of foreign operations	(4 661)	-	(4 661)	245	-	245
Change in valuation of available for sale financial assets	(153 848)	46 581	(107 267)	321 174	(92 114)	229 060
Cash flow hedges (net)	(3 947)	750	(3 197)	5 008	(952)	4 056
Items that will not be reclassified to the income statement	**(1 965)**	**373**	**(1 592)**	**(2 352)**	**447**	**(1 905)**
Actuarial gains and losses relating to post-employment benefits	(1 965)	373	(1 592)	(2 352)	447	(1 905)
Total other comprehensive income	**(164 421)**	**47 704**	**(116 717)**	**324 075**	**(92 619)**	**231 456**

The table below presents detailed information concerning other comprehensive income for the years 2015 and 2014.

	Year ended 31 December	
	2015	2014
Items that may be reclassified subsequently to the the income statement	**(115 125)**	**233 361**
Exchange differences on translating foreign operations	**(4 661)**	**245**
Unrealised gains (positive differences) arising during the year (net)	3 882	2 157
Unrealised losses (negative differences) arising during the year (net)	(3 209)	(1 912)
Reclassification adjustments for gains (losses) included in the income statement (net)	(5 334)	-
Available-for-sale financial assets	**(107 267)**	**229 060**
Unrealised gains on debt instruments arising during the year (net)	35 771	259 643
Unrealised losses on debt instruments arising during the year (net)	(110 971)	-
Reclassification adjustments of gains (losses) on debt instruments to the income statement (net)	729	(36 524)
Unrealised gains on equity instruments arising during the year (net)	135 467	14 272
Unrealised losses on equity instruments arising during the year (net)	(38 493)	-
Reclassification adjustments of gains (losses) on equity instruments to the income statement (net)	(129 770)	(8 331)
Cash flow hedges	**(3 197)**	**4 056**
Unrealized gains arising during the year (net)	8 256	4 056
Reclassification adjustments for gains (losses) included in the income statement (net)	(11 453)	-
Items that will not be reclassified to the income statement	**(1 592)**	**(1 905)**
Actuarial gains and losses relating to post-employment benefits	**(1 592)**	**(1 905)**
Actuarial gains	3	-
Actuarial losses	(1 595)	(1 905)
Total other comprehensive income (net)	**(116 717)**	**231 456**

In 2015, the reclassification of gains on equity instruments to the income statement in the amount of PLN 129 770 thousand applies to the sale of PZU S.A. shares.

In 2015, unrealized gains on equity instruments include positive valuation of the share in Visa Europe Ltd (Visa Europe) in the gross amount of EUR 39 245 thousand - the equivalent of PLN 167 243 thousand (according to the average NBP exchange rate as of 31 December 2015). Detailed information regarding the expected impact of the takeover transaction of Visa Europe by Visa Inc. have been presented under Note 23.

In 2014, unrealized gains on equity instruments include a positive valuation of PZU S.A. shares in the amount of PLN 17 531 thousand.

Moreover, in 2015 and 2014 a considerable impact on other components of equity had a change in the valuation of government bonds.

17. Cash and balances with central bank

	31.12.2015	31.12.2014
Cash in hand	1 330 045	372 987
Current account	4 608 088	2 681 562
Total cash and balances with the Central Bank (Note 43)	**5 938 133**	**3 054 549**

On the basis of the Act on the National Bank of Poland of 29 August 1997, mBank and mBank Hipoteczny hold a mandatory reserve deposit. The arithmetic mean of daily balances of the mandatory reserve which mBank and mBank Hipoteczny were obliged to maintain during a given period in the current account with NBP amounted to:

- PLN 2 558 417 thousand for the period from 31 December 2015 to 31 January 2016,
- PLN 2 123 204 thousand for the period from 31 December 2014 to 1 February 2015.

As at 31 December 2015, the former part of the reserve bore 1.35% interest (31 December 2014: 1.8%).

18. Loans and advances to banks

	31.12.2015	31.12.2014
Current accounts	375 660	492 313
Placements with other banks (up to 3 months)	164 097	459 943
Included in cash equivalents (Note 43)	**539 757**	**952 256**
Loans and advances	288 215	214 148
Term placements with other banks	29 448	10 396
Reverse repo / buy-sell-back transactions	593 465	1 811 151
Other receivables	448 148	764 948
Total (gross) loans and advances to banks	**1 899 033**	**3 752 899**
Provisions created for loans and advances to banks (negative amount)	(1 699)	(1 484)
Total (net) loans and advances to banks	**1 897 334**	**3 751 415**
Short-term (up to 1 year)	1 867 402	3 687 301
Long-term (over 1 year)	29 932	64 114

In 2015, the item "Other receivables" includes cash collaterals (as at 31 December 2015: PLN 367 970 thousand, 31 December 2014: PLN 563 150 thousand) placed by the Group under the derivative transactions (Note 37).

The following table presents receivables from Polish and foreign banks:

	31.12.2015	31.12.2014
Loans and advances to Polish banks (gross)	1 012 331	1 220 190
Provisions created for loans and advances to Polish banks	(152)	(234)
Loans and advances to foreign banks (gross)	886 702	2 532 709
Provisions created for loans and advances to foreign banks	(1 547)	(1 250)
Total (net) loans and advances to banks	**1 897 334**	**3 751 415**

As at 31 December 2015, the variable rate loans to banks amounted to PLN 272 448 thousand and the fixed rate loans to banks amounted to PLN 15 767 thousand (as at 31 December 2014 – variable rate loans to banks amounted to PLN 204 336 thousand and fixed rate loans to PLN 9 812 thousand).

As at 31 December 2015 and 31 December 2014, the term placements with other banks were fixed rated and amounted respectively: PLN 193 545 thousand and PLN 470 339 thousand. An average interest rate for placements in other banks and loans granted to other banks amounted to 1.33% (31 December 2014: 1.50%).

The following table presents the changes in provisions for losses on loans and advances to banks.

	31.12.2015	31.12.2014
Provisions for loans and advances to banks as at the beginning of the period	**(1 484)**	**(289)**
Provisions created (Note 13)	(5 120)	(6 241)
Release of provisions (Note 13)	4 908	5 127
Foreign exchange differences	(3)	(81)
Provisions for loans and advances to banks as at the end of the period	**(1 699)**	**(1 484)**

As at 31 December 2015, provisions for loans and advances to banks in the whole relates to the loans without impairment, as at 31 December 2014 provisions for loans and advances to banks related mainly to the loans without impairment.

Loans and advances to banks	31.12.2015		31.12.2014	
	exposure in PLN '000	share/coverage (%)	exposure in PLN '000	share/coverage (%)
Neither past due nor impaired	1 899 033	100.00	3 752 782	100.00
Past due but not impaired	-	-	-	-
Impaired	-	-	117	0
Total, gross	**1 899 033**	**100.00**	**3 752 899**	**100.00**
Provision (provision for impaired loans and advances as well as IBNI provision)	(1 699)	0.09	(1 484)	0.04
Total, net	**1 897 334**	**99.91**	**3 751 415**	**99.96**

Loans and advances to banks neither past due nor impaired

Loans and advances to banks		
Sub-portfolio	31.12.2015	31.12.2014
1	423 980	1 421 582
2	1 096 822	1 192 383
3	173 829	145 096
4	29 263	641 456
5	45 451	1 063
6	-	-
7	14 336	19 491
8	64 375	173 171
other *	50 977	158 540
Total	**1 899 033**	**3 752 782**

*) position "other" concerns these entities, which do not use the same rating systems as mBank S.A.

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19. Trading securities

	31.12.2015			31.12.2014		
	Trading securities without pledge	Pledged trading securities	Total trading securities	Trading securities without pledge	Pledged trading securities	Total trading securities
Debt securities:	**533 998**	**16 697**	**550 695**	**547 962**	**598 035**	**1 145 997**
Issued by government	161 795	16 697	178 492	19 871	598 035	617 906
- government bonds	161 795	16 697	178 492	19 871	598 035	617 906
Other debt securities	372 203	-	372 203	528 091	-	528 091
- bank's bonds	248 156	-	248 156	473 097	-	473 097
- deposit certificates	73 124	-	73 124	-	-	-
- corporate bonds	50 923	-	50 923	54 994	-	54 994
Equity securities:	**6 846**	**-**	**6 846**	**17 947**	**-**	**17 947**
- listed	4 192	-	4 192	10 431	-	10 431
- unlisted	2 654	-	2 654	7 516	-	7 516
Total debt and equity securities:	**540 844**	**16 697**	**557 541**	**565 909**	**598 035**	**1 163 944**

Trading securities include securities used to secure sell-buy-back transactions with customers, whose market value as at 31 December 2015 amounted to PLN 16 697 thousand (31 December 2014: PLN 598 035 thousand).

20. Derivative financial instruments

The Group uses the following derivative instruments for economic hedging and for other purposes:

Forward currency transactions represent commitments to purchase foreign and local currencies, including outstanding spot transactions. **Futures for currencies and interest rates** are contractual commitments to receive or pay a specific net value, depending on currency rate of exchange or interest rate variations, or to buy or sell a foreign currency or a financial instrument on a specified future date for a fixed price established on the organised financial market. Because futures contracts are collateralised with fair-valued cash or securities and the changes of the face value of such contracts are accounted for daily in reference to stock exchange quotations, the credit risk is marginal. **FRA contracts** are similar to futures except that each FRA is negotiated individually and each requires payment on a specific future date of the difference between the interest rate set in the agreement and the current market rate on the basis of theoretical amount of capital.

Currency and interest rate swap contracts are commitments to exchange one cash flow for another cash flow. Such a transaction results in swap of currencies or interest rates (e.g., fixed to variable interest rate) or combination of all these factors (e.g., cross-currency CIRS). With the exception of specific currency swap contracts, such transactions do not result in swaps of capital. The credit risk of the Group consists of the potential cost of replacing swap contracts if the parties fail to discharge their liabilities. This risk is monitored daily by reference to the current fair value, proportion of the face value of the contracts and market liquidity. The Group evaluates the parties to such contracts using the same methods as for its credit business, to control the level of its credit exposure.

The Group applies fair value hedge accounting for a part of the portfolio of fixed interest rate mortgage loans granted by the foreign branch of the Bank in the Czech Republic, fixed interest rate Eurobonds issued by mFinance France S.A, subsidiary of mBank, fixed interest rate mortgage bonds issued by mBank Hipoteczny, a subsidiary of mBank, as well as cash flow hedge accounting of variable rate loans indexed to market rates, granted by the Bank. Hedging instrument in both types of hedge accounting are fix to float Interest Rate Swap.

Detailed information on hedge accounting are presented in Note 21 below.

Currency and interest rate options are agreements, pursuant to which the selling party grants the buying party the right, but not an obligation, to purchase (call option) or sell (put option) a specific quantity of a foreign currency or a financial instrument at a predefined price on or by a specific date or within an agreed period. In return for accepting currency or interest rate risk, the buyer offers the seller a premium. An option can be either a public instrument traded at a stock exchange or a private instrument negotiated between the Group and a customer (private transaction). The Group is exposed to credit risk related to purchased options only up to the balance sheet value of such options, i.e. the fair value of the options.

Market risk transactions include futures contracts as well as commodity options, stock options and index options.

Face values of certain types of financial instruments provide a basis for comparing them to instruments disclosed in the statement of financial position but they may not be indicative of the value of the future cash flows or of the present fair value of such instruments. For this reason, the face values do not indicate

the level of the Group's exposure to credit risk or price change risk. Derivative instruments can have positive value (assets) or negative value (liabilities), depending on market interest or currency exchange rate fluctuations. The aggregate fair value of derivative financial instruments may be subject to strong variations.

The following table presents the fair values of the derivatives:

	Contract amount		Fair value	
	Purchase	Disposal	Assets	Liabilities
As at 31 December 2015				
Derivatives held for trading				
Foreign exchange derivatives				
- Currency forwards	13 962 295	14 011 671	105 911	118 931
- Currency swaps	16 318 308	16 195 356	151 039	90 225
- Cross-currency interest rate swaps	6 446 870	6 492 050	43 495	78 674
- OTC currency options bought and sold	3 439 254	4 097 450	47 872	54 577
Total OTC derivatives	**40 166 727**	**40 796 527**	**348 317**	**342 407**
- Currency futures	80 433	80 339	-	-
Total foreign exchange derivatives	**40 247 160**	**40 876 866**	**348 317**	**342 407**
Interest rate derivatives				
- Interest rate swap, OIS	205 093 783	205 093 783	2 758 408	2 789 736
- Forward rate agreements	30 032 000	37 839 000	22 713	19 186
- OTC interest rate options	222 315	326 127	2 267	2 571
Total OTC interest rate derivatives	**235 348 098**	**243 258 910**	**2 783 388**	**2 811 493**
- Interest rate futures	-	738	-	-
Total interest rate derivatives	**235 348 098**	**243 259 648**	**2 783 388**	**2 811 493**
Market risk transactions	**2 582 949**	**1 471 990**	**20 168**	**17 724**
Total derivative assets / liabilities held for trading	**278 178 207**	**285 608 504**	**3 151 873**	**3 171 624**
Derivatives held for hedging				
Derivatives designated as fair value hedges	5 245 822	5 245 822	146 694	2 014
- Interest rate swaps	5 245 822	5 245 822	146 694	2 014
Derivatives designated as cash flow hedges	2 455 000	2 455 000	50 761	-
- Interest rate swaps	2 455 000	2 455 000	50 761	-
Total derivatives held for hedging	**7 700 822**	**7 700 822**	**197 455**	**2 014**
Total recognised derivative assets/ liabilities	**285 879 029**	**293 309 326**	**3 349 328**	**3 173 638**
Short-term (up to 1 year)	142 237 718	148 828 312	854 071	831 002
Long-term (over 1 year)	143 641 311	144 481 014	2 495 257	2 342 636

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	Contract amount		Fair value	
	Purchase	Disposal	Assets	Liabilities
As at 31 December 2014				
Derivatives held for trading				
Foreign exchange derivatives				
- Currency forwards	17 780 971	17 711 933	172 061	38 397
- Currency swaps	12 180 402	12 276 709	45 073	162 466
- Cross-currency interest rate swaps	4 723 072	4 760 397	12 290	57 389
- OTC currency options bought and sold	2 910 254	2 807 456	56 775	48 286
Total OTC derivatives	**37 594 699**	**37 556 495**	**286 199**	**306 538**
- Currency futures	139 953	141 615	-	-
Total foreign exchange derivatives	**37 734 652**	**37 698 110**	**286 199**	**306 538**
Interest rate derivatives				
- Interest rate swap, OIS	254 956 265	254 956 265	4 264 152	4 260 275
- Forward rate agreements	66 775 000	81 157 400	147 744	123 087
- OTC interest rate options	341 659	374 641	3 981	4 059
Total OTC interest rate derivatives	**322 072 924**	**336 488 306**	**4 415 877**	**4 387 421**
- Interest rate futures	2 664	295 171	-	-
Total interest rate derivatives	**322 075 588**	**336 783 477**	**4 415 877**	**4 387 421**
Market risk transactions	**716 656**	**653 246**	**9 048**	**20 815**
Total derivative assets / liabilities held for trading	**360 526 896**	**375 134 833**	**4 711 124**	**4 714 774**
Derivatives held for hedging				
Derivatives designated as fair value hedges	7 217 658	7 217 658	102 226	3 592
- Interest rate swaps	7 217 658	7 217 658	102 226	3 592
Derivatives designated as cash flow hedges	2 040 000	2 040 000	52 167	690
- Currency swaps	2 040 000	2 040 000	52 167	690
Total derivatives held for hedging	**9 257 658**	**9 257 658**	**154 393**	**4 282**
Total recognised derivative assets/ liabilities	**369 784 554**	**384 392 491**	**4 865 517**	**4 719 056**
Short-term (up to 1 year)	188 488 877	201 319 549	1 001 243	973 957
Long-term (over 1 year)	181 295 677	183 072 942	3 864 274	3 745 099

In the both reporting periods market risk transactions comprise the fair values of: stock index options, shares and other equity securities, futures for commodities, swap contracts for commodities.

Under the financial derivative instruments the Group presented derivative instruments in the amount of PLN 1 173 thousand (liabilities), which have been separated from the structured investment deposits (31 December 2014: PLN 1 238 thousand).

As at 31 December 2015 and 31 December 2014, the Group did not have any financial assets and liabilities designated upon initial recognition as at fair value through the income statement.

21. Hedge accounting

Fair value hedge accounting

The Group applies fair value hedge accounting, under which the only kind of hedged risk is the risk of changes in interest rates.

At the end of each month, the Group evaluates effectiveness of the applied hedging by carrying out analysis of changes in fair value of the hedged and hedging instruments in respect of the hedged risk.

Description of the hedging relation

The Group hedges against the risk of change in fair value:

- a part of the portfolio of mortgage loans for a fixed interest rate granted by foreign branch of mBank in Czech Republic. The hedged risk results from changes in interest rates,
- fixed interest rate Eurobonds issued by mFinance France S.A. (mFF), subsidiary of mBank. The hedged risk results from changes in interest rates.
- bonds issued by mBank Hipoteczny (mBH), a subsidiary of mBank. The hedged risk results from changes in interest rates.

Hedged items

The hedged items are:

- a part of the portfolio of mortgage loans for a fixed interest rate denominated in CZK and granted by foreign branch of mBank in Czech Republic,
- two tranches of fixed interest rate Eurobonds issued by mFF with a total nominal value of EUR 1 000 000 thousand,
- fixed interest rate Eurobonds issued by mFF with a nominal value of CHF 200 000 thousand,
- fixed interest rate Eurobonds issued by mFF with a nominal value of CZK 500 000 thousand,
- fixed interest rate mortgage bonds issued by mBH with a nominal value of EUR 124 000 thousand,

Hedging instruments

IRS is the hedging instrument swapping the fixed interest rate for a variable interest rate.

Presentation of the result from hedged and hedging transactions

Fair value adjustment of the hedged assets and liabilities as well as valuation of the hedging instruments are recognised in the income statement as trading income.

The total results of fair value hedge accounting recognised in the income statement

	31.12.2015	31.12.2014
Interest income on derivatives concluded under the fair value hedge (Note 6)	46 618	18 429
Net profit on hedged items (Note 9)	2 954	(108 241)
Net profit on fair value hedging instruments (Note 9)	8 463	137 300
The total results of fair value hedge accounting recognised in the income statement	**58 035**	**47 488**

Cash flow hedge accounting

Starting from the third quarter of 2014, the Group applies cash flow hedge accounting of the part of loans at a variable interest rate indexed to the market rate, granted by the Bank. An Interest Rate Swap is the hedging instrument changing the variable interest rate to a fixed interest rate. The interest rate risk is the hedged risk within applied by the Group cash flow hedge accounting. The ineffective portion of the gains or losses on the hedging instrument is presented in Note 9 "Other net trading income and result on hedge accounting". Portion of the gains or losses on the hedging instrument that is an effective hedge, is presented in the statement of comprehensive income as "Cash flow hedges (net)".

The following note presents other comprehensive income due to cash flow hedges as at 31 December 2015 and 31 December 2014.

	31.12.2015	31.12.2014
Other comprehensive income from cash flow hedge at the beginning of the period	5 008	-
Gains/losses rocognised in the comprehensive income during the reporting period (gross)	6 586	6 746
Amount included as interest income in the income statement during the reporting period	14 140	1 400
Ineffective portion of cash flow hedge recognised in the income statement	(3 607)	338
Accumulated other comprehensive income at the end of the reporting period (gross)	1 061	5 008
Deferred tax	(202)	(952)
Accumulated net other comprehensive income at the end of the reporting period	859	4 056
Impact on other comprehensive income in the reporting period (gross)	(3 947)	5 008
Deferred tax on cash flow hedges	750	(952)
Impact on other comprehensive income in the reporting period (net)	(3 197)	4 056

Total results of cash flow hedge accounting recognised in the income statement

	31.12.2015	31.12.2014
Interest income on derivatives concluded under the cash flow hedge (Note 6)	14 140	1 400
Ineffective portion of cash flow hedge (Note 9)	(3 607)	338
The total results of cash flow hedge accounting recognised in the income statement	**10 533**	**1 738**

The period from January 2016 to August 2018 is the period in which the cash flows are expected, and when they are expected to have an impact on the result.

Below is given the timetable prepared as at 31 December 2015, presenting the periods in which the cash flows from loans secured under the cash flow hedge accounting are expected and their impact on the profit and loss account.

Cash flows from loans secured under the cash flow hedge accounting (PLN 000's)		
up to 3 months	**period from 3 months to 1 year**	**period from 1 year to 5 years**
10 294	26 890	19 604

The fair value equal to book value of derivatives hedging was presented in Note 20 "Derivative financial instruments".

22. Loans and advances to customers

	31.12.2015	31.12.2014
Loans and advances to individuals:	**46 258 683**	**41 560 477**
- current accounts	5 897 129	5 442 653
- term loans, including:	40 361 554	36 117 824
housing and mortgage loans	34 184 208	30 510 513
Loans and advances to corporate entities:	**33 446 644**	**32 841 046**
- current accounts	3 976 187	3 701 490
- term loans:	26 976 422	23 977 679
- corporate & institutional enterprises	5 825 318	5 751 583
- medium & small enterprises	21 151 104	18 226 096
- reverse repo / buy-sell-back transactions	1 031 029	3 838 553
- other	1 463 006	1 323 324
Loans and advances to public sector	**1 520 728**	**1 924 395**
Other receivables	**183 355**	**1 047 273**
Total (gross) loans and advances to customers	**81 409 410**	**77 373 191**
Provisions for loans and advances to customers (negative amount)	(2 975 864)	(2 790 841)
Total (net) loans and advances to customers	**78 433 546**	**74 582 350**
Short-term (up to 1 year)	26 169 938	26 964 700
Long-term (over 1 year)	52 263 608	47 617 650

As at 31 December 2015, variable rate loans amounted to PLN 77 271 986 thousand and fixed rate loans amounted to PLN 4 137 424 thousand (as at 31 December 2014 respectively: PLN 73 877 559 thousand and PLN 3 495 632 thousand). The values mentioned above relate to loans granted to individual customers, corporate customers and the public sector. The average interest rate for loans granted to customers (excluding reverse repos) amounted to 3.22% (31 December 2014: 3.98%).

The item "Other" includes cash collaterals (as at 31 December 2015 in the amount of PLN 32 303 thousand, as at 31 December 2014: PLN 18 226 thousand) placed by the Group under derivatives transactions (Note 37).

Provisions for loans and advances

	31.12.2015	31.12.2014
Incurred but not identified losses		
Gross balance sheet exposure	76 777 938	72 458 578
Impairment provisions for exposures analysed according to portfolio approach	(247 198)	(242 401)
Net balance sheet exposure	**76 530 740**	**72 216 177**
Receivables with impairment		
Gross balance sheet exposure	4 631 472	4 914 613
Provisions for receivables with impairment	(2 728 666)	(2 548 440)
Net balance sheet exposure	**1 902 806**	**2 366 173**

Movements in provisions for loans and advances

MOVEMENTS IN PROVISIONS FOR LOANS AND ADVANCES TO CUSTOMERS AS OF 2015	Provisions as at 01.01.2015	Provisions created	Release of provisions	Reclassification and foreign exchange differences	Write-offs	Provisions as at 31.12.2015
Loans and advances to individuals	**(1 480 413)**	**(1 154 655)**	**932 620**	**169 578**	**368**	**(1 532 502)**
Current accounts	(593 854)	(429 843)	260 277	80 195	183	**(683 042)**
Term loans, including:	(886 559)	(724 812)	672 343	89 383	185	**(849 460)**
Housing and mortgage loans	(541 352)	(454 401)	429 254	75 034	136	**(491 329)**
Loans and advances to corporate entities	**(1 309 059)**	**(751 328)**	**547 963**	**(6 538)**	**76 711**	**(1 442 251)**
Current accounts	(241 111)	(150 230)	150 225	6 341	29 915	**(204 860)**
Term loans, including:	(1 061 730)	(552 420)	396 823	(12 879)	42 225	**(1 187 981)**
Corporate & institutional enterprises	(193 948)	(173 802)	205 938	(184)	4 481	**(157 515)**
Medium & small enterprises	(867 782)	(378 618)	190 885	(12 695)	37 744	**(1 030 466)**
Other	(7 007)	(48 678)	1 704	-	4 571	**(49 410)**
Reclassification to non-current assets hels for sale	789	-	(789)	-	-	**-**
Loans and advances to public sector	**(1 369)**	**(8 462)**	**8 780**	**(64)**	**4**	**(1 111)**
Total movements in provisions for loans and advances to customers	**(2 790 841)**	**(1 914 445)**	**1 489 363**	**162 976**	**77 083**	**(2 975 864)**

MOVEMENTS IN PROVISIONS FOR LOANS AND ADVANCES TO CUSTOMERS AS OF 2014	Provisions as at 01.01.2014	Provisions created	Release of provisions	Reclassification and foreign exchange differences	Write-offs	Provisions as at 31.12.2014
Loans and advances to individuals	**(1 154 497)**	**(1 004 962)**	**703 279**	**(24 442)**	**209**	**(1 480 413)**
Current accounts	(444 214)	(405 670)	264 742	(8 812)	100	**(593 854)**
Term loans, including:	(710 283)	(599 292)	438 537	(15 630)	109	**(886 559)**
Housing and mortgage loans	(469 157)	(311 490)	249 763	(10 552)	84	**(541 352)**
Loans and advances to corporate entities	**(1 205 113)**	**(742 274)**	**512 086**	**(32 647)**	**158 889**	**(1 309 059)**
Current accounts	(234 414)	(197 360)	186 836	(22 710)	26 537	**(241 111)**
Term loans, including:	(915 235)	(512 930)	324 214	11 273	30 948	**(1 061 730)**
Corporate & institutional enterprises	(180 681)	(74 498)	63 586	(2 355)	-	**(193 948)**
Medium & small enterprises	(734 554)	(438 432)	260 628	13 628	30 948	**(867 782)**
Other	(55 464)	(31 984)	1 036	(21 999)	101 404	**(7 007)**
Reclassification to non-current assets hels for sale	-	-	-	789	-	**789**
Loans and advances to public sector	**(11 797)**	**(2 100)**	**12 527**	**1**	**-**	**(1 369)**
Total movements in provisions for loans and advances to customers	**(2 371 407)**	**(1 749 336)**	**1 227 892**	**(57 088)**	**159 098**	**(2 790 841)**

Loans and advances include receivables under finance leases

	31.12.2015	31.12.2014
Gross investment in finance leases, receivable:	**6 496 455**	**5 122 993**
- not later than 1 year	1 855 227	1 634 260
- later than 1 year and not later than 5 years	3 794 792	2 893 079
- later than 5 years	846 436	595 654
Unearned future finance income on finance leases (negative amount)	(619 045)	(537 336)
Net investment in finance leases	**5 877 410**	**4 585 657**
Net investment in finance leases, receivable:		
- not later than 1 year	1 645 833	1 446 365
- later than 1 year and not later than 5 years	3 466 354	2 645 409
- later than 5 years	765 223	493 883
Net investment in finance leases	**5 877 410**	**4 585 657**
Impairment provisions for finance leases receivable	**(181 350)**	**(159 100)**
Net carrying amount of finance leases receivable	**5 696 060**	**4 426 557**
Unguaranteed residual value accruing to the lessor	**518 560**	**323 458**

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As at 31 December 2014	Gross amount	Provisions created	Provisions without cash flow from collaterals	Financial effect of collaterals
Balace sheet data				
Loans and advances to banks	**3 752 899**	**(1 484)**	**(1 484)**	**-**
Loans and advances to customers, including:	**77 373 191**	**(2 790 841)**	**(4 176 138)**	**1 385 297**
Loans to individuals:	41 560 477	(1 480 413)	(1 797 724)	317 311
− Current accounts	5 442 653	(593 854)	(614 931)	21 077
− Term loans, including:	36 117 824	(886 559)	(1 182 793)	296 234
housing and mortgage loans	30 510 513	(541 352)	(764 534)	223 182
Loans to corporate clients:	27 679 169	(1 281 773)	(2 349 790)	1 068 017
− Current accounts	3 701 490	(241 111)	(397 825)	156 714
− Term loans:	23 977 679	(932 442)	(1 951 965)	1 019 523
corporate & institutional enterprises	5 751 583	(193 948)	(280 510)	86 562
medium & small enterprises	18 226 096	(867 782)	(1 671 455)	803 673
Loans and advances to public sector	1 924 395	(1 369)	(1 404)	35
Total balance sheet data	**81 126 090**	**(2 792 325)**	**(4 177 622)**	**1 385 297**
Off-balance sheet data:				
Loan commitments and other commitments	19 883 402	(41 376)	(45 684)	4 308
Guarantees, banker's acceptances, documentary and commercial letters of credit	3 610 377	(8 237)	(11 773)	3 536
Total off-balance sheet data:	**23 493 779**	**(49 613)**	**(57 457)**	**7 844**

23. Investment securities

	31.12.2015			31.12.2014		
	Investment securities without pledge	Pledged investment securities	Total investment securities	Investment securities without pledge	Pledged investment securities	Total investment securities
Debt securities	**25 141 089**	**5 396 481**	**30 537 570**	**22 270 938**	**5 146 060**	**27 416 998**
Issued by government	16 842 144	5 396 481	22 238 625	17 440 062	5 146 060	22 586 122
- government bonds	16 842 144	5 396 481	22 238 625	17 440 062	5 146 060	22 586 122
Issued by central bank	7 442 384	-	7 442 384	4 479 540	-	4 479 540
Other debt securities	856 561	-	856 561	351 336	-	351 336
- bank's bonds	233 158	-	233 158	24 907	-	24 907
- corporate bonds	583 456	-	583 456	284 854	-	284 854
- communal bonds	39 947	-	39 947	41 575	-	41 575
Equity securities:	**199 379**	**-**	**199 379**	**261 616**	**-**	**261 616**
Listed	-	-	-	229 961	-	229 961
Unlisted	199 379	-	199 379	31 655	-	31 655
Total debt and equity securities:	**25 340 468**	**5 396 481**	**30 736 949**	**22 532 554**	**5 146 060**	**27 678 614**
Short-term (up to 1 year)	**11 196 419**	**90 975**	**11 287 394**	**9 034 438**	**-**	**9 034 438**
Long-term (over 1 year)	**14 144 049**	**5 305 506**	**19 449 555**	**13 498 116**	**5 146 060**	**18 644 176**

Presented above equity securities recognised at cost less impairment include provisions for impairment of PLN 19 754 thousand (31 December 2014: PLN 12 007 thousand).

As at 31 December 2015, equity securities include fair value of shares of Visa Europe Ltd in the amount of PLN 167 243 thousand.

As at 31 December 2014, listed equity securities include fair value of PZU S.A. shares in the amount of PLN 229 961 thousand. As at 31 December 2015, the Group did not have any PZU shares.

As at 31 December 2015, the carrying values of debt securities with fixed interest rates amounted to PLN 25 018 609 thousand while debt securities with variable interest rates PLN 5 518 961 thousand (31 December 2014 respectively: PLN 21 184 127 thousand and PLN 6 232 871 thousand).

The above note includes government bonds pledged under the Bank Guarantee Fund (BFG), government bonds pledged as sell-buy-back transactions, government bonds pledged as collateral for the loans received from the European Investment Bank and government bonds pledged as collateral for deposit placed by the customer.

In accordance with the BFG Law of 14 December 1994, as at 31 December 2015 the Group held government bonds and bills included in the statement of financial position in the amount of PLN 568 248 thousand with a nominal value of PLN 537 000 thousand (31 December 2014: carrying value - PLN 410 712 thousand; nominal value - PLN 377 000 thousand), which were pledged as collateral for the Bank Guarantee Fund and were deposited in a separate account at the National Depository of Securities.

31 December 2014	Individuals			Corporate entities					Public sector	Other receivables	Total - Loans and advances to customers
			including:		Term loans						
	Current accounts	Term loans	housing and mortgage loans	Current accounts	corporate & institutional enterprises	medium & small enterprises	Reverse repo / buy-sell-back transactions	Other			
Past due up to 30 days	322 554	1 055 791	833 692	14 822	18 504	611 548	-	-	24 609	-	2 047 828
Past due 31 - 60 days	23 808	145 974	104 053	3 324	392	61 823	-	-	-	71	235 392
Past due 61 - 90 days	9 685	34 553	20 861	621	-	11 201	-	-	-	-	56 060
Past due over 90 days	9 441	19 548	5 556	10 296	-	154 448	-	-	-	-	193 733
Total	**365 488**	**1 255 866**	**964 162**	**29 063**	**18 896**	**839 020**	**-**	**-**	**24 609**	**71**	**2 533 013**

Loans and advances individually impaired

Loans and advances individually impaired amounted to PLN 1 902 806 thousand (as at 31 December 2014: PLN 2 366 173 thousand). Gross amounts of loans and advances individually impaired (i.e., before taking into consideration the cash flows from collateral held and expected repayments) are presented below by classes of assets.

	Individuals			Corporate entities					Public sector	Other receivables	Total - Loans and advances to customers
			including:		Term loans						
	Current accounts	Term loans	housing and mortgage loans	Current accounts	corporate & institutional enterprises	medium & small enterprises	Reverse repo / buy-sell-back transactions	Other			
31 December 2015											
Loans and advances with impairment	898 551	1 721 635	1 135 475	361 386	196 565	1 404 925	-	48 410	-	-	**4 631 472**
Provisions for loans and advances with impairment	(636 432)	(754 742)	(441 167)	(309 077)	(146 815)	(833 190)	-	(48 410)	-	-	**(2 728 666)**
31 December 2014											
Loans and advances with impairment	934 466	1 933 958	1 391 010	379 655	259 112	1 401 861	-	5 561	-	-	**4 914 613**
Provisions for loans and advances with impairment	(539 544)	(788 893)	(496 287)	(335 978)	(181 480)	(697 127)	-	(5 418)	-	-	**(2 548 440)**

The Group applies a conservative approach in the area of verification of collateral value and setting of acceptable LtV levels. The policy, in this respect, imposes particularly significant restrictions in case of transactions with probability of default higher than average (non-purpose loans and consolidation loans) and/or secured on low-liquid real estate (localized on not well developed markets).

Financial effect of collaterals

The note below presents the influence of value of collaterals received by the Group in relation to the loans granted by the Group on the provisions level.

As at 31 December 2015	Gross amount	Provisions created	Provisions without cash flow from collaterals	Financial effect of collaterals
Balace sheet data				
Loans and advances to banks	**1 899 033**	**(1 699)**	**(1 716)**	**17**
Loans and advances to customers, including:	**81 409 410**	**(2 975 864)**	**(4 027 369)**	**1 051 505**
Loans to individuals:	46 258 683	(1 532 502)	(1 877 982)	345 480
− Current accounts	5 897 129	(683 042)	(703 700)	20 658
− Term loans, including:	40 361 554	(849 460)	(1 174 282)	324 822
housing and mortgage loans	34 184 208	(491 329)	(752 343)	261 014
Loans to corporate clients:	30 952 609	(1 392 841)	(2 098 866)	706 025
− Current accounts	3 976 187	(204 860)	(371 874)	167 014
− Term loans:	26 976 422	(1 187 981)	(1 726 992)	539 011
corporate & institutional enterprises	5 825 318	(157 515)	(205 283)	47 768
medium & small enterprises	21 151 104	(1 030 466)	(1 521 709)	491 243
Loans and advances to public sector	1 520 728	(1 111)	(1 111)	-
Total balance sheet data	**83 308 443**	**(2 977 563)**	**(4 029 085)**	**1 051 522**
Off-balance sheet data:				
Loan commitments and other commitments	21 012 565	(30 060)	(36 185)	6 125
Guarantees, banker's acceptances, documentary and commercial letters of credit	5 081 900	(15 546)	(19 696)	4 150
Total off-balance sheet data:	**26 094 465**	**(45 606)**	**(55 881)**	**10 275**

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As at 31 December 2014	Gross amount	Provisions created	Provisions without cash flow from collaterals	Financial effect of collaterals
Balace sheet data				
Loans and advances to banks	**3 752 899**	**(1 484)**	**(1 484)**	**-**
Loans and advances to customers, including:	**77 373 191**	**(2 790 841)**	**(4 176 138)**	**1 385 297**
Loans to individuals:	41 560 477	(1 480 413)	(1 797 724)	317 311
– Current accounts	5 442 653	(593 854)	(614 931)	21 077
– Term loans, including:	36 117 824	(886 559)	(1 182 793)	296 234
housing and mortgage loans	30 510 513	(541 352)	(764 534)	223 182
Loans to corporate clients:	27 679 169	(1 281 773)	(2 349 790)	1 068 017
– Current accounts	3 701 490	(241 111)	(397 825)	156 714
– Term loans:	23 977 679	(932 442)	(1 951 965)	1 019 523
corporate & institutional enterprises	5 751 583	(193 948)	(280 510)	86 562
medium & small enterprises	18 226 096	(867 782)	(1 671 455)	803 673
Loans and advances to public sector	1 924 395	(1 369)	(1 404)	35
Total balance sheet data	**81 126 090**	**(2 792 325)**	**(4 177 622)**	**1 385 297**
Off-balance sheet data:				
Loan commitments and other commitments	19 883 402	(41 376)	(45 684)	4 308
Guarantees, banker's acceptances, documentary and commercial letters of credit	3 610 377	(8 237)	(11 773)	3 536
Total off-balance sheet data:	**23 493 779**	**(49 613)**	**(57 457)**	**7 844**

23. Investment securities

	31.12.2015			31.12.2014		
	Investment securities without pledge	Pledged investment securities	Total investment securities	Investment securities without pledge	Pledged investment securities	Total investment securities
Debt securities	**25 141 089**	**5 396 481**	**30 537 570**	**22 270 938**	**5 146 060**	**27 416 998**
Issued by government	16 842 144	5 396 481	22 238 625	17 440 062	5 146 060	22 586 122
- government bonds	16 842 144	5 396 481	22 238 625	17 440 062	5 146 060	22 586 122
Issued by central bank	7 442 384	-	7 442 384	4 479 540	-	4 479 540
Other debt securities	856 561	-	856 561	351 336	-	351 336
- bank's bonds	233 158	-	233 158	24 907	-	24 907
- corporate bonds	583 456	-	583 456	284 854	-	284 854
- communal bonds	39 947	-	39 947	41 575	-	41 575
Equity securities:	**199 379**	**-**	**199 379**	**261 616**	**-**	**261 616**
Listed	-	-	-	229 961	-	229 961
Unlisted	199 379	-	199 379	31 655	-	31 655
Total debt and equity securities:	**25 340 468**	**5 396 481**	**30 736 949**	**22 532 554**	**5 146 060**	**27 678 614**
Short-term (up to 1 year)	**11 196 419**	**90 975**	**11 287 394**	**9 034 438**	**-**	**9 034 438**
Long-term (over 1 year)	**14 144 049**	**5 305 506**	**19 449 555**	**13 498 116**	**5 146 060**	**18 644 176**

Presented above equity securities recognised at cost less impairment include provisions for impairment of PLN 19 754 thousand (31 December 2014: PLN 12 007 thousand).

As at 31 December 2015, equity securities include fair value of shares of Visa Europe Ltd in the amount of PLN 167 243 thousand.

As at 31 December 2014, listed equity securities include fair value of PZU S.A. shares in the amount of PLN 229 961 thousand. As at 31 December 2015, the Group did not have any PZU shares.

As at 31 December 2015, the carrying values of debt securities with fixed interest rates amounted to PLN 25 018 609 thousand while debt securities with variable interest rates PLN 5 518 961 thousand (31 December 2014 respectively: PLN 21 184 127 thousand and PLN 6 232 871 thousand).

The above note includes government bonds pledged under the Bank Guarantee Fund (BFG), government bonds pledged as sell-buy-back transactions, government bonds pledged as collateral for the loans received from the European Investment Bank and government bonds pledged as collateral for deposit placed by the customer.

In accordance with the BFG Law of 14 December 1994, as at 31 December 2015 the Group held government bonds and bills included in the statement of financial position in the amount of PLN 568 248 thousand with a nominal value of PLN 537 000 thousand (31 December 2014: carrying value - PLN 410 712 thousand; nominal value - PLN 377 000 thousand), which were pledged as collateral for the Bank Guarantee Fund and were deposited in a separate account at the National Depository of Securities.

On 22 December 2015 mBank S.A. has received an information with regards to the proposed structuring of the intended takeover of Visa Europe by Visa Inc transaction. The transaction depends on obtaining relevant regulatory approvals and its conclusion is planned for the second quarter of 2016. mBank S.A. will be one of transaction beneficiaries. According to the received information, the potential impact of the transaction settlement on mBank includes: EUR - 43.6 million in cash - equivalent of PLN 185.8 million (at the average NBP exchange rate as of 31 December 2015), EUR - 15.0 million in privileges shares (preferred stock) - equivalent of PLN 63.9 million (at the average NBP exchange rate as of 31 December 2015). The above amounts may be adjusted by the transaction costs, the amounts corresponding to the impairment of the company's Visa Europe incurred as a result of the occurrence of the events described in the transaction documents (leakage) and by any approved requests for revision of the granted amounts made by the members of Visa Europe. The Visa Europe members have the right to appeal. The process of reviewing appeals will last until 1 March 2016. The final amounts allocated on individual participants of the transaction will be known on its finalization (closing date), which is expected in the second quarter of 2016.

Moreover, the transaction between Visa Inc. and Visa Europe provides for a conditional payment, "earn-out" type and payable in cash after the period of 16 quarters after the settlement of the transaction, of which impact on the Bank's result is unknown. The final amount of the conditional payment (earn-out) will depend on a number of conditions and the amount of the total revenue of Visa Europe generated by all the participants of the organization within 4 years after the conclusion of the transaction as well as the share of revenue generated by the Bank in this total revenue.

Accordingly, as at 31 December 2015, the Bank has determined the fair value of the share in Visa Europe Ltd in the amount of EUR 39 245 thousand – equivalent PLN 167 243 thousand (at the average NBP exchange rate as of 31 December 2015), and the difference between the previous value of the share of PLN 43 and determined fair value, net of income tax in the amount of PLN 31 776 thousand, has been recognized in other comprehensive income and had no impact on the net profit of the Bank and the Group.

Gains less losses from investment securities, investments in subsidiaries and associates

	Year ended 31 December	
	2015	2014
Sale/redemption of financial assets available for sale	133 413	55 373
Gains less losses related to sale of subsidiaries and associates	189 694	-
Impairment of available for sale equity securities	(200)	-
Impairment of investments in subsidiaries	(8 499)	(3 447)
Total gains less losses from investment securities, investments in subsidiaries and associates	**314 408**	**51 926**

In 2015, the item "Gains less losses related to sale of subsidiaries and associates" includes mainly the profit on sale of BRE Ubezpieczenia TUiR S.A. shares in the amount of PLN 194 348 thousand.

Moreover, the item "Sale/redemption of financial assets available for sale" includes the profit on sale of equity securities in the amount of PLN 127 333 thousand (in 2014 – PLN 10 283 thousand) mainly of PZU S.A. shares in the amount of PLN 124 994 thousand as well as profit on sale of treasury bonds and mortgage bonds in the amount of PLN 6 312 thousand (in 2014 – PLN 45 090 thousand).

In 2015, impairment of investments in subsidiaries relates mainly to the write-off of the Bank's involvement in Call Center Poland S.A. in the amount of PLN 8 096 thousand.

In 2014, impairment of investment securities included the write-off of the carrying value of Transfinance a.s. assets to the fair value less costs to sale due to classification the subsidiary as non-current assets (disposal group) held for sale in the amount of PLN 2 737 thousand.

Movements in investment securities

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	31.12.2015	31.12.2014
Investment securities		
As at the beginning of the period	**27 678 614**	**25 341 763**
Exchange differences	21 388	18 860
Additions	339 313 828	331 433 043
Disposals (sale, redemption and forfeiture)	(336 244 836)	(329 435 421)
Gains / (losses) from impairment of equity securities and debt securities available for sale	(8 709)	(710)
Gains / (losses) from changes in fair value	(23 336)	321 079
As at the end of the period	**30 736 949**	**27 678 614**

Movements in provisions for losses on investment securities

	31.12.2015	31.12.2014
Provisions for losses on equity securities		
Listed		
As at the beginning of the period	**-**	**(125)**
Amounts written off during the period as uncollectible	-	125
As at the end of the period	**-**	**-**
Unlisted		
As at the beginning of the period	**(12 007)**	**(11 297)**
Allowance for impairment	(8 709)	(710)
Amounts written off during the period as uncollectible	203	-
Amounts recovered during the period	307	-
Change in the scope of consolidation	452	-
As at the end of the period	**(19 754)**	**(12 007)**
Total provisions for investment securities		
As at the beginning of the period	**(12 007)**	**(11 422)**
Allowance for impairment	(8 709)	(710)
Amounts written off during the period as uncollectible	203	125
Amounts recovered during the period	307	-
Change in the scope of consolidation	452	-
As at the end of the period	**(19 754)**	**(12 007)**

24. Assets and liabilities held for sale

As at 31 December 2014, as non-current assets (disposal group) the Group presented the shares of the company Transfinance a.s. Under the sale agreement signed on 8 December 2014 between mBank S.A. and UniCredit Bank Czech Republic and Slovakia a.s. (UniCredit), on 20 January 2015, the sale transaction of the Transfinance shares for UniCredit was finalized closing the process of restructuring of the foreign factoring activities i.e. after the sale of Magyar Factor zRt and Intermarket Bank AG in 2011.

Moreover, as at 31 December 2014 as non-current assets (disposal group) the Group presented the shares of the company BRE Ubezpieczenia Towarzystwo Ubezpieczeń I Reasekuracji S.A. ("BRE TUiR") as well as the shares of AWL I Sp. z o.o. hold indirectly through BRE TUiR.

On 27 March 2015, after meeting specific conditions precedent, in particular: (i) obtaining the consent of the Office of Competition and Consumer Protection and (ii) no objections being raised by the Polish Financial Supervision Authority, the company Aspiro S.A. sold of 100% shares of BRE TUiR to the company Avanssur S.A., belonging to AXA Group.

Detailed information concerning the sale of the companies presented by the Group as non-current assets (disposal group) as at 31 December 2014 has been presented under Note 46.

25. Intangible assets

	31.12.2015	31.12.2014
Development costs	-	1
Goodwill	3 532	3 532
Patents, licences and similar assets, including:	347 357	361 214
- computer software	249 964	269 674
Other intangible assets	5 154	6 278
Intangible assets under development	163 006	94 601
Total intangible assets	**519 049**	**465 626**

In 2015 and 2014, the Group performed impairment tests of intangible assets under development and goodwill. In 2014, as a result of the test, the Group made an impairment provision of goodwill in the amount of PLN 1 196 thousand.

Movements in intangible assets

Movements in intangible assets from 1 January to 31 December 2015	Development costs	Acquired patents, licences and other similar assets		Other intangible assets	Intangible assets under development	Goodwill	Total intangible assets
			including: acquired computer software				
Gross value of intangible assets as at the beginning of the period: 01.01.2015	**224**	**986 375**	**747 854**	**22 370**	**94 601**	**4 728**	**1 108 298**
Increase (due to)	**-**	**90 885**	**37 916**	**7**	**122 047**	**-**	**212 939**
- purchase	-	38 620	4 489	2	93 172	-	131 794
- transfer from intangible assets under development	-	39 325	20 583	5	-	-	39 330
- development costs	-	-	-	-	20 376	-	20 376
- other increases	-	12 940	12 844	-	8 499	-	21 439
Decrease (due to)	**(185)**	**(48 700)**	**(36 597)**	**(150)**	**(53 642)**	**-**	**(102 677)**
- liquidation	(185)	(36 995)	(36 597)	-	-	-	(37 180)
- transfer to intangible assets given to use	-	-	-	-	(39 330)	-	(39 330)
- other decreases	-	(11 705)	-	(150)	(14 312)	-	(26 167)
Gross value of intangible assets as at the end of the period: 31.12.2015	**39**	**1 028 560**	**749 173**	**22 227**	**163 006**	**4 728**	**1 218 560**
Accumulated amortization as at the beginning of the period: 01.01.2015	**(223)**	**(625 151)**	**(478 180)**	**(16 092)**	**-**	**-**	**(641 466)**
Amortization for the period (due to)	**184**	**(56 042)**	**(21 029)**	**(981)**	**-**	**-**	**(56 839)**
- amortization	(1)	(92 840)	(57 397)	(1 131)	-	-	(93 972)
- other increases	-	(41)	(25)	150	-	-	109
- liquidation	185	36 989	36 591	-	-	-	37 174
- other decreases	-	(150)	(198)	-	-	-	(150)
Accumulated amortization as at the end of the period: 31.12.2015	**(39)**	**(681 193)**	**(499 209)**	**(17 073)**	**-**	**-**	**(698 305)**
Impairment losses as at the beginning of the period: 01.01.2015	**-**	**(10)**	**-**	**-**	**-**	**(1 196)**	**(1 206)**
Impairment losses as at the end of the period: 31.12.2015	**-**	**(10)**	**-**	**-**	**-**	**(1 196)**	**(1 206)**
Net value of intangible assets as at the end of the period: 31.12.2015	**-**	**347 357**	**249 964**	**5 154**	**163 006**	**3 532**	**519 049**

Movements in intangible assets from 1 January to 31 December 2014	Development costs	Acquired patents, licences and other similar assets	including: acquired computer software	Other intangible assets	Intangible assets under development	Goodwill	Total intangible assets
Gross value of intangible assets as at the beginning of the period: 01.01.2014	**5 537**	**876 331**	**696 619**	**26 177**	**99 366**	**4 728**	**1 012 139**
Increase (due to)	**-**	**129 712**	**64 440**	**95**	**93 313**	**-**	**223 120**
- purchase	-	41 977	4 936	83	67 368	-	109 428
- transfer from fixed assets under construction	-	192	9	-	-	-	192
- transfer from intangible assets under development	-	69 374	46 556	-	-	-	69 374
- development costs	-	-	-	-	14 968	-	14 968
- other increases	-	18 169	12 939	12	10 977	-	29 158
Decrease (due to)	**(5 313)**	**(19 668)**	**(13 205)**	**(3 902)**	**(98 078)**	**-**	**(126 961)**
- liquidation	-	(3 201)	(1 407)	-	-	-	(3 201)
- transfer to intangible assets given to use	-	-	-	-	(69 374)	-	(69 374)
- non-current assets held for sale	-	(8 482)	(8 482)	-	(1 636)	-	(10 118)
- other decreases	(5 313)	(7 985)	(3 316)	(3 902)	(27 068)	-	(44 268)
Gross value of intangible assets as at the end of the period: 31.12.2014	**224**	**986 375**	**747 854**	**22 370**	**94 601**	**4 728**	**1 108 298**
Accumulated amortization as at the beginning of the period: 01.01.2014	**(5 155)**	**(532 519)**	**(407 013)**	**(19 110)**	**-**	**-**	**(556 784)**
Amortization for the period (due to)	**4 932**	**(92 632)**	**(71 167)**	**3 018**	**-**	**-**	**(84 682)**
- amortization	(4)	(91 233)	(59 064)	(1 119)	-	-	(92 356)
- other increases	(1)	(22 325)	(19 724)	-	-	-	(22 326)
- liquidation	-	3 202	1 408	-	-	-	3 202
- non-current assets held for sale	-	4 558	4 558	-	-	-	4 558
- other decreases	4 937	13 166	1 655	4 137	-	-	22 240
Accumulated amortization as at the end of the period: 31.12.2014	**(223)**	**(625 151)**	**(478 180)**	**(16 092)**	**-**	**-**	**(641 466)**
Impairment losses as at the beginning of the period: 01.01.2014	**-**	**(10)**	**-**	**-**	**-**	**-**	**(10)**
- increase	-	-	-	-	-	(1 196)	(1 196)
Impairment losses as at the end of the period: 31.12.2014	**-**	**(10)**	**-**	**-**	**-**	**(1 196)**	**(1 206)**
Net value of intangible assets as at the end of the period: 31.12.2014	**1**	**361 214**	**269 674**	**6 278**	**94 601**	**3 532**	**465 626**

26. Tangible assets

	31.12.2015	31.12.2014
Tangible assets, including:	660 017	644 774
- land	1 335	1 335
- buildings and structures	193 652	202 454
- equipment	149 573	116 923
- vehicles	231 210	225 322
- other fixed assets	84 247	98 740
Fixed assets under construction	84 505	72 603
Total tangible assets	**744 522**	**717 377**

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Movements in tangible assets

Movements in tangible assets from 1 January to 31 December 2015	Land	Buildings and structures	Equipment	Vehicles	Other fixed assets	Tangible assets under construction	Total
Gross value of tangible assets as at the beginning of the period: 01.01.2015	**1 335**	**357 152**	**578 115**	**326 062**	**418 878**	**72 783**	**1 754 325**
Increase (due to)	**-**	**666**	**88 409**	**87 155**	**20 160**	**101 417**	**297 807**
- purchase	-	146	33 427	81 826	5 856	84 469	205 724
- transfer from tangible assets under construction	-	82	53 984	-	13 706	-	67 772
- other increases	-	438	998	5 329	598	16 948	24 311
Decrease (due to)	**-**	**(563)**	**(37 810)**	**(78 891)**	**(28 272)**	**(89 515)**	**(235 051)**
- sale	-	-	(5 450)	(74 563)	(1 391)	-	(81 404)
- liquidation	-	(562)	(19 899)	(818)	(13 375)	-	(34 654)
- transfer to tangible assets	-	-	-	-	-	(67 772)	(67 772)
- other decreases	-	(1)	(12 461)	(3 510)	(13 506)	(21 743)	(51 221)
Gross value of tangible assets as at the end of the period: 31.12.2015	**1 335**	**357 255**	**628 714**	**334 326**	**410 766**	**84 685**	**1 817 081**
Accumulated depreciation as at the beginning of the period: 01.01.2015	**-**	**(98 559)**	**(461 192)**	**(100 715)**	**(320 007)**	**-**	**(980 473)**
Depreciation for the period (due to)	**-**	**(6 905)**	**(17 949)**	**(2 368)**	**(6 381)**	**-**	**(33 603)**
- depreciation charge	-	(7 121)	(55 470)	(55 728)	(33 134)	-	(151 453)
- other increases	-	(615)	(102)	(39)	(246)	-	(1 002)
- sale	-	-	5 372	50 173	1 373	-	56 918
- liquidation	-	205	19 757	753	12 341	-	33 056
- other decreases	-	626	12 494	2 473	13 285	-	28 878
Accumulated depreciation as at the end of the period: 31.12.2015	**-**	**(105 464)**	**(479 141)**	**(103 083)**	**(326 388)**	**-**	**(1 014 076)**
Impairment losses as at the beginning of the period: 01.01.2015	**-**	**(56 139)**	**-**	**(25)**	**(131)**	**(180)**	**(56 475)**
- increase	-	(2 000)	-	(13)	-	-	(2 013)
- decrease	-	-	-	5	-	-	5
Impairment losses as at the end of the period: 31.12.2015	**-**	**(58 139)**	**-**	**(33)**	**(131)**	**(180)**	**(58 483)**
Net value of tangible assets as at the end of the period: 31.12.2015	**1 335**	**193 652**	**149 573**	**231 210**	**84 247**	**84 505**	**744 522**

Movements in tangible assets from 1 January to 31 December 2014	Land	Buildings and structures	Equipment	Vehicles	Other fixed assets	Tangible assets under construction	Total
Gross value of tangible assets as at the beginning of the period: 01.01.2014	**1 267**	**356 197**	**589 388**	**321 877**	**414 012**	**37 213**	**1 719 954**
Increase (due to)	**91**	**2 972**	**41 499**	**128 729**	**18 230**	**62 675**	**254 196**
- purchase	-	471	24 220	92 054	4 662	55 751	177 158
- transfer from tangible assets under construction	-	543	10 731	61	12 997	-	24 332
- other increases	91	1 958	6 548	36 614	571	6 924	52 706
Decrease (due to)	**(23)**	**(2 017)**	**(52 772)**	**(124 544)**	**(13 364)**	**(27 105)**	**(219 825)**
- sale	-	-	(43 429)	(88 642)	(3 253)	-	(135 324)
- liquidation	-	(4)	(4 632)	(2)	(9 500)	-	(14 138)
- transfer to tangible assets	-	-	-	-	-	(24 332)	(24 332)
- transfer to intangible assets	-	-	-	-	-	(192)	(192)
- non-current assets held for sale	-	(638)	(1 695)	(678)	(179)	-	(3 190)
- other decreases	(23)	(1 375)	(3 016)	(35 222)	(432)	(2 581)	(42 649)
Gross value of tangible assets as at the end of the period: 31.12.2014	**1 335**	**357 152**	**578 115**	**326 062**	**418 878**	**72 783**	**1 754 325**
Accumulated depreciation as at the beginning of the period: 01.01.2014	**-**	**(91 866)**	**(441 462)**	**(131 860)**	**(295 633)**	**-**	**(960 821)**
Depreciation for the period (due to)	**-**	**(6 693)**	**(19 730)**	**31 145**	**(24 374)**	**-**	**(19 652)**
- depreciation charge	-	(7 233)	(49 319)	(55 496)	(36 037)	-	(148 085)
- other increases	-	(427)	(1 613)	(3)	(336)	-	(2 379)
- sale	-	-	22 981	58 984	3 238	-	85 203
- liquidation	-	-	4 542	2	8 249	-	12 793
- non-current assets held for sale	-	514	1 048	345	71	-	1 978
- other decreases	-	453	2 631	27 313	441	-	30 838
Accumulated depreciation as at the end of the period: 31.12.2014	**-**	**(98 559)**	**(461 192)**	**(100 715)**	**(320 007)**	**-**	**(980 473)**
Impairment losses as at the beginning of the period: 01.01.2014	**-**	**(49 270)**	**-**	**-**	**(131)**	**(180)**	**(49 581)**
- increase	-	(6 869)	-	(25)	-	-	(6 894)
Impairment losses as at the end of the period: 31.12.2014	**-**	**(56 139)**	**-**	**(25)**	**(131)**	**(180)**	**(56 475)**
Net value of tangible assets as at the end of the period: 31.12.2014	**1 335**	**202 454**	**116 923**	**225 322**	**98 740**	**72 603**	**717 377**

The recoverable value of impaired tangible assets is the net selling price determined on the basis of market prices for similar assets.

As part of its activities as a lessor, the mBank Group presents within tangible assets those assets which are leased to third parties under operating lease agreements. The table below presents future minimum lease payments under non-cancellable operating lease agreements with the Group as a lessor.

	31.12.2015	31.12.2014
Minimum lease payments under non-cancellable operating lease		
Up to 1 year	50 535	46 662
Over 1 year up to 5 years	57 800	50 895
Over 5 years	3	-
Total	**108 338**	**97 557**

The Group presents depreciation of tangible assets leased under operating lease agreements as net income from operating lease (Note 10).

27. Other assets

	31.12.2015	31.12.2014
Other, including:	**971 192**	**794 964**
- debtors	222 454	176 599
- interbank balances	2 365	2 726
- other accruals	115 938	73 358
- accrued income	56 315	46 588
- inventories	298 791	303 392
- other	275 329	192 301
Total other assets	**971 192**	**794 964**
Short-term (up to 1 year)	643 751	473 489
Long-term (over 1 year)	327 441	321 475

The value of inventories primarily results from the business of the companies: mLocum and mLeasing.

Throughout the year 2015 and 2014, the Group did not capitalize borrowing costs.

As at 31 December 2015, other assets in the amount of PLN 275 329 thousand include receivables of Dom Maklerski mBanku S.A. from the National Depository of Securities in the amount of PLN 89 332 thousand (31 December 2014: PLN 115 514 thousand).

As at 31 December 2015, the above note includes financial assets in amount of PLN 314 151 thousand (31 December 2014: PLN 294 839 thousand).

	31.12.2015	31.12.2014
Gross other financial assets, including:	**321 778**	**310 418**
- Not past due	316 726	303 131
- Past due over 90 days	5 052	7 287
- Provisions for impaired assets (negative amount)	(7 627)	(15 579)
Net other financial assets	**314 151**	**294 839**

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28. Amounts due to other banks

	31.12.2015	31.12.2014
Current accounts	1 235 941	684 644
Term deposits	144 870	10 084
Loans and advances received	9 374 045	11 345 217
Repo / sell-buy-back transactions	778 145	1 124 586
Liabilities in respect of cash collaterals	427 026	172 838
Payables to be settled	2 053	2 739
Other	57 251	43 721
Amounts due to other banks	**12 019 331**	**13 383 829**
Short-term (up to 1 year)	5 892 092	5 121 501
Long-term (over 1 year)	6 127 239	8 262 328

As at 31 December 2015, the fixed rate term deposits accepted from other banks amounted to PLN 144 870 thousand (31 December 2014: PLN 10 084 thousand). In the both reporting periods there were no variable rate term deposits.

As at 31 December 2015 and as at 31 December 2014, loans and advances received from other banks were variable rate loans.

The average interest rate for loans and deposits received from other banks in 2015 amounted to 0.69% (31 December 2014: -1.25%).

mBank S.A. did not provide collateral related to loans from other banks. The Group did not note any violations of contractual terms related to liabilities in respect of loans received.

29. Amounts due to customers

	31.12.2015	31.12.2014
Individual customers:	**46 117 051**	**39 284 776**
Current accounts	32 468 053	27 974 843
Term deposits	13 604 623	11 202 722
Other liabilities:	44 375	107 211
- liabilities in respect of cash collaterals	22 205	19 357
- other	22 170	87 854
Corporate customers:	**34 423 929**	**32 237 087**
Current accounts	16 800 113	13 516 365
Term deposits	12 209 975	11 128 087
Loans and advances received	3 634 064	3 218 105
Repo transactions	1 093 712	3 738 058
Other liabilities:	686 065	636 472
- liabilities in respect of cash collaterals	566 645	492 975
- other	119 420	143 497
Public sector customers:	**599 886**	**900 616**
Current accounts	468 038	627 765
Term deposits	131 104	250 263
Repo transactions	-	12 951
Other liabilities:	744	9 637
- liabilities in respect of cash collaterals	-	125
- other	744	9 512
Total amounts due to customers	**81 140 866**	**72 422 479**
Short-term (up to 1 year)	74 696 817	67 174 957
Long-term (over 1 year)	6 444 049	5 247 522

As at 31 December 2015, the majority of the deposits from retail and corporate customers bore fixed interest rates. The average interest rate for amounts due to customers (excluding repos) amounted to 1.08% (31 December 2014: -1.50%).

As at 31 December 2015, the balance of loans and advances received includes the loan received from European Investment Bank in the amount of PLN 3 634 064 thousand (31 December 2014: PLN 3 218 105 thousand). The loan was collateralized with treasury bonds, which have been presented as pledged assets under Note 23 and Note 37.

30. Debt securities in issue

As at 31 December 2015

Debt securities in issue by category	Nominal value	Contractual interest rate	Guarantee/collateral	Redemption date	Carrying value
Short-term issues	**326 250**				**327 231**
Mortgage bonds (in PLN)	145 750	2.95%	mortgage bond register	20-04-2016	146 359
Mortgage bonds (in PLN)	149 500	3.59%	mortgage bonds publicly registered	28-09-2016	150 809
Mortgage bonds (in PLN)	31 000	3.50%	mortgage bond register	15-11-2016	30 063

Debt securities in issue by category	Nominal value	Contractual interest rate	Guarantee/collateral	Redemption date	Carrying value
Long-term issues	**8 590 656**				**8 618 964**
Mortgage bonds (in PLN)	200 000	3.10%	mortgage bond register	20-04-2017	201 054
Mortgage bonds (in PLN)	153 250	2.75%	mortgage bond register	16-06-2017	152 918
Mortgage bonds (in EUR)	42 516	1.93%	mortgage bond register	19-10-2017	42 747
Mortgage bonds (in EUR)	31 887	0.85%	mortgage bond register	15-02-2018	31 958
Mortgage bonds (in PLN)	108 900	3.46%	mortgage bond register	15-06-2018	107 881
Bonds (in CHF)	786 617	2.50%	guarantee	08-10-2018	788 687
Mortgage bonds (in EUR)	212 580	1.08%	mortgage bond register	22-10-2018	213 187
Mortgage bonds (in EUR)	85 032	1.12%	mortgage bond register	22-10-2018	85 094
Bonds (in CZK)	78 849	2.32%	guarantee	06-12-2018	78 977
Bonds (in PLN)	12 000	3.24%	no collateral	16-01-2019	11 813
Bonds (in PLN)	50 000	3.18%	no collateral	21-01-2019	49 803
Bonds (in EUR)	2 130 750	2.38%	guarantee	01-04-2019	2 158 072
Mortgage bonds (in PLN)	80 000	2.77%	mortgage bond register	21-06-2019	79 985
Mortgage bonds (in EUR)	212 580	0.82%	mortgage bond register	15-10-2019	212 991
Mortgage bonds (in EUR)	212 580	0.56%	mortgage bond register	24-06-2020	213 084
Mortgage bonds (in EUR)	127 548	2.75%	mortgage bond register	28-07-2020	127 653
Mortgage bonds (in PLN)	415 000	2.82%	mortgage bond register	10-09-2020	415 782
Mortgage bonds (in PLN)	255 000	2.87%	mortgage bond register	22-09-2021	255 215
Bonds (in EUR)	2 130 750	2.00%	guarantee	26-11-2021	2 119 199
Mortgage bonds (in EUR)	85 230	1.14%	mortgage bond register	25-02-2022	85 543
Mortgage bonds (in PLN)	200 000	2.59%	mortgage bond register	28-04-2022	200 919
Mortgage bonds (in PLN)	300 000	2.72%	mortgage bond register	28-07-2022	302 336
Mortgage bonds (in PLN)	200 000	2.73%	mortgage bond register	20-02-2023	201 153
Mortgage bonds (in PLN)	250 000	2.68%	mortgage bond register	16-10-2023	251 421
Mortgage bonds (in EUR)	46 768	1.29%	mortgage bond register	24-04-2025	47 158
Mortgage bonds (in EUR)	34 013	3.50%	mortgage bond register	28-02-2029	34 432
Mortgage bonds (in EUR)	63 774	3.50%	mortgage bond register	15-03-2029	64 621
Mortgage bonds (in EUR)	85 032	3.20%	mortgage bond register	30-05-2029	85 281
Debt securities in issue (carrying value in PLN '000)					**8 946 195**

As at 31 December 2014

Debt securities in issue by category	Nominal value	Contractual interest rate	Guarantee/collateral	Redemption date	Carrying value
Short-term issues	**2 978 911**				**2 994 568**
Bonds (in PLN)	50 000	3.31%	no collateral	16-03-2015	50 072
Mortgage bonds (in PLN)	78 611	3.03%	mortgage bond register	15-05-2015	78 799
Mortgage bonds (in PLN)	100 000	3.56%	mortgage bond register	07-07-2015	101 695
Mortgage bonds (in PLN)	57 150	3.99%	mortgage bonds publicly registered	28-07-2015	57 911
Mortgage bonds (in PLN)	100 000	3.66%	mortgage bond register	28-09-2015	100 891
Bonds (in EUR)	2 131 150	2.75%	guarantee	12-10-2015	2 141 691
Bonds (in PLN)	385 000	3.55%	no collateral	23-11-2015	386 423
Mortgage bonds (in PLN)	77 000	3.23%	mortgage bonds publicly registered	30-11-2015	77 086

Debt securities in issue by category	Nominal value	Contractual interest rate	Guarantee/collateral	Redemption date	Carrying value
Long-term issues	**7 331 869**				**7 347 174**
Mortgage bonds (in PLN)	145 700	3.15%	mortgage bond register	20-04-2016	146 237
Mortgage bonds (in PLN)	149 500	4.09%	mortgage bonds publicly registered	28-09-2016	150 879
Mortgage bonds (in PLN)	31 000	3.73%	mortgage bond register	15-11-2016	28 900
Mortgage bonds (in PLN)	172 750	3.30%	mortgage bond register	20-04-2017	173 521
Mortgage bonds (in PLN)	150 000	3.03%	mortgage bond register	16-06-2017	149 549
Mortgage bonds (in EUR)	42 623	2.08%	mortgage bond register	19-10-2017	42 745
Mortgage bonds (in EUR)	31 967	1.10%	mortgage bond register	15-02-2018	31 945
Mortgage bonds (in PLN)	103 900	3.74%	mortgage bond register	15-06-2018	103 369
Bonds (in CHF)	708 965	2.50%	guarantee	08-10-2018	710 272
Mortgage bonds (in EUR)	213 115	1.21%	mortgage bond register	22-10-2018	213 164
Mortgage bonds (in EUR)	85 246	1.12%	mortgage bond register	22-10-2018	85 000
Bonds (in CZK)	76 840	2.32%	guarantee	06-12-2018	76 963
Bonds (in PLN)	12 000	4.14%	no collateral	16-01-2019	11 745
Bonds (in PLN)	50 000	3.48%	no collateral	21-01-2019	49 669
Bonds (in EUR)	2 131 150	2.38%	guarantee	01-04-2019	2 155 147
Mortgage bonds (in PLN)	80 000	3.05%	mortgage bond register	21-06-2019	79 963
Mortgage bonds (in EUR)	213 115	0.95%	mortgage bond register	15-10-2019	212 724
Mortgage bonds (in EUR)	127 869	2.75%	mortgage bond register	28-07-2020	127 338
Bonds (in EUR)	2 131 150	2.00%	guarantee	26-11-2021	2 116 927
Mortgage bonds (in PLN)	291 700	3.62%	mortgage bond register	28-07-2022	294 906
Mortgage bonds (in PLN)	200 000	3.62%	mortgage bond register	20-02-2023	202 017
Mortgage bonds (in EUR)	34 098	3.50%	mortgage bond register	28-02-2029	34 407
Mortgage bonds (in EUR)	63 935	3.50%	mortgage bond register	15-03-2029	64 564
Mortgage bonds (in EUR)	85 246	3.20%	mortgage bond register	30-05-2029	85 223
Debt securities in issue (carrying value in PLN '000)					**10 341 742**

The Group did not note any violations of contractual terms related to liabilities in respect of issued debt securities.

Issues in 2015

In 2015 mBank Hipoteczny S.A. issued mortgage bonds with the nominal value of PLN 1 205 000 thousand and EUR 81 000 thousand (the equivalent of PLN 345 182 thousand according to the average exchange rate of the National Bank of Poland as at 31 December 2015).

Issues in 2014

On 20 November 2014, mFinance France S.A. (mFF), a subsidiary of the Bank issued Eurobonds with a nominal value of EUR 500 000 thousand (PLN 2 107 750 thousand at the average exchange rate of the National Bank of Poland as at 20 November 2014) maturing in 2021. The funds coming from the issue in the amount of EUR 495 916 thousand (PLN 2 089 265 thousand at the average exchange rate of the National Bank of Poland as at 20 November 2014), were placed by mFF in mBank as a security deposit to back the guarantee issued by the Bank to secure payment of any amounts payable on debt securities issued under Eurobond Issue Programme.

On 24 March 2014, mFinance France S.A. issued Eurobonds with a nominal value of EUR 500 000 thousand (equivalent to PLN 2 099 500 thousand at the average exchange rate of the National Bank of Poland as at 24 March 2014) maturing in 2019. On 1 April 2014, on the basis of the agreement concluded on 24 March 2014, the funds raised from the issue in the amount of EUR 496 095 thousand, were deposited in mBank S.A. by mFF as the security deposit for the guarantee of payment of all amounts to be paid in respect of the issued Eurobonds granted by mBank.

Movements in debt securities in issue

	31.12.2015	31.12.2014
As at the beginning of the period	**10 341 742**	**5 402 056**
Additions (issue)	1 545 905	5 654 056
Disposals (redemption)	(3 056 217)	(1 090 158)
Disposals (partial repayment)	-	(37 994)
Exchange differences	88 980	195 375
Other changes	25 785	218 407
Debt securities in issue as at the end of the period	**8 946 195**	**10 341 742**

On 10 November 2015, the company mFinance France S.A. made timely redemption of Eurobonds with a nominal value of EUR 500 000 thousand, issued on 4 October 2012 as part of Eurobonds Issue Programme.

In 2015, mBank made redemption of 3 850 bonds with a nominal value of PLN 385 000 thousand, issued in November 2012.

On 31 March 2014, mBank made an early redemption of 650 bonds with a nominal value of PLN 65 000 thousand issued by mBank S.A. in November 2012 as part of the Bonds and Bank Securities Issue Programme.

As at 31 December 2015, the nominal value of receivables constituting collateral for the issue of mortgage bonds amounted to PLN 5 403 757 thousand (31 December 2014: PLN 3 263 858 thousand). According to legal requirements, the nominal value of mortgage bonds issued on the basis of such receivables cannot exceed 60% of the value of the related real estate. At 31 December 2015, this amount in the register of collateral of mortgage bond amounted to PLN 4 342 172 thousand (31 December 2014: PLN 2 653 030 thousand). Both, as at 31 December 2015 and as at 31 December 2014, covered bonds were secured with receivables secured with mortgage entered as the first item in the land and mortgage register.

Additionally, as at 31 December 2015, government bonds with a nominal value of PLN 60 000 thousand were the basis for the issue of mortgage bonds register (31 December 2014: PLN 160 000 thousand).

The value of receivables constituting collateral for the issue of public sector covered bonds amounted to PLN 361 911 thousand as at 31 December 2015 (31 December 2014: PLN 421 805 thousand).

Additionally, as at 31 December 2015, government bonds with a nominal value of PLN 6 000 thousand were the basis for the issue of mortgage bonds publicly registered (31 December 2014: PLN 30 000 thousand).

Transactions regarding Bank's bonds included in subordinated liabilities have been described under Note 31 below.

31. Subordinated liabilities

SUBORDINATED LIABILITIES	Nominal value	Currency	Terms of interest rate (%)	Effective interest rate (%)	Redemption date	As at the end of the period (in PLN '000)
As at 31 December 2015						
- Commerzbank AG	400 000	CHF	3M LIBOR + 1.2%*	0.380	08.03.2017	1 576 159
- Commerzbank AG	80 000	CHF	3M LIBOR + 1.4%**	0.631	perpetual 1)	315 213
- Commerzbank AG	170 000	CHF	3M LIBOR + 2.2%****	1.475	perpetual 1)	672 003
- Investors not associated with mBank S.A. Group	500 000	PLN	6M WIBOR + 2.25%	4.020	20.12.2023	500 567
- Investors not associated with mBank S.A. Group	750 000	PLN	6M WIBOR + 2.1%	3.890	17.01.2025	763 373
						3 827 315

SUBORDINATED LIABILITIES	Nominal value	Currency	Terms of interest rate (%)	Effective interest rate (%)	Redemption date	As at the end of the period (in PLN '000)
As at 31 December 2014						
- Commerzbank AG	400 000	CHF	3M LIBOR + 1.2%*	1.200	08.03.2017	1 419 015
- Commerzbank AG	80 000	CHF	3M LIBOR + 1.4%**	1.350	perpetual 1)	283 683
- Commerzbank AG	70 000	CHF	3M LIBOR + 2.0%***	2.007	18.12.2017	248 307
- Commerzbank AG	170 000	CHF	3M LIBOR + 2.2%****	2.200	perpetual 1)	605 697
- Commerzbank AG	90 000	CHF	3M LIBOR + 2.5%	2.450	24.06.2018	319 177
- Investors not associated with mBank S.A. Group	500 000	PLN	6M WIBOR + 2.25%	4.300	20.12.2023	500 664
- Investors not associated with mBank S.A. Group	750 000	PLN	6M WIBOR + 2.1%	4.150	17.01.2025	751 181
						4 127 724

* Margin amounting to 0.7% was in force for the period of first five years. From June 2012, margin amounting to 1.2% is in force.

** Margin amounting to 1.4% is in force up to December 2016. Within the period of next years it will be equal to 3.4%.

*** Margin amounting to 2.0% is in force from December 2012.

**** Margin amounting to 2.2% is in force up to January 2018. Within the period of next years it will be equal to 4.2%.

1) Debt securities become due on the initiative of the Bank no earlier than two years after the issue date or on the initiative of Commerzbank, not earlier than five years after the issue date, after obtaining the approval of the Polish Financial Supervision Authority.

The effective interest rate specified in the tables above means the interest rate at the inception day of the last interest period.

In 2015 and in 2014, the Group did not note any delays in repayments of interest instalments and was not in default of any other contractual provisions related to its subordinated liabilities.

According to the decision dated 8 January 2015 mBank obtained a written permission of the Polish Financial Supervision Authority (KNF) to include in Tier 2 capital the amount of PLN 750 000 thousand constituting subordinated liabilities from the bonds issue dated 17 December 2014 on a total nominal value of PLN 750 000 thousand with redemption date on 17 January 2025 on terms that meet the requirements arising from the CRR Regulation.

According to the decision dated 14 February 2014 mBank obtained a written permission of the KNF to include in Tier 2 capital the amount of PLN 500 000 thousand constituting subordinated liabilities from the bonds issue dated 3 December 2013 on total nominal value of PLN 500 000 thousand and with 10 years maturity on terms that meet the requirements arising from the CRR Regulation.

According to Article 484 (5) of the CRR Regulation, subordinated liabilities arising from the bonds issue with undefined maturity are included in Tier 2 capital calculation with application of the rules of grandfathering and limits of grandfathering in transitional period ongoing from 1 January 2014 till 31 December 2021.

Movements in subordinated liabilities

	31.12.2015	31.12.2014
As at the beginning of the period	**4 127 724**	**3 762 757**
Additions (issue)	-	750 000
Disposals (repayment)	(637 661)	(480 122)
Exchange differences	337 144	133 121
Other changes	108	(38 032)
Subordinated liabilities as at the end of the period	**3 827 315**	**4 127 724**
Short-term (up to 1 year)	16 799	6 560
Long-term (over 1 year)	3 810 516	4 121 164

In June 2015, the Bank made a partial repayment of the subordinated loan in the amount of CHF 90 million thousand (equivalent to PLN 359 019 thousand at the exchange rate of 24 June 2015) taken on 24 June 2008 with the maturity date on 24 June 2018.

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Moreover, in June 2015 the Bank made a partial repayment of the subordinated loan in the amount of CHF 70 million (equivalent to PLN 278 719 thousand at the exchange rate of 18 June 2015) taken on 18 December 2007 in the amount of CHF 120 000 with the maturity date on 18 December 2017 and partially repaid on 18 June 2014 in the amount of CHF 50 000 (equivalent to PLN 170 090 thousand at the exchange rate of 18 June 2014).

On 17 December 2014, the Bank issued subordinated bonds with a total nominal value of PLN 750 000 thousand, as described above.

On 24 March 2014, the bonds with undefined maturity date, issued on 24 June 2008 in the amount of CHF 90 000 thousand CHF (equivalent of PLN 310 032 thousand at the rate of 24 March 2014), was prepaid by mBank S.A.

32. Other liabilities

	31.12.2015	31.12.2014
Other liabilities, including		
- tax liabilities	26 492	24 819
- interbank settlements	412 278	425 309
- creditors	561 832	323 815
- accrued expenses	141 842	160 502
- deferred income	303 608	111 711
- provisions for post-employment employee benefits	14 241	12 012
- provisions for holiday equivalents	24 102	24 581
- provisions for other liabilities to employees	151 083	165 703
- other	128 613	101 202
Total other liabilities	**1 764 091**	**1 349 654**

As at 31 December 2015, the presented note includes financial liabilities of PLN 1 115 952 thousand (as at 31 December 2014: PLN 909 626 thousand). Cash flows resulting from those financial liabilities are presented under the Note 3.10.1. The other components of presented liabilities, except for part of provisions for post-employment benefits that were calculated on actuarial basis, are short-term liabilities.

Movements in provisions for post-employment employee benefits

	31.12.2015	31.12.2014
Provisions for post-employment employee benefits		
As at the beginning of the period (by type)	**12 012**	**9 015**
pension and disability provisions	6 500	4 878
provisions for death severance	3 386	2 635
provisions for Social Benefit Fund	2 126	1 502
Change in the period (due to)	**2 229**	**2 997**
Provisions created, due to:	**602**	**616**
pension and disability provisions	314	421
provisions for death severance	207	148
provisions for Social Benefit Fund	81	47
Interest expense, due to:	**525**	**417**
pension and disability provisions	166	238
provisions for death severance	295	112
provisions for Social Benefit Fund	64	67
Actuarial gains and losses recognised in other comprehensive income (Note 16), due to:	**1 965**	**2 352**
pension and disability provisions	728	1 153
provisions for death severance	508	529
provisions for Social Benefit Fund	729	670
Reduction / elimination of the plan, due to:	**-**	**(1)**
pension and disability provisions	-	(1)
Benefits paid, due to:	**(863)**	**(387)**
pension and disability provisions	(559)	(189)
provisions for death severance	(15)	(38)
provisions for Social Benefit Fund	(289)	(160)
As at the end of the period (by type)	**14 241**	**12 012**
pension and disability provisions	7 149	6 500
provisions for death severance	4 381	3 386
provisions for Social Benefit Fund	2 711	2 126
Short-term (up to 1 year)	**1 136**	**1 032**
pension and disability provisions	865	794
provisions for death severance	223	194
provisions for Social Benefit Fund	48	44
Long-term (over 1 year)	**13 105**	**10 980**
pension and disability provisions	6 284	5 706
provisions for death severance	4 158	3 192
provisions for Social Benefit Fund	2 663	2 082

The discount rate is one of the key assumptions used in the actuarial valuation of provisions for post-employment benefits. If the discount rate used in the calculation of these provisions was decreased by 0.5 p.p., the value of the provisions would increase by PLN 575 thousand, and in the case of an increase of the discount rate by 0.5 p.p. the value of the provisions would fall by PLN 526 thousand.

	31.12.2015	31.12.2014
Breakdown of actuarial gains and losses		
Change in financial assumptions, due to:	**488**	**1 678**
pension and disability provisions	193	774
provisions for death severance	134	424
provisions for Social Benefit Fund	161	480
Change in demographic assumptions, due to:	**489**	**332**
pension and disability provisions	262	93
provisions for death severance	(52)	204
provisions for Social Benefit Fund	279	35
Other changes, due to:	**988**	**342**
pension and disability provisions	273	286
provisions for death severance	426	(99)
provisions for Social Benefit Fund	289	155

33. Provisions

	31.12.2015	31.12.2014
For off-balance sheet granted contingent liabilities *	45 606	49 613
For legal proceedings	99 582	96 933
Other	80 228	30 335
Total provisions	**225 416**	**176 881**

* includes valuation of financial guarantees

As at 31 December 2015, other provisions include the provisions for payments for the Borrowers Support Fund created by mBank and mBank Hipoteczny in the amounts of PLN 51 727 thousand and PLN 350 thousand respectively. The cost of the provisions have been included in the Group's income statement for the year 2015 under overhead costs (Note 11). The payments were made on 18 February 2016.

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Estimated dates of granted contingent liabilities realisation are presented in Note 36.

The estimated cash flow due to created provisions for legal proceedings and other provisions is expected to crystalise over 1 year.

Movements in the provisions

	31.12.2015	31.12.2014
As at the beginning of the period (by type)	**176 881**	**228 228**
For off-balance sheet granted contingent liabilities	49 613	56 068
For legal proceedings	96 933	56 275
Technical-insurance provisions	-	87 168
Other	30 335	28 717
Change in the period (due to)	**48 535**	**(51 347)**
- increase of provisions, due to:	215 357	254 601
for off-balance-sheet granted contingent liabilities (Note 13)	146 689	144 061
for legal proceedings	8 762	51 705
technical-insurance provisions	-	48 387
other	59 906	10 448
- release of provisions, due to:	(150 761)	(151 067)
for off-balance-sheet granted contingent liabilities (Note 13)	(150 761)	(150 716)
for legal proceedings	-	(351)
- write-offs	(16 167)	(19 548)
- reclassification to other positions of statement of financial position	37	-
- reclassification to non-current assets held for sale	-	(135 555)
- foreign exchange differences	69	222
As at the end of the period (by type)	**225 416**	**176 881**
For off-balance sheet granted contingent liabilities	45 606	49 613
For legal proceedings	99 582	96 933
Other	80 228	30 335

Provisions for off-balance sheet granted contingent liabilities

	31.12.2015	31.12.2014
Incurred but not identified losses		
Off-balance sheet contingent liabilities	26 066 206	23 435 879
Provisions for off-balance sheet contingent liabilities analysed according to portfolio approach (negative amount)	(31 147)	(27 693)
Net off-balance sheet contingent liabilities	**26 035 059**	**23 408 186**
Off-balance sheet granted contingent liabilities with impairment		
Off-balance sheet contingent liabilities	28 259	57 900
Provisions for off-balance sheet contingent liabilities analysed individually (negative amount)	(14 459)	(21 920)
Net off-balance sheet contingent liabilities	**13 800**	**35 980**

34. Assets and liabilities for deferred income tax

Assets and liabilities for deferred income tax are calculated for all temporary differences in accordance with the balance sheet method, using an effective income tax rate of 19% in 2015 and 2014.

Assets and liabilities for deferred income tax are not recognised as short term assets and liabilities.

Changes in assets and liabilities for deferred income tax are presented below.

Deferred income tax assets	As at 01.01.2015	Recognised in the income statement	Recognised in other comprehensive income	Other changes	As at 31.12.2015
Interest	76 855	12 255	-	13 359	**102 469**
Valuation of derivative financial instruments	2 599	(1 758)	-	-	**841**
Valuation of investment securities	24 020	15 588	4 248	-	**43 856**
Provisions for impairment of loans and advances	234 186	(5 487)	-	-	**228 699**
Provisions for employee benefits	36 300	(1 415)	373	-	**35 258**
Other provisions	8 848	34 615	-	-	**43 463**
Prepayments/accruals	25 635	1 188	-	-	**26 823**
Tax losses carried forward	6 445	(6 182)	-	-	**263**
Differences between carrying and tax value of lease	157 804	45 403	-	-	**203 207**
Other negative temporary differences	72 862	18 679	-	1 832	**93 373**
Total deferred income tax assets	**645 554**	**112 886**	**4 621**	**15 191**	**778 252**

Deferred income tax liabilities	As at 01.01.2015	Recognised in the income statement	Recognised in other comprehensive income	Other changes	As at 31.12.2015
Interest	(57 998)	(5 507)	-	(13 353)	**(76 858)**
Valuation of derivative financial instruments	(32 125)	(10 884)	750	-	**(42 259)**
Valuation of investment securities	(158 373)	5 910	(226)	-	**(152 689)**
Interest and fees received in advance	(40 611)	1 799	-	-	**(38 812)**
Difference between tax and book value of tangible and intangible assets	(46 845)	(3 244)	-	-	**(50 089)**
Prepayments regarding amortization of applied investment relief	(18 657)	-	-	-	**(18 657)**
Other positive temporary differences	(28 314)	(5 961)	-	494	**(33 781)**
Total deferred income tax liabilities	**(382 923)**	**(17 887)**	**524**	**(12 859)**	**(413 145)**

Deferred income tax assets	As at 01.01.2014	Recognised in the income statement	Recognised in other comprehensive income	Other changes	As at 31.12.2014
Interest	105 053	(28 198)	-	-	**76 855**
Valuation of derivative financial instruments	27 103	(24 504)	-	-	**2 599**
Valuation of investment securities	9 058	15 349	-	(387)	**24 020**
Provisions for impairment of loans and advances	194 482	39 704	-	-	**234 186**
Provisions for employee benefits	33 548	2 657	447	(352)	**36 300**
Other provisions	8 830	1 434	-	(1 416)	**8 848**
Prepayments/accruals	23 730	2 965	-	(1 060)	**25 635**
Tax losses carried forward	16 245	(9 800)	-	-	**6 445**
Differences between carrying and tax value of lease	118 806	38 998	-	-	**157 804**
Other negative temporary differences	77 497	(3 713)	(4)	(918)	**72 862**
Total deferred income tax assets	**614 352**	**34 892**	**443**	**(4 133)**	**645 554**

Deferred income tax liabilities	As at 01.01.2014	Recognised in the income statement	Recognised in other comprehensive income	Other changes	As at 31.12.2014
Interest	(44 502)	(13 496)	-	-	**(57 998)**
Valuation of derivative financial instruments	(6 173)	(25 000)	(952)	-	**(32 125)**
Valuation of investment securities	(93 616)	(1 113)	(64 492)	848	**(158 373)**
Interest and fees received in advance	(35 767)	(4 844)	-	-	**(40 611)**
Difference between tax and book value of tangible and intangible assets	(34 613)	(12 546)	-	314	**(46 845)**
Prepayments regarding amortization of applied investment relief	(18 657)	-	-	-	**(18 657)**
Other positive temporary differences	(13 157)	(16 567)	4	1 406	**(28 314)**
Total deferred income tax liabilities	**(246 485)**	**(73 566)**	**(65 440)**	**2 568**	**(382 923)**

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Deferred income tax included in the income statement	31.12.2015	31.12.2014
Interest	6 748	(41 694)
Valuation of derivative financial instruments	(12 642)	(49 504)
Valuation of securities	21 498	14 236
Provisions for impairment of loans and advances	(5 487)	39 704
Provisions for employee benefits	(1 415)	2 657
Other provisions	34 615	1 434
Prepayments/accruals	1 188	2 965
Interest and fees received in advance	1 799	(4 844)
Difference between tax and book value of tangible and intangible assets	(3 244)	(12 546)
Differences between carrying and tax value of lease	45 403	38 998
Tax losses carried forward	(6 182)	(9 800)
Other temporary differences	12 718	(20 280)
Total deferred income tax included in the income statement (Note 14)	**94 999**	**(38 674)**

A level of deferred tax asset for the year 2015 does not include tax losses of the foreign branch in Slovakia. Potential including of the tax losses into deferred tax asset in years to come will depend upon an assessment of the corporate income tax base level in a future (including the periods scheduled for settlement of tax losses).

Due to the improbability of occurrence of taxable income enabling to use tax losses incurred in Garbary Sp. z o.o. and BDH Development Sp. z o.o., the Group does not include those losses in the deferred tax asset calculation. The total amount of unused tax losses not included in the calculation of deferred tax assets amounted to PLN 53 208 thousand at the end of 31 December 2015 and PLN 67 823 thousand at the end of 31 December 2014. Right to tax losses' settlement expires between 2016 and 2020 year.

The Group recognizes deferred tax liabilities or assets related to temporary differences arising from investments in subsidiaries and associates except that the implementation of the temporary differences is controlled by the Group and it is probable that in the foreseeable future, these differences will not be reversed. At the end of 2015 the Group did not include settlements on temporary differences in the total amount of PLN 986 494 thousand incurred due to investments in subsidiaries and affiliated companies in deferred tax calculation and PLN 669 642 thousand at the end of 2014.

Deferred tax assets are recognised, because it is probable that future taxable profit will occur.

35. Proceedings before a court, arbitration body or public administration authority

As at 31 December 2015, the Bank was not involved in any proceedings before a court, arbitration body, or public administration authority concerning liabilities of the Bank or its subsidiaries, which represent at least 10% of the Bank's equity. Moreover, the total value of claims concerning liabilities of the Bank or its subsidiary in all proceedings before a court, an arbitration body or a public administration authority as at 31 December 2015 was also not higher than 10% of the Bank's equity.

The Bank monitors the status of all legal proceedings brought against the Bank and the level of required provisions.

Report on major proceedings brought against the Bank

1. Lawsuit brought by Bank Pekao SA (previously BPH SA) against Garbary Sp. z o.o. ("Garbary")

   BPH brought the case to court on 17 February 2005. The value of the dispute was estimated at PLN 42 854 thousand. The purpose was to cancel actions related to the creation of Garbary and the contribution in kind. The dispute focuses on determination of the value of the right to perpetual usufruct of land and related buildings that ZM Pozmeat SA contributed in kind to Garbary as payment for a stake in ZM Pozmeat SA share capital worth PLN 100 000 thousand. On 6 June 2006, the District Court in Poznań issued a verdict according to which the claims were dismissed in their entirety. The claimant filed an appeal against that verdict. On 6 February 2007, the Court of Appeal dismissed the claimant's appeal. The claimant filed the last resort appeal against the ruling of the Court of Appeal. On 2 October 2007, the Supreme Court revoked the ruling of the Court of Appeal and referred the case back. After re-examining the case, the Court of Appeal dismissed the ruling of the District Court in Poznań on 4 March 2008 and referred the case back. On 16 September 2010, the District Court in Poznań dismissed the claim in whole. On 19 October 2010, BPH filed an appeal against the ruling in question. On 24 February 2011, the Court of Appeal made a decision on revoking the ruling and discontinuance of proceedings involving Bank Pekao S.A. (the Bank entered in the proceedings as successor of BPH) justified by lack of title to bring the action before the court on the side of the Bank. The case was returned to the court of the first instance where it was continued with the participation of Pekao SA (previously BPH SA) as the claimant. Bank Pekao SA (previously BPH SA) filed the last resort appeal against the aforesaid decision with the Supreme Court. On 25 April 2012, the Supreme Court revoked the aforesaid decision of the Court of Appeal and referred the case back. On 9 April 2014 the Court of Appeal changed the ruling of the District Court and considered the activities connected with setting up the company Garbary and contribution in kind as ineffective in relation to Bank Pekao SA (previously BPH SA). The Bank filed an annulment appeal to the Supreme Court from above mentioned judgment. On 5 August 2015 the Supreme Court issued a decision in which it has declined acceptance of the complaint for consideration. Possibility of settlement of the dispute is being analyzed, with consideration of the legal conditions of efficient enforcement of the judgment.

2. Lawsuit brought by Bank Pekao SA (previously BPH SA) against the Bank and Tele-Tech Investment Sp. z o.o. ("TTI")

   On 17 November 2007, BPH brought to court a case for damages in the amount of PLN 34 880 thousand plus statutory interest from 20 November 2004 to the date of payment, due to alleged illegal actions such as the sale by ZM Pozmeat SA to TTI of all shares in the equity of Garbary Sp. z o.o. (previously Milenium Center Sp. z o.o.), an important part of its assets, while ZM Pozmeat SA was at risk of insolvency.

   In its reply to the claim, the Bank petitioned the Court for dismissing the claim on the grounds of there being no legal basis for allowing the claim. On 1 December 2009, the Court decided to suspend the case until the completion of Pozmeat's bankruptcy proceedings. On 26 January 2011, the court has decided to reinstate suspended proceedings due to the closing of the insolvency procedure. On 5 June 2012, the court once again decided to suspend the proceedings until the case filed by Bank Pekao SA (previously BPH SA) against Garbary Sp. z o.o. is finally settled. In November 2015, a decision to resume the suspended proceedings was made.

3. Claims of clients of Interbrok

   170 entities who were clients of Interbrok Investment E. Dróżdż i Spółka Spółka jawna (hereinafter referred to as Interbrok) called the Bank for amicable settlement in the total amount of PLN 385 520 thousand and via the District Court in Warsaw. In addition, 9 legal compensation suits have been delivered to the Bank. Eight of the nine suits where placed by former clients of Interbrok for the total amount of PLN 800 thousand with the reservation that the claims may be extended up to the total amount of PLN 5 950 thousand. Plaintiffs allege that the Bank aided in Interbrok's illegal activities, which caused damage to plaintiffs. Seven of the suits against mBank were dismissed on substantive grounds and thus ended with a valid court order. The eighth suit was dismissed on substantive grounds by the District Court. On 21 December 2010, the Court of Appeals revoked the judgment of the District Court and remanded the case to the District Court in Warsaw for re-examination. In the 9th case the value of the subject of litigation amounts to PLN 275 423 thousand together with statutory interest and legal costs. The amount set forth in the petition is to cover the receivables, acquired by the Plaintiff by way of assignment, due to parties aggrieved by Interbrok on account of the reduction (as a result of Interbrok's bankruptcy) of the receivables by a return of the deposits paid by the aggrieved for making investments on the forex market. The Plaintiff claims the Bank's liability on the grounds of the Bank's aiding to commit the illicit act of Interbrok involving the pursuit of brokerage activity without a permit. At present, the case is being heard by the court of first instance.

   In all court cases the Bank moves for dismissal of the claims in entirety and objects to charges raised in the legal suits. The legal analysis of the abovementioned claims indicates that there are not significant grounds to state that the Bank bears liability in the case.

4. Class action against mBank S.A.

   On 4 February 2011, the Bank received a class action brought to the District Court in Łódź on 20 December 2010 by the Municipal Ombudsman who represents a group of 835 persons – retail clients of the Bank. The petitioners demand that a responsibility of the Bank is determined for improper performance of mortgage credit agreements. In particular, it was indicated that the Bank improperly applied provisions of the agreements concerning interest rates adjustment, namely that the Bank did not reduce interest rates on loans, although, according to the petitioners, it should have. The Bank rejects the above reasoning. On 18 February 2011, the Bank submitted a formal answer to the court, in which it applied for a dismissal of the claim as a whole.

   On 6 May 2011, the District Court in Łódź decided to reject the application of mBank S.A. for dismissing the claim and decided that the case will proceed as a class action. On 13 June 2011, mBank S.A. lodged a complaint against this decision with the Court of Appeal in Łódź. On 28 September 2011, the Court of Appeal dismissed the complaint of mBank S.A. Currently, the case proceeds as a class action. The time for joining the class ended in March 2012. As at 17 October 2012, the approved class consisted of 1 247 members. Moreover, the District Court in Łódź ruled against setting up a cash deposit for mBank S.A. requested by the Bank. The Bank lodged a complaint against this ruling. On 29 November 2012, the Court of Appeal in Łódź dismissed the Bank's complaint about setting up the cash deposit. The ruling is valid and the Plaintiff is not obliged to pay the cash deposit. The final response to the petition was sent in January 2013, while the Plaintiff replied to it in a pleading filed on 15 February 2013. By a decision dated 18 February 2013, the District Court in Łódź decided to refer the case to mediation. In a letter dated 26 February 2013, the Municipal Consumer Ombudsman raised an objection to the mediation. On 22 June 2013, a trial was conducted, and on 3 July 2013, the Court announced its judgment in which it took into account the action in its entirety acknowledging that the Bank improperly performed the agreement whereby the consumers sustained a loss. On 9 September 2013, the Bank filed an appeal against the aforementioned verdict. Under the sentence of 30 April 2014, the Court of Appeal in Łódź dismissed the appeal of mBank, upholding the decision of the District Court expressed in the appealed verdict. The aforementioned verdict is legally valid, however, after having received its written justification, mBank lodged an annulment appeal to the Supreme Court. The annulment appeal was brought by mBank on 3 October 2014. On 7 October 2014 the Court of Appeal in Łódź ceased the enforceability of the judgement of District Court in Łódź until consideration of Bank's annulment appeal. On 18 February 2015, the Supreme Court received the annulment appeal filed by mBank. On 14 May 2015, the Supreme Court revoked the judgments of the Court of Appeal in Łódź and remanded the case to the Court of Appeal in Łódź for re-examination. On 24 September 2015 the Court of Appeal in Łódź admitted evidence from an opinion of an expert in order to verify the correctness of adjustments made by mBank in mortgage loan interest rates subject to class action in the period of 1 January 2009 to 28 February 2010.

As at 31 December 2015, the Bank was not involved in any proceedings before a court, arbitration body, or public administration authority concerning receivables of the Bank or its subsidiaries, which represent at least 10% of the Bank's equity. The total value of claims concerning receivables of the Bank or its subsidiaries in all proceedings before a court, an arbitration body or a public administration authority underway at 31 December 2015 was also not higher than 10% of the Bank's equity.

Information regarding tax audits

Within the period from 9 June 2015 to 13 August 2015, the President of the capital city of Warsaw carried out tax audit in mLeasing Sp. z o.o. concerning real property tax in the scope of determining ownership, assets and the basis for collecting taxes on land, buildings and building structures located in the capital city of Warsaw. The audit covered the period from 1 January 2010 to 30 April 2015. The audit did not identify any relevant irregularities.

Within the period from 9 December 2014 to 2 April 2015, Director of the Treasury Control Office in Łódź (Urząd Kontroli Skarbowej w Łodzi) carried out audit proceedings in Aspiro S.A. concerning correctness of the settlement of value added tax for the year 2012. The audit did not identify any relevant irregularities.

Within the period from 18 November 2014 to 28 November 2014, Director of the of the Łódź Treasury Office (Łódzki Urząd Skarbowy w Łodzi) carried out audit proceedings and tax audit in Aspiro S.A. concerning corectness of value added tax return for period from 1 July 2014 to 31 August 2014. The audit did not identify any relevant irregularities.

Within the period from 16 October 2014 to 4 November 2014, Director of the Treasury Control Office in Łódź (Urząd Kontroli Skarbowej w Łodzi) carried out audit proceedings and tax audit in mLocum S.A. concerning correctness of the settlement of the value added tax and corporate income tax for the year 2012. The audit did not identify any irregularities.

From 14 May 2014 to 4 June 2014, Director of the Treasury Office Poznan-Wilda (Urząd Skarbowy Poznań – Wilda) carried out tax audit in Garbary Sp. z o.o. concerning correctness of the settlements of the personal income tax, the corporate income tax and the value added tax for the year 2012. The audits did not identify any irregularities.

From 11 February 2014 to 4 April 2014, Director of the First Mazovian Treasury Office in Warsaw (Pierwszy Mazowiecki Urząd Skarbowy w Warszawie) carried out tax audit at the company mLeasing concerning correctness of the settlement of the value added tax for the fourth quarter of 2013. The audit did not identify any irregularities.

From 9 January 2014 to 7 February 2014, Director of the First Mazovian Treasury Office in Warsaw (Pierwszy Mazowiecki Urząd Skarbowy w Warszawie) carried out tax audit at the company BRE Ubezpieczenia Sp. z o.o. concerning correctness of the settlement of the value added tax for the third quarter of 2013. The audit did not identify any irregularities.

The tax authorities, may inspect at any time the books and records within 5 years subsequent to the reported tax year, and may impose additional tax assessments and penalties. The Management Board is not aware of any circumstances, which may give rise to a potential tax liability in this respect.

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36. Off-balance sheet liabilities

Off-balance sheet liabilities of the Group comprise:

- Loan commitments

The amounts and deadlines by which the Group will be obliged to realise its off-balance sheet liabilities by granting loans or other monetary services are presented in the table below.

- Guarantees and other financial facilities

Guarantees are presented in the table below based on the earliest contractual maturity date.

- Operating lease liabilities

Where a company of the Group is a lessee, the minimum future lease payments as part of irrevocable operating lease agreements are presented in the table below.

The following table presents the Group's off-balance sheet commitments granted and received as well as nominal value of open positions of derivative transactions as at 31 December 2015 and 31 December 2014.

31.12.2015	Up to 1 year	1 - 5 years	Over 5 years	Total
I Contingent liabilities granted and received	**22 375 462**	**4 127 590**	**1 423 931**	**27 926 983**
Commitments granted	**21 533 811**	**3 559 763**	**1 086 854**	**26 180 428**
1. Financing	18 277 043	2 150 136	671 019	21 098 198
a) Loan commitments	18 252 231	2 088 985	671 019	21 012 235
b) Operating lease commitments	24 812	61 151	-	85 963
2. Guarantees and other financial facilities	3 256 438	1 409 627	415 835	5 081 900
a) Banker's acceptances	11 142	-	-	11 142
b) Guarantees and standby letters of credit	3 228 779	1 409 627	415 835	5 054 241
c) Documentary and commercial letters of credit	16 517	-	-	16 517
3. Other commitments	330	-	-	330
Commitments received	**841 651**	**567 827**	**337 077**	**1 746 555**
a) Financial commitments received	-	-	-	-
b) Guarantees received	841 651	567 827	337 077	1 746 555
II Derivative financial instruments (nominal value of contracts)	**291 068 422**	**242 262 437**	**45 857 496**	**579 188 355**
1. Interest rate derivatives	223 451 729	227 553 443	43 004 218	494 009 390
2. Currency derivatives	66 595 247	12 656 451	1 872 328	81 124 026
3. Market risk derivatives	1 021 446	2 052 543	980 950	4 054 939
Total off-balance sheet items	**313 443 884**	**246 390 027**	**47 281 427**	**607 115 338**

31.12.2014	Up to 1 year	1 - 5 years	Over 5 years	Total
I Contingent liabilities granted and received	**21 045 084**	**3 148 607**	**1 064 279**	**25 257 970**
Commitments granted	**20 137 683**	**2 697 004**	**764 386**	**23 599 073**
1. Financing	17 907 669	1 527 842	538 455	19 973 966
a) Loan commitments	17 883 271	1 446 946	538 455	19 868 672
b) Operating lease commitments	24 398	80 896	-	105 294
2. Guarantees and other financial facilities	2 215 614	1 168 832	225 931	3 610 377
a) Banker's acceptances	8 998	-	-	8 998
b) Guarantees and standby letters of credit	2 200 258	1 168 832	225 931	3 595 021
c) Documentary and commercial letters of credit	6 358	-	-	6 358
3. Other commitments	14 400	330	-	14 730
Commitments received	**907 401**	**451 603**	**299 893**	**1 658 897**
a) Financial commitments received	31 841	-	-	31 841
b) Guarantees received	875 560	451 603	299 893	1 627 056
II Derivative financial instruments (nominal value of contracts)	**389 808 426**	**320 238 073**	**44 130 546**	**754 177 045**
1. Interest rate derivatives	336 245 647	298 811 916	42 316 818	677 374 381
2. Currency derivatives	52 979 729	20 736 915	1 716 118	75 432 762
3. Market risk derivatives	583 050	689 242	97 610	1 369 902
Total off-balance sheet items	**410 853 510**	**323 386 680**	**45 194 825**	**779 435 015**

The above operating lease liabilities relate to the lease of buildings.

The leasing agreement for the Bank's headquarters is the most important leasing agreement concluded by the Bank. According to the agreement, the leasing period ends on 31 December 2020. The agreement has been concluded for a definite period and, in principal, is not subject to early termination. The agreement provides for the possibility of purchasing the leased object upon a written application of the lessee at least

6 months and no more than 12 months prior to the termination of the leasing agreement, as well as the pre-emptive right under the conditions specified in the agreement. Under the agreement, the Bank shall ensure proper maintenance of the object of leasing.

The nominal values of derivatives are presented in Note 20.

As at 31 December 2015, apart from financial commitments granted by the Bank, the largest impact on the amount of financial commitments granted had commitments granted by mFaktoring and mBank Hipoteczny respectively in amount of PLN 1 455 542 thousand and PLN 990 932 thousand (31 December 2014 respectively: PLN 1 044 410 thousand and PLN 1 085 818 thousand).

37. Pledged assets

Assets may be pledged as collateral for repo/sell-buy-back transactions, derivatives contract with other banks. Collateral may be also placed due to stock market derivatives such as futures, options and participation in stock market.

Collateral may be placed in different form (e.g. cash, securities and pledged assets).

Similarly, customers establish collateral on their assets to secure the transaction with the Group. If securities are subject to collateral (in buy-sell-back transaction) they can be re-pledged in the opposite transaction (sell-by-back).

Moreover the Group accepts collaterals in the form of properties (esp. real estates) related to credit type transactions like mortgage loans, credit lines, banking guarantees.

The tables below present the breakdown of the measures possible to pledge by the main items of the statement of financial position of mBank Group, as at 31 December 2015 and 31 December 2014. Treasury securities are the main component of the Group's liquidity collateral for the purpose of pledge.

31.12.2015

Position (PLN 000's)	Assets			Collateral received in kind of securities related with buy sell back transactions			Assets available for pledge (3+6)
	Total	Pledged	Eligible for pledge	Received	Reused	Available for pledge	
	1	2	3	4	5	6	7
Debt securities (Note 19 and 23) including:	**31 088 265**	**5 413 178**	**24 486 270**	**1 571 852**	**668 863**	**902 989**	**25 389 259**
- NBP bills	7 442 384	-	7 442 384	-	-	-	7 442 384
- Government bonds	22 417 117	5 413 178	17 003 939	1 571 852	668 863	902 989	17 906 928
- Mortgage bonds	-	-	-	-	-	-	-
- Other	1 228 764	-	39 947	-	-	-	39 947
Cash collaterals (due to derivatives transactions) (Note 18, 22)	400 273	400 273	-	-	-	-	-
Loans and advances to customers	78 433 546	5 768 960	-	-	-	-	-
Property collateral	-	-	-	-	-	-	-
Other assets	13 600 937	-	-	-	-	-	-
Total	**123 523 021**	**11 582 411**	**24 486 270**	**1 571 852**	**668 863**	**902 989**	**25 389 259**

31.12.2014

Position (PLN 000's)	Assets			Collateral received in kind of securities related with buy sell back transactions			Assets available for pledge (3+6)
	Total	Pledged	Eligible for pledge	Received	Reused	Available for pledge	
	1	2	3	4	5	6	7
Debt securities (Note 19 and 23) including:	**28 562 995**	**5 744 095**	**21 981 048**	**5 650 950**	**3 733 189**	**1 728 649**	**23 709 697**
- NBP bills	4 479 540	-	4 479 540	-	-	-	4 479 540
- Government bonds	23 204 028	5 744 095	17 459 933	5 650 950	3 733 189	1 728 649	19 188 582
- Mortgage bonds	-	-	-	-	-	-	-
- Other	879 427	-	41 575	-	-	-	41 575
Cash collaterals (due to derivatives transactions) (Note 18, 22)	581 376	581 376	-	-	-	-	-
Loans and advances to customers	74 582 350	3 660 577	-	-	-	-	-
Property collateral	-	-	-	-	-	-	-
Other assets	14 259 101	-	-	-	-	-	-
Total	**117 985 822**	**9 986 048**	**21 981 048**	**5 650 950**	**3 733 189**	**1 728 649**	**23 709 697**

In 2015, mBank Hipoteczny S.A. secured issued mortgage and public bonds with receivables obtained from loans and advances. As at 31 December 2015, the net carrying value of loans registered in the mortgage and public bonds register, presented above as pledged assets amounted to PLN 5 768 960 thousand (31 December 2014: PLN 3 660 577 thousand).

The value of treasury securities presented as pledged assets, except for collaterals due to sell-buy-back transactions, includes collateral of liabilities due to the loan received from the EIB, the security deposit placed by the client and funds guaranteed under the Bank Guarantee Fund (BFG).

38. Registered share capital

The total number of ordinary shares as at 31 December 2015 was 42 238 924 shares (31 December 2014: 42 210 057) at PLN 4 nominal value each (31 December 2014: PLN 4). All issued shares were fully paid up.

REGISTERED SHARE CAPITAL (THE STRUCTURE) AS AT 31 DECEMBER 2015						
Share type	Type of preference	Type of restrictions	Number of shares	Series / issue value	Paid up	Year of registration
ordinary bearer*	-	-	9 982 500	39 930 000	fully paid in cash	1986
ordinary registered*	-	-	17 500	70 000	fully paid in cash	1986
ordinary bearer	-	-	2 500 000	10 000 000	fully paid in cash	1994
ordinary bearer	-	-	2 000 000	8 000 000	fully paid in cash	1995
ordinary bearer	-	-	4 500 000	18 000 000	fully paid in cash	1997
ordinary bearer	-	-	3 800 000	15 200 000	fully paid in cash	1998
ordinary bearer	-	-	170 500	682 000	fully paid in cash	2000
ordinary bearer	-	-	5 742 625	22 970 500	fully paid in cash	2004
ordinary bearer	-	-	270 847	1 083 388	fully paid in cash	2005
ordinary bearer	-	-	532 063	2 128 252	fully paid in cash	2006
ordinary bearer	-	-	144 633	578 532	fully paid in cash	2007
ordinary bearer	-	-	30 214	120 856	fully paid in cash	2008
ordinary bearer	-	-	12 395 792	49 583 168	fully paid in cash	2010
ordinary bearer	-	-	16 072	64 288	fully paid in cash	2011
ordinary bearer	-	-	36 230	144 920	fully paid in cash	2012
ordinary bearer	-	-	35 037	140 148	fully paid in cash	2013
ordinary bearer	-	-	36 044	144 176	fully paid in cash	2014
ordinary bearer	-	-	28 867	115 468	fully paid in cash	2015
Total number of shares			**42 238 924**			
Total registered share capital				**168 955 696**		
Nominal value per share		**4**				

* As at the end of the reporting period

In 2015, the National Depository of Securities (KDPW) has registered 28 867 shares of mBank S.A., which were issued as part of the conditional increase in the share capital of the Bank by issuance of shares with no subscription rights for the existing shareholders in order to enable beneficiaries of the incentive programmes to take up shares in mBank S.A. As a result of the above registration, in 2015 the Bank's share capital increased by PLN 115 468.

Commerzbank AG is a shareholder holding over 5% of the share capital and votes at the General Meeting and as at 31 December 2015 it held 69.49% of the share capital and votes at the General Meeting of mBank S.A.

In 2015, there were changes in the holding of material share packages of the Bank.

On 20 March 2015, the Bank received from ING Otwarty Fundusz Emerytalny (Fund) a notification that the total numbers of votes controlled at the General Meeting of mBank S.A. increased over 5%.

Prior to the acquisition, the Fund held 2 110 309 shares of mBank S.A., which constituted 4.99% of mBank S.A. share capital and entitled it to exercise 2 110 309 votes at the General Meeting of mBank S.A. On 18 March 2015, in the brokerage account of the Fund there were 2 130 699 shares of mBank S.A., representing 5.05% of the share capital of mBank S.A. The shares entitle to 2 130 699 votes at the General Meeting of mBank SA, which represent 5.05% of the total number of votes.

39. Share premium

Share premium is formed from the share premium obtained from the issue of shares reduced by the direct costs incurred with that issue. This capital is intended to cover all losses that may result from the business activity of the Bank.

The increase of share premium in 2015 and 2014 results from the issue of shares under incentive programmes described under Note 44.

40. Retained earnings

Retained earnings include: other supplementary capital, other reserve capital, general banking risk reserve, profit (loss) from the previous year and profit for the current year.

Other supplementary capital, other reserve capital and general banking risk reserve are created from profit for the current year and their aim is described in the By-laws or in other regulations of the law.

	31.12.2015	31.12.2014
Other supplementary capital	4 883 602	4 413 825
Other reserve capital	103 972	101 252
General banking risk reserve	1 095 453	1 041 953
Profit from the previous year	889 509	126 118
Profit for the current year	1 301 246	1 286 668
Total retained earnings	**8 273 782**	**6 969 816**

According to the Polish legislation, each bank is required to allocate 8% of its net profit to a statutory undistributable other supplementary capital until this supplementary capital reaches 1/3 of the share capital.

In addition, the Group transfers some of its net profit to the general banking risk reserve to cover unexpected risks and future losses. The general banking risk reserve can be distributed only on consent of shareholders at a general meeting.

41. Other components of equity

	31.12.2015	31.12.2014
Exchange differences on translating foreign operations	**(6 426)**	**(1 765)**
Unrealized gains (positive differences)	6 324	2 519
Unrealized losses (negative differences)	(12 750)	(4 284)
Available-for-sale financial assets	**442 354**	**549 621**
Unrealized gains on debt instruments	361 479	507 630
Unrealized losses on debt instruments	(1 881)	(2 123)
Unrealized gains on equity instruments	168 075	177 439
Deferred income tax	(85 319)	(133 325)
Cash flow hedges	**859**	**4 056**
Unrealized gains	1 061	5 008
Deferred income tax	(202)	(952)
Actuarial gains and losses relating to post-employment benefits	**(3 981)**	**(2 389)**
Actuarial gains	30	26
Actuarial (losses)	(4 944)	(2 975)
Deferred income tax	933	560
Total other components of equity	**432 806**	**549 523**

In 2015, unrealized gains on equity instruments relate mainly to the valuation of the stake in Visa Europe Ltd. In 2014, this item included mainly the valuation of shares in PZU S.A.

Detailed information concerning participation in the Visa Europe Ltd. has been presented under Note 23.

42. Dividend per share

On 30 March 2015, the 28th Ordinary General Meeting of mBank S.A., adopted resolutions approving the mBank S.A. financial statements for the year 2014 and the consolidated financial statements of mBank S.A. Group for the year 2014, while the resolution regarding the distribution of profit of mBank for the year 2014 was taken on the session of the 28th Ordinary General Meeting of mBank S.A., resumed on 29 April 2015. The resolution regarding the distribution of profit assumes no dividend payout for the year 2014.

43. Cash and cash equivalents

For the purpose of the statement of cash flows, the balance of cash and cash equivalents comprises the following balances with maturities shorter than 3 months.

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	31.12.2015	31.12.2014
Cash and balances with the Central Bank (Note 17)	5 938 133	3 054 549
Loans and advances to banks (Note 18)	539 757	952 256
Trading securities (Note 19)	178 492	617 906
Cash and cash equivalents of subsidiaries classified as non-current assets (disposal groups) held for sale	-	86 794
Total cash and cash equivalents	**6 656 382**	**4 711 505**

Below is presented the explanatory note to the statement of cash flows.

(PLN 000's)	Year ended 31 December	
	2015	2014
Loans and advances to banks - change in the balance of the statement of financial position	**1 854 081**	**(280 174)**
The difference between the interest accrued and paid in cash in the period	(23 165)	(28 035)
Exclusion of a change in the balance of cash and cash equivalents	(412 771)	(694 386)
Total change in loans and advances to banks	**1 418 145**	**(1 002 595)**
Trading securities - change in the balance of the statement of financial position	**606 403**	**(400 880)**
The difference between the interest accrued and paid in cash in the period	(8 725)	12 089
Exclusion of a change in the balance of cash and cash equivalents	(525 980)	316 213
Total change in trading securities	**71 698**	**(72 578)**
Derivative financial instruments - change in the balance of the statement of financial position	**(29 229)**	**(256 591)**
The difference between the interest accrued and paid in cash in the period	25 016	46 679
Valuation included in other comprehensive income	(3 948)	5 008
Total change in derivative financial instruments	**(8 161)**	**(204 904)**
Loans and advances to customers including hedge accounting adjustments related to fair value hedged items - change in the balance of the statement of financial position	**(3 850 865)**	**(6 371 456)**
The difference between the interest accrued and paid in cash in the period	(12 945)	(34 994)
Total change in loans and advances to customers	**(3 863 810)**	**(6 406 450)**
Investment securities - change in the balance of the statement of financial position	**(3 058 335)**	**(2 336 851)**
Valuation included in other comprehensive income	(153 849)	322 598
The difference between the interest accrued and paid in cash in the period	(164 567)	(266 404)
Exclusion of change in cash flows from investing activity	10 061	-
Impairment of investment securities	(8 086)	(3 447)
Total change in investment securities	**(3 374 776)**	**(2 284 104)**
Changes in other assets (including non-current assets held for sale) - change in the balance of the statement of financial position	**400 610**	**(419 566)**
Balances unrealised in cash recognised in income statement	1 919	32 000
Exclusion from the opening balance of the sold non-current assets held for sale	(570 907)	-
Total change in other assets	**(168 378)**	**(387 566)**
Amounts due to other banks - change in the balance of the statement of financial position	**(1 364 498)**	**(5 840 353)**
The difference between the interest accrued and paid in cash in the period	22 036	(172 743)
Exclusion of change in cash flows from financing activity	1 955 373	3 166 231
Total change in amounts due to other banks	**612 911**	**(2 846 865)**
Amounts due to customers including hedge accounting adjustments related to fair value hedged items - change in the balance of the statement of financial position	**8 718 387**	**10 748 952**
The difference between the interest accrued and paid in cash in the period	128 459	168 533
Exclusion of change in cash flows from financing activity	(416 542)	(1 117 659)
Total change in amounts due to customers	**8 430 304**	**9 799 826**
Debt securities in issue - change in the balance of the statement of financial position	**(1 395 547)**	**4 939 686**
The difference between the interest accrued and paid in cash in the period	15 268	(125 108)
Exclusion of change in cash flows from financing activity	1 514 870	(3 996 194)
Total change in debt securities in issue	**134 591**	**818 384**
Changes in other liabilities - change in the balance of the statement of financial position	**186 631**	**358 323**
Valuation of incentive programmes recognised in income statement (Note 11)	14 459	14 251
Exclusion from the opening balance of the sold non-current assets held for sale	272 292	-
Unsettled part of the liabilities due to long-term agreements related to the sale of BRE TUiR shares and distribution agreements	166 500	-
Actuarial gains and losses relating to post-employment benefits recognised in other comprehensive income (Note 16)	(1 965)	(2 352)
Total change in other liabilities	**637 917**	**370 222**

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44. Share-based incentive programmes

2008 Incentive Programme for the Management Board Members of the Bank

On 14 March 2008 the Ordinary General Meeting of mBank, by adopting a relevant resolution, expressed consent to carry out an incentive programme for Members of the Bank's Management Board. Under the programme Members of the Bank's Management Board have the right to take up bonds with pre-emptive rights to acquire mBank shares or, as initially planned, shares of the ultimate parent entity, Commerzbank AG. In 2010, the programme was changed in the part concerning shares of Commerzbank, so that Members of the Management Board may obtain the right to receive cash equivalent corresponding to the value of the shares of Commerzbank calculated based on the average share price on the date when the right to receive the equivalent originated.

All the rights under payments settled in cash equivalent based on shares of Commerzbank and all the rights under payments settled in mBank S.A. shares within the framework of the programme have already been granted. Payments are settled in three equal deferred tranches: 12, 24 and 36 months from the date of acquiring the rights for a given year of the programme by the Management Board Member. The last settlements under this programme will take place in 2016.

Cash bonus paid under the programme for 2008-2011 was presented as an obligation to employees and referred to profit and loss account in a given year for which it was awarded.

The bonds may be acquired by the entitled persons over the years 2010 – 2021, provided that their employment continues. The right to take up shares under the conditional capital increase, resulting from the bonds, may be exercised by the entitled persons in the period from acquisition of bonds till 31 December 2021.

Share-Based Payments Settled in Cash

All rights under payments settled as a cash equivalent based on Commerzbank shares under the program have already been granted. Since payments are settled in three equal annual deferred tranches on the lapse of, respectively, 12, 24 and 36 months from the date of the right acquisition by the Management Board Members for a given year of the programme, the cost of Commerzbank share-based payments settled in cash were recognised in the income statement in correspondence with liabilities to employees. The last settlements under this programme are planned in 2016.

Share-Based Payments Settled in mBank S.A. Shares

All rights under payments settled in mBank S.A. shares under the programme have already been granted. Since payments are settled in three equal annual deferred tranches on the lapse of, respectively, 12, 24 and 36 months from the date of the right acquisition by the Management Board Members for a given year of the programme, the cost of share-based payments settled in shares are still recognised in the income statement in correspondence with other reserve capital. The last settlements under the programme are planned in 2016.

This is equity-settled share-based program.

The table below presents the number and weighted average exercise prices of share options related to the 2008 incentive programme for Management Board Members of the Bank.

	31.12.2015		31.12.2014	
	Number of options	Weighted average exercise price (in PLN)	Number of options	Weighted average exercise price (in PLN)
Outstanding at the beginning of the period	**3 650**	**-**	**10 293**	**-**
Granted during the period	-	-	-	-
Forfeited during the period	-	-	-	-
Exercised during the period*	3 469	4	6 643	4
Expired during the period	-	-	-	-
Outstanding at the end of the period	**181**	**-**	**3 650**	**-**
Exercisable at the end of the period	**-**	**-**	**-**	**-**

* In 2015, the weighted average price of the shares at the option exercise date was PLN 399.40 (in 2014 PLN 500.28).

2012 Incentive Programme for the Management Board Members of the Bank

On 7 December 2012, the Supervisory Board on the basis of recommendation of the Remuneration Committee, adopted Rules of the Incentive Programme at mBank S.A. which replaced the Rules of the Incentive Programme at mBank S.A. of 14 March 2008.

Under the programme, Members of the Bank's Management Board have the right to receive a bonus, including non-cash bonus paid in the Bank's shares, including phantom shares.

Cash bonus under the programme was paid for 2012-2013 and presented as an obligation to employees and referred to profit and loss account in a given year for which it was awarded.

Non-cash bonus, in which members of the Board have a right to take up bonds with pre-emptive rights to acquire shares, was granted under the programme for 2012-2013. The right to purchase the bonds will be realized in three equal annual deferred tranches, on the lapse of, respectively, 12, 24 and 36 months from the date of acquiring the right to non-cash bonus by the Management Board Memeber. Conditions of receiving as well as the amount of deferred tranche not paid out yet under non-cash bonus depend on the assessment of the financial position of the Bank by the Remuneration Committee and the performance evaluation of member of the Board for a period longer than one financial year.

The Supervisory Board on the basis of recommendations issued by the Remuneration Committee can make a decision on suspending in whole or limiting the right to acquire bonds with pre-emptive rights to take up the shares of the Bank relating to the deferred tranche in whole or partially due to the later assessment of the performance of the Member of the Management Board over a period of time longer than one financial year (i.e. for the period of at least 3 years), which takes into account the business cycle of the Bank as well as the risk related to the bank's operation, but only when the acts or omissions of the Member of the Management Board had a direct and adverse impact on the bank's financial result and market position within the assessment period. The Supervisory Board, on the basis of the recommendation of the Remuneration Committee of the Supervisory Board, can make a decision on suspending in whole or decreasing the bonus amount for a given financial year in relation to deferred tranche not paid out yet, in the situation referred to in Article 142 (1) of the Banking Law Act. Suspending in whole or decreasing any deferred tranche by the Remuneration Committee of the Supervisory Board can also apply to the deferred tranche not paid out yet to the Member of the Management Board after termination or expiry of the management contract.

Bonds may be acquired by eligible persons in the years 2014-2021.

The table below presents the number and weighted average exercise prices of share options related to the 2012 incentive programme for Management Board Members of the Bank.

	31.12.2015		31.12.2014	
	Number of options	Weighted average exercise price (in PLN)	Number of options	Weighted average exercise price (in PLN)
Outstanding at the beginning of the period	**33 352**	**-**	**25 802**	**-**
Granted during the period	-	-	16 153	-
Forfeited during the period	-	-	-	-
Exercised during the period*	13 989	4	8 603	4
Expired during the period	-	-	-	-
Outstanding at the end of the period	**19 363**	**-**	**33 352**	**-**
Exercisable at the end of the period	**-**	**-**	**-**	**-**

* In 2015, the weighted average price of the shares at the option exercise date was PLN 399.40 (in 2014 PLN 500.28).

Cash Part of the Bonus

40% of the bonus base amount for the year is recognised as a liability to employees and charged to the income statement in the year for which it was granted.

Share-Based Payments Settled in mBank S.A. Shares

60% of the bonus base amount constitutes a payment settled in mBank S.A. shares.

As payments are settled in three equal annual deferred tranches on the lapse of, respectively, 12, 24 and 36 months from the date of acquisition by the member of the Board of the right for a given year of the programme, the cost of payments settled in shares is recognised in the income statement in the correspondence with other reserve capital. The last settlements of this program are planned in 2017.

This is equity-settled share-based program.

2014 Incentive Programme for the Management Board Members of the Bank

On 31 March 2014 the Supervisory Board in accordance with the recommendation of Remuneration Committee adopted a Regulation of the Incentive Programme in mBank S.A., which replaced the Regulation of the Incentive Programme in mBank S.A. dated at 7 December 2012.

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Under the program the members of the Board have the right to bonus, including non-cash bonus paid in Bank's shares, including phantom shares.

The net ROE of mBank S.A. Group and the monthly remuneration of the member of the Board as at 31 December form the basis for acquisition by Members of the Management Board of the right to bonus and for calculation of the amount of bonus for a given financial year. Equivalent of 50% of the base amount calculated based on ROE constitutes the so-called first part of the bonus. In regard to the remaining 50% of the base amount, the Remuneration Committee of the Supervisory Board can grant the second part of the bonus if it decides that a given Member of the Management Board achieved the annual/multi-year business and development objective. The decision of granting the second part of the bonus is the sole responsibility of Remuneration Committee of the Supervisory Board, which according to its own judgement and decision confirm MBO achievement taking into account the situation on financial markets in the last/previous financial period.

The sum of the first and the second part of bonus is the base bonus of the member of the Board for a given financial period. 40% of the base bonus constitutes non-deferred bonus and is paid in the year of determination of base bonus as follows: 50% in form of cash payment and 50% in Bank's shares or bonds with pre-emptive rights to acquire shares or phantom shares.

60% of the base bonus is deferred bonus and is paid in three equal tranches in the next three following years after the year of determining the base bonus as follows: 50% of each of the deferred tranches in form of cash payment and 50% of each of the deferred tranches in form of non-cash payment in Bank's shares or bonds with pre-emptive rights to acquire shares or phantom shares.

The Supervisory Board on the basis of recommendation of Remuneration Committee can make a decision to suspend in whole or reduce the amount of deferred tranche due to the later assessment of the performance of the Member of the Management Board over a period of time longer than one financial year (i.e. for the period of at least 3 years), which takes into account the business cycle of the Bank as well as the risk related to the bank's operations, but only when the acts or omissions of the Member of the Management Board had a direct and adverse impact on the Bank's financial result and market position within the assessment period and when at least one of the elements included in the assessment card is not fulfilled.

Remuneration Committee of the Supervisory Board can make a decision on suspending in whole or decreasing the non-deferred and deferred bonus amount for a given financial year, including deferred tranches not paid out yet, in the situation referred to in Article 142 (1) of the Banking Law Act. Suspending in whole or decreasing the non-deferred and deferred bonus, as well as any deferred tranche by the Remuneration Committee of the Supervisory Board can also apply to the non-deferred and deferred bonus, including deferred tranche not paid out yet after expiry or termination of the management contract.

The table below presents the number and weighted average exercise prices of share options related to the 2014 incentive programme for Management Board Members of the Bank.

	31.12.2015		31.12.2014	
	Number of options	Weighted average exercise price (in PLN)	Number of options	Weighted average exercise price (in PLN)
Outstanding at the beginning of the period	**-**	**-**	**-**	**-**
Granted during the period	16 295	-	-	-
Forfeited during the period	-	-	-	-
Exercised during the period*	6 519	4	-	-
Expired during the period	-	-	-	-
Outstanding at the end of the period	**9 776**	**-**	**-**	**-**
Exercisable at the end of the period	**-**	**-**	**-**	**-**

* In 2015, the weighted average price of the shares at the option exercise date was PLN 399.40.

Cash Part of the Bonus

50% of the base amount constitutes bonus cash payment. It is recognised as a liability to employees and charged to the income statement in the correspondence to liability to employees.

Share-Based Payments Settled in mBank S.A. Shares

50% of the base amount constitutes bonus payment settled in mBank S.A. shares. The cost of payments settled in shares is recognised in the income statement in the correspondence with other reserve capital.

This is equity-settled share-based program.

On 2 March 2015 the Supervisory Board extended the duration of the program from 31 December 2018 until 31 December 2021 in accordance with the recommendation of the Remuneration Committee.

2008 Incentive Programme for Key Managers of mBank Group

On 27 October 2008 the Extraordinary General Meeting of the Bank adopted an incentive programme for the key management staff of mBank S.A. Group.

The programme participants include:

- Bank Directors;
- Other key managers.

They are responsible for taking decisions which have material impact on the implementation of a strategy specified by the Bank's Management Board, the Group's results, stability and security of business and development and creating added value of the organization.

In 2010, the Management Board of the Bank decided to launch the programme and approved the list of participants for Tranche III. Within Tranche III 13,000 options were granted. In 2011 within the Tranche IV and V programme 20,000 options and 19,990 options were granted. The rights started to be exercised in 2012 for Tranche III, in 2013 for Tranche IV and in 2014 for Tranche V. The bonds can be acquired by eligible persons till 31 December 2022. In 2011 a decision was taken on suspension of the programme and not activating the remaining tranches.

Share-Based Payments Settled in mBank S.A. Shares

The cost of the programme for key managers is charged to the income statement and recognised in correspondence with other reserve capital.

The cost of payments settled in shares is recognised in the income statement as of the date of award of the program until the acquisition date of rights, i.e.:

- from 23.08.2010 to 30.04.2012 for Tranche III;
- from 1.02.2011 to 30.04.2013 for Tranche IV;
- from 1.02.2011 to 30.04.2014 for Tranche V.

This is equity-settled share-based program.

The table below presents the number and weighted average exercise prices of share options related to the 2008 incentive programme for key managers of mBank Group.

	31.12.2015		31.12.2014	
	Number of options	Weighted average exercise price (in PLN)	Number of options	Weighted average exercise price (in PLN)
Outstanding at the beginning of the period	**1 277**	**-**	**20 560**	**-**
Granted during the period	-	-	2 460	-
Forfeited during the period	-	-	200	-
Exercised during the period*	1 177	4	20 798	4
Expired during the period	-	-	745	-
Outstanding at the end of the period	**100**	**-**	**1 277**	**-**
Exercisable at the end of the period	**100**	**-**	**1 277**	**-**

* In 2015, the weighted average price of the shares at the option exercise date was PLN 399.40 (in 2014 PLN 500.28).

Options outstanding at the end of 2015 and 2014 expire on 31 December 2022.

Employee programme for key management staff of mBank Group of 2013

On 11 April 2013, the Extraordinary General Meeting of the Bank adopted a resolution amending the rules of the employee programme, which replaced the incentive programme for key management staff of mBank Group from 2008, whereas in regard to the persons who acquired bonds or were granted right to acquire bonds in Tranches III, IV and V the programme will be carried out under the previous principles.

The aim of the programme is to ensure growth in the value of the Company's shares by linking the interest of the key management staff of mBank S.A. Group with the interest of the Company and its shareholders and implementing in mBank S.A. Group variable components of remuneration of the persons holding managerial positions at mBank S.A. Group in accordance with the Resolution of the Polish Financial Supervision Authority.

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The programme applies to the employees having a material impact on the risk profile of mBank S.A. Group, in particular Members of the Management Board of strategic subsidiaries, Bank Directors and key staff of mBank, whose decisions have a significant impact on the implementation of the strategy specified by the Bank's Management Board, results of mBank S.A. Group, growth in the value of the Bank.

During the programme the rights to acquire bonds under Tranche VI have been granted, which may be exercised in three equal parts after 12, 24 and 36 months from the date of granting these rights, in accordance with the internal regulations adopted in mBank S.A. Group specifying rules of variable remuneration of the employees having a material impact on the risk profile at mBank S.A. Group.

The bonds may be acquired by the entitled persons during the programme term, but not later than by 31 December 2022.

The Bank's Management Board/Supervisory Board of the Company, where the Programme is carried out can take a decision on suspending the Programme in whole or decreasing the number of bonds or the number of bonds deferred in a given tranche for the entitled person in the case of occurrence of the situations referred to in Article 142 (1) of the Banking Law Act, occurrence of balance sheet loss or loss of liquidity, meeting the conditions set forth in the agreements with the program participants, forming the basis for provision of work or other services for the Bank and subsidiaries.

Cash Part of the Bonus

The bonus in the amount of 50% of the base amount for the year is recognised as a liability to employees and charged to the income statement in the year for which it was granted.

Share-Based Payments Settled in mBank S.A. Shares

As payments are settled in three equal annual deferred tranches on the lapse of, respectively, 12, 24 and 36 months from the date of acquisition by the programme participants of the right for a given year of the programme, the cost of this part of the programme is charged to the income statement and recognised in correspondence with other reserve capital.

This is equity-settled share-based program.

The table below presents the number and weighted average exercise prices of share options related to the 2013 incentive programme for key managers of mBank Group.

	31.12.2015		31.12.2014	
	Number of options	Weighted average exercise price (in PLN)	Number of options	Weighted average exercise price (in PLN)
Outstanding at the beginning of the period	**2 233**	**-**	**-**	**-**
Granted during the period	-	-	2 233	-
Forfeited during the period	-	-	-	-
Exercised during the period*	747	4	-	-
Expired during the period	-	-	-	-
Outstanding at the end of the period	**1 486**	**-**	**2 233**	**-**
Exercisable at the end of the period	**-**	**-**	**-**	**-**

* In 2015, the weighted average price of the shares at the option exercise date was PLN 399.40.

Employee programme for key management staff of mBank Group of 2014

On 31 March 2014, the Supervisory Board of the Bank adopted on the basis of recommendation of Remuneration Committee a resolution amending the rules of the employee programme, which replaced the incentive programme for key management staff of mBank Group from 2013, whereas in regard to the persons who acquired bonds or were granted right to acquire bonds in Tranches III, IV, V and VI the programme will be carried out under the previous principles.

The aim of the programme is to ensure growth in the value of the Company's shares by linking the interest of the key management staff of mBank S.A. Group with the interest of the Company and its shareholders and implementing in mBank S.A. Group variable components of remuneration of the persons holding managerial positions at mBank S.A. Group.

Beginning with Tranche VII the right to purchase bonds granted to the entitled person will be divided into four parts, which may be realized respectively: I part – non-deferred bonds representing 50% of the 60% of the amount of discretionary bonus granted for a given financial year in the year of granting the right, and then another three equal parts – deferred bonds constituting 50% of the 40% of the amount of discretionary bonus granted for a given financial year on the lapse of 12, 24 and 36 months from the date of granting the rights, in accordance with the internal regulations adopted in mBank S.A. Group specifying

rules of variable remuneration of the employees having a material impact on the risk profile at mBank S.A. Group.

The Bank's Management Board/Supervisory Board of the Company, where the Programme is carried out may take a decision on suspending the Programme in whole or decreasing the number of bonds or the number of bonds deferred in a given tranche for the entitled person in case of occurrence of the situations, referred to in Article 142 (1) of the Banking Law Act, occurrence of balance sheet loss or loss of liquidity, meeting the conditions set forth in the agreements with the program participants, forming the basis for provision of work or other services for the Bank and subsidiaries.

Cash Part of the Bonus

The bonus in the amount of 50% of the base amount for the year is cash payment. It is recognised as a liability to employees and charged to the income statement in the correspondence to the liability to employees.

Share-Based Payments Settled in mBank S.A. Shares

The bonus in the amount of 50% of the base amount constitutes a payment settled in mBank S.A. shares.

The cost of payments settled in shares is recognised in the income statement in the correspondence with other reserve capital.

This is equity-settled share-based program.

On 2 March 2015 the Supervisory Board extended the duration of the program from 31 December 2019 until 31 December 2022 in accordance with the recommendation of the Remuneration Committee.

The table below presents the number and weighted average exercise prices of share options related to the 2014 incentive programme for key managers of mBank Group.

	31.12.2015		31.12.2014	
	Number of options	Weighted average exercise price (in PLN)	Number of options	Weighted average exercise price (in PLN)
Outstanding at the beginning of the period	**-**	**-**	**-**	**-**
Granted during the period	5 288	-	-	-
Forfeited during the period	-	-	-	-
Exercised during the period*	2 966	4	-	-
Expired during the period	-	-	-	-
Outstanding at the end of the period	**2 322**	**-**	**-**	**-**
Exercisable at the end of the period	**206**	**-**	**-**	**-**

* In 2015, the weighted average price of the shares at the option exercise date was PLN 399.40.

Employee programmes of mBank Group subsidiaries

Starting from the second quarter of 2014 until the sale of BRE Ubezpiczenie TUiR SA in the first quarter of 2015, the Group operated an incentive programme, under which the management and employees of BRE Ubezpieczenia TUiR SA were entitled to potential capital gains concerning 4.99% of the shares of this company. The programme met the definition of share-based payment settled in cash. The incentive programme functioning in mBank Hipoteczny from September 2012 is based on phantom shares of this bank and considered as incentive programme under IAS 19.

Summary of the impact of the Programmes on the Bank's balance sheet and income statement

Share-Based Payments Settled in Shares

The table below presents changes in other reserve capital generated by the above mentioned incentive programmes for share-based payments settled in mBank S.A. shares.

	31.12.2015	31.12.2014
Incentive Programs		
As at the beginning of the period	**30 256**	**29 061**
- value of services provided by the employees	14 459	12 616
- settlement of exercised options	(11 739)	(11 421)
As at the end of the period	**32 976**	**30 256**

Share-Based Payments Settled in Cash

The incentive programme for the Management Board of the Bank in the part relating to Commerzbank shares has no impact on other reserves as its cost is taken to the income statement in correspondence with liabilities. The value of provided services associated with this part of the programme amounted to PLN 1 285 thousand in 2015 (31 December 2014: PLN 3 370 thousand) (Note 11). The value of liabilities under this program amounted to PLN 0 on 31 December 2015 (31 December 2014: PLN 1 995 thousand).

Cash Payments

The cost of the cash part of the programmes is presented in Note 11 "Overhead costs".

45. Transactions with related entities

mBank S.A. is the parent entity of mBank S.A. Group and Commerzbank AG is the ultimate parent of the Group as well as the direct parent of mBank S.A.

All transactions between the Bank and related entities were typical and routine transactions concluded on terms, which not differ from arm's length terms, and their nature, terms and conditions resulted from the current operating activities conducted by the Bank. Transactions concluded with related entities as a part of regular operating activities include loans, deposits and foreign currency transactions.

The Group provides standard financial services to the Bank's key management personnel, Members of the Supervisory Board of the Bank and close members of their families, which comprise i.e.: maintaining bank accounts, taking deposits, granting loans or other financial services. In the Bank's opinion, these transactions are concluded on market terms and conditions.

Pursuant the Banking Law, the extension of a loan, cash advance, bank guarantee or other guarantee to the Members of the Management Board and Supervisory Board of the Bank, persons holding managerial positions at the Bank as well as at entities related financially or organisationally therewith, is governed by the By-Laws adopted by the Supervisory Board of mBank S.A.

The By-Laws set out detailed rules and debt limits for loans, cash advances, bank guarantees, and other guarantees in relation to aforementioned persons and entities, which are consistent with the Bank's internal regulations defining the competences of granting credit decisions concerning retail and corporate clients of the Bank. A decision to grant a loan, cash advances, bank guarantee or other guarantee to a Member of the Management Board and Supervisory Board of the Bank, person holding managerial position at the Bank or an entity related financially or organisationally therewith in excess of the limits set by the Banking Law is taken by the resolution of the Management Board and by the resolution of the Supervisory Board.

The terms and conditions of such loans, cash advances, bank guarantees or other guarantees, including in particular those related to interest rates as well as fees and commissions, cannot be more advantageous than the terms and conditions offered by the Bank to its retail or corporate clients, respectively.

The table below presents the values of transactions between the Bank and companies of mBank Group and: Members of the Supervisory Board and the Management Board of mBank, key executive management of mBank, Members of the Supervisory Board and the Management Board of Commerzbank and other related persons and entities, as well as Commerzbank AG Group entities. The amounts of transactions include assets, liabilities and related costs and income as at 31 December 2015 and 31 December 2014 and for the respective periods then ended are as follows:

PLN (000's)	Supervisory Board, Management Board and key management personnel of mBank S.A. as well as Supervisory Board and Management Board of Commerzbank AG		Other related persons *		Commerzbank AG	
As at the end of the period	**31.12.2015**	**31.12.2014**	**31.12.2015**	**31.12.2014**	**31.12.2015**	**31.12.2014**
Statement of Financial Position						
Assets	8 986	7 700	13 293	110 055	613 844	907 869
Liabilities	46 921	34 764	4 083	2 652	13 478 374	15 852 630
Income Statement						
Interest income	944	884	34	8 476	175 657	162 714
Interest expense	(872)	(910)	(38)	(73)	(230 191)	(332 127)
Fee and commission income	220	328	51	70	-	-
Fee and commission expense	-	-	-	-	-	-
Other operating inccome	-	629	85	26 781	20	378
Overhead costs, amortisation and other operating expenses	-	(359)	(10)	(67)	(9 285)	(9 532)
Contingent liabilities granted and received						
Liabilities granted	827	1 084	1 574	2 617	1 379 203	1 309 589
Liabilities received	-	-	-	-	618 758	836 870

* Other related persons and entities include: close members of the family of Members of the Supervisory and the Management Board of mBank, key executive management of mBank, Members of the Supervisory Board and the Management Board of Commerzbank, entities controlled or jointly controlled by above mentioned persons and mBank's subsidiaries not consolidated by acquisition method.

In 2015 and 2014 no provisions were created in connection with credits granted to related entities.

Management Board Remuneration

At the end of 2015, the Management Board of mBank S.A. has been working in the seven person team with the following members:

1. Cezary Stypułkowski – President of the Management Board,
2. Lidia Jabłonowska-Luba – Vice-President of the Management Board, Chief Risk Officer,
3. Przemysław Gdański – Vice-President of the Management Board, Head of Corporate and Investment Banking,
4. Joerg Hessenmueller – Vice-President of the Management Board, Chief Financial Officer,
5. Hans-Dieter Kemler – Vice-President of the Management Board, Head of Financial Markets,
6. Cezary Kocik – Vice-President of the Management Board, Head of Retail Banking,
7. Jarosław Mastalerz – Vice-President of the Management Board, Head of Operations and IT.

Information on the salaries, bonuses and benefits paid and due to the Members of the Management Board of the Bank who were performing their functions at the end of 2015, as at 31 December 2015 and 31 December 2014, is presented below:

		Remuneration paid in 2015 (in PLN)			
		Basic salary	Other benefits	Bonus for 2014	Cash settlement of the incentive program based on Commerzbank shares*
1.	Cezary Stypułkowski	2 092 108	174 833	650 000	827 941
2.	Lidia Jabłonowska-Luba	1 219 483	228 872	360 000	-
3.	Przemysław Gdański	1 200 000	143 184	360 000	658 950
4.	Joerg Hessenmueller	1 263 000	166 535	380 000	-
5.	Hans-Dieter Kemler	1 218 561	366 354	360 000	688 900
6.	Cezary Kocik	1 200 000	156 825	400 000	-
7.	Jarosław Mastalerz	1 200 000	125 670	360 000	778 749
	Total	**9 393 152**	**1 362 273**	**2 870 000**	**2 954 540**

* For Mr. Przemysław Gdański, Mr Hans-Dieter Kemler and Mr. Jarosław Mastalerz, the settlement relates to an incentive programme for members of the Management Board of 2008, in a part based on the shares of Commerzbank. In 2015, the listed Members of the Board received a cash equivalent for Commerzbank shares in settlement of the third tranche of the incentive programme for 2011. For Mr. Cezary Stypułkowski, the settlement relates to deferred, based on the shares of Commerzbank part of the bonus for 2011.

Moreover, in 2015 as settlement related to the incentive programme for 2008 in a part based on the shares of Commerzbank, Mr. Christian Rhino eligible former member of the Management Board received a cash equivalent for Commerzbank shares in settlement of the second tranche of the incentive programme for 2012 in the amount of PLN 213 065.

Remuneration paid in the year 2014:

IFRS Consolidated Financial Statements 2015 PLN (000's)

		Remuneration paid in 2014 (in PLN)			
		Basic salary	Other benefits	Bonus for 2013	Cash settlement of the incentive program based on Commerzbank shares*
1.	Cezary Stypułkowski	2 091 963	155 478	1 294 010	279 935
2.	Lidia Jabłonowska-Luba	1 200 000	131 749	520 000	-
3.	Przemysław Gdański	1 200 000	127 515	720 000	860 734
4.	Joerg Hessenmueller	1 263 000	161 860	720 000	-
5.	Hans-Dieter Kemler	1 217 190	372 506	600 000	891 308
6.	Cezary Kocik	1 200 000	91 772	760 000	-
7.	Jarosław Mastalerz	1 200 000	109 274	760 000	983 029
	Total	**9 372 153**	**1 150 154**	**5 374 010**	**3 015 006**

* For Mr. Przemysław Gdański, Mr Hans-Dieter Kemler and Mr. Jarosław Mastalerz, the settlement relates to an incentive programme for members of the Management Board of 2008, in a part based on the shares of Commerzbank. In 2014, the listed Members of the Board received a cash equivalent for Commerzbank shares in settlement of the third tranche of the incentive programme for 2010 and the second tranche of the incentive programme for 2011. For Mr. Cezary Stypułkowski, the settlement relates to deferred, based on the shares of Commerzbank part of the bonus for 2010.

Remuneration of the former Management Board Members paid in the year 2014:

		Remuneration paid in 2014 (in PLN)			
		Basic salary	Other benefits, payoff and compensations	Bonus for 2013	Cash settlement of the incentive program based on Commerzbank shares*
Remuneration of the former Management Board Members who ceased performing their functions in the year 2013					
1.	Wiesław Thor	-	-	248 800	-
Remuneration of the former Management Board Members who ceased performing their functions in the year 2012					
1.	Christian Rhino	-	-	-	217 510
Remuneration of the former Management Board Members who ceased performing their functions in the year 2010					
1.	Mariusz Grendowicz	-	-	-	91 491
	Total	**-**	**-**	**248 800**	**309 001**

* The settlement relates to an incentive programme for members of the Management Board of 2008, in a part based on the shares of Commerzbank. In 2014, eligible Members of the Board received: Mr Mariusz Grendowicz a cash equivalent for Commerzbank shares in settlement of the third tranche of the incentive programme for 2010; Mr Christian Rhino a cash equivalent for Commerzbank shares in settlement of the first tranche of the incentive programme of 2012.

In 2014, Mr. Wiesław Thor, who acted as Vice-President of the Bank until 11 April 2013, was paid bonus for 2013 in the amount of PLN 248 800 thousand.

The total compensation of members of the Management Board consists of: basic salary, bonuses, termination payments of management agreement, prohibition of competitiveness payment, insurance costs and accommodation costs.

The above mentioned benefits are short-term employee benefits.

In accordance with the Bank's remuneration system, the members of the Management Board of the Bank may be eligible to receive bonuses for the year 2015, which would be paid out in 2016. Therefore, a provision was created for the payment of a cash bonus for 2015 for the members of the Management Board, which amounted to PLN 5 745 242 as of 31 December 2015. The final decision concerning the level of the bonus will be taken by the Remuneration Committee of the Supervisory Board by 24 March 2016.

In 2015 and 2014, the members of the Management Board of mBank S.A. did not receive compensation for their role as members of the management boards and supervisory boards of the Bank's related companies.

The total amount of remuneration received in 2015 by Bank's Management Board members was PLN 16 579 965 (2014: PLN 18 911 323).

<u>Information on the rules of payment other component of remuneration (severance payment) for the members of the Management Board</u>

From the date of appointment of the members of the Management Board for the new term, i.e. from the date of General Shareholders Meeting approving the financial results for the year 2012 all members of the

Management Board, in case of cancellation the managers from the Management Board before the expiration of the term, have got the severance payment in the amount which depends on years spent with the organization and is calculated as follows: (i) 4 monthly salaries if the member held his post for a period shorter than 1 year, (ii) 8 monthly salaries if the member held his position for more than 1 year but less than 2 years and (iii) 12 monthly salaries if the member held his post for more than 2 but less than 5 years, (iv) 18 monthly salaries if the member held his post for more than 5 years. If not appointed for next term of the office, the Management Board members are entitled to severance in the amount of 12 monthly salaries.

<u>Supervisory Board Compensation</u>

As at the end of the year 2015, the composition of the Supervisory Board of mBank S.A. was as follows:

1. Maciej Leśny – Chairman of the Supervisory Board, Chairman of the Executive Committee, Member of the Audit Committee, Member of the Risk Committee, Member of the Remuneration Committee,
2. Martin Zielke - Deputy Chairman of the Supervisory Board, Member of the Remuneration Committee,
3. Dr Andre Carls – Member of the Supervisory Board, Chairman of the Remuneration Committee, Member of the Executive Committee, Member of the Audit Committee,
4. Stephan Engels - Member of the Supervisory Board, Chairman of the Audit Committee,
5. Dr Stefan Schmittmann - Member of the Supervisory Board, Chairman of the Risk Committee,
6. Martin Blessing - Member of the Supervisory Board, Member of the Executive Committee,
7. Thorsten Kanzler- Member of the Supervisory Board, Member of the Risk Committee,
8. Teresa Mokrysz – Member of the Supervisory Board, Member of the Executive Committee,
9. Waldemar Stawski – Member of the Supervisory Board, Member of the Audit Committee,
10. Dr Agnieszka Słomka-Gołębiowska – Member of the Supervisory Board, Member of the Risk Committee,
11. Prof. Marek Wierzbowski – Member of the Supervisory Board, Member of the Remuneration Committee.
12. Wiesław Thor - Member of the Supervisory Board,

On 24 November 2015, Mr. Maciej Leśny, Chairman of the Supervisory Board of mBank S.A., received from Mr. Stefan Schmittmann, Member of the Supervisory Board of mBank S.A. and Chairman of the Risk Committee a letter of resignation from his function. The resignation took place on 31 December 2015.

On 10 December 2015, the Supervisory Board of mBank S.A. appointed Mr. Marcus Chromik as a member of the Supervisory Board of mBank S.A., replacing the retiring Dr. Stefan Schmittmann, with effect from 1 January 2016 for the period until the end of the current term of the Supervisory Board. Mr. Marcus Chromik also assumed the post of the Chairman of the Risk Committee of the Supervisory Board of mBank S.A.

Information about the Supervisory Board members' salaries, bonuses and benefits paid as at 31 December 2015 and 31 December 2014 is presented below:

		Remuneration paid in 2015 (in PLN)	Remuneration paid in 2014 (in PLN)
1.	Maciej Leśny	367 235	366 006
2.	Martin Zielke	-	-
3.	Andre Carls	252 000	252 000
4.	Stephan Engels	-	216 000
5.	Stefan Schmittmann*	-	-
6.	Martin Blessing	-	-
7.	Thorsten Kanzler	216 000	216 000
8.	Teresa Mokrysz	220 225	220 202
9.	Agnieszka Słomka-Gołębiowska	221 435	54 906
10.	Waldemar Stawski	221 435	221 406
11.	Wiesław Thor	149 435	138 522
12.	Marek Wierzbowski	216 000	198 000
	Jan Szomburg**	-	184 500
	Dirk Wilhelm Schuh***	-	54 000
	Total	**1 863 765**	**2 121 542**

* On 31 December 2015, Mr. Stefan Schmittmann resigned from the office.
** On 27 October 2014, Mr. Jan Szomburg resigned from the office.
*** Mr. Dirk Wilhelm Schuh posted the office until 31 March 2014.

In accordance with the wording of paragraph 11(j) of the By-laws of mBank S.A., the General Meeting determines remuneration for members of the Supervisory Board in a resolution. Remuneration of the Management Board members is determined by the Supervisory Board (paragraph 22.1(e) of the By-laws of mBank S.A.).

The total compensation of Members of the Supervisory Board, the Management Board and other key executive management of the Bank that perform their duties in 2015 amounted to PLN 22 920 768 (2014: PLN 26 219 666).

Information regarding proprietary position in Bank shares by Members of the Management Board and by Members of the Supervisory Board

As at 31 December 2015, the Bank shares were held by five Members of the Management Board: Mr. Cezary Stypułkowski – 6 784 shares, Mrs. Lidia Jabłonowska-Luba – 818 shares, Mr. Przemysław Gdański – 4 689 shares, Mr. Joerg Hessenmueller – 1 254 shares and Mr. Jarosław Mastalerz – 818 shares.

As at 31 December 2014, the Bank shares were held by three Members of the Management Board: Mr. Cezary Stypułkowski – 2 034 shares, Mr. Przemysław Gdański – 2 000 shares and Mr. Hans-Dieter Kemler – 1 000 shares.

As at 31 December 2015, the Bank shares were held by one Member of the Supervisory Board of mBank S.A., Mr. Wiesław Thor – 2 192 shares.

As at 31 December 2014, the Bank shares were held by one Member of the Supervisory Board of mBank S.A., Mr. Wiesław Thor – 3 000 shares.

As at 31 December 2015 and 31 December 2014, the Members of the Supervisory Board of the Bank had no Bank's shares.

46. Acquisitions and disposals

- Liquidation of MLV45 Sp. z o.o. spółka komandytowa

In connection with the cessation of activity of MLV45 Sp. z o.o. spółka komandytowa, in 2015 mBank S.A. has conducted a reorganisation within mBank S.A. Group, which involved the transfer of shares held by the company MLV 45 Sp. z o.o. Sp.k. in companies mBank Hipoteczny S.A., mLeasing Sp. z o.o., mFaktoring S.A. and mLocum S.A. under the direct control of mBank S.A. Information concerning the reorganisation has been included in the Note 1 of these consolidated financial statements. The changes had no impact on the Group's consolidated net profit and Group's consolidated equity presented in these Consolidated Financial Statements for the year 2015.

As a result of the above changes, in the stand-alone financial statements for the year 2015 the Bank has recognised an increase of retained earnings in the amount of PLN 505 732 thousand directly in the equity. These changes had no influence on the stand-alone net profit of mBank S.A. for the year 2015.

- The sale of the company BRE Ubezpieczenia TUiR S.A. ("BRE TUiR")

On 27 March 2015, after meeting specific conditions precedent, in particular: (i) obtaining the consent of the Office of Competition and Consumer Protection and (ii) no objections being raised by the Polish Financial Supervision Authority, the company Aspiro S.A. ("Aspiro") sold of 100% shares of BRE TUiR to the company Avanssur S.A., belonging to AXA Group.

Moreover, on 27 March and on 30 March 2015, mBank Group signed with AXA Group agreements related to the sale of shares of BRE TUiR and a distribution agreements, which regulate long-term cooperation between the mBank Group and AXA Group in relation to distribution of insurance products.

mBank Group's total remuneration for the sale of BRE TUiR shares and agreements concluded with AXA Group entities amounted to PLN 579 479 thousand. The one-off impact of the transaction on the consolidated gross profit of mBank Group amounted to PLN 194 348 thousand (Note 23 – the item "Gains less losses related to sale of subsidiaries and associatesand") was fully recognised in the first quarter of 2015. As a result of concluding the above mentioned agreements the Group recognised a liability related to contingent consideration which was valued on the basis of the best estimate of the Management Board of the Bank. Additionally, as a result of concluding the above mentioned distribution agreements, over the next 10 years the Group will recognise income in the total amount of PLN 180 000 thousand, which will be reflected in the profit and loss account on a straight line basis.

- Changes in the structure of the company Aspiro

On 2 March 2015, the merger by acquisition of companies BRE Ubezpieczenia Sp. z o.o. and BRE Agent Ubezpieczeniowy Sp. z o.o occurred in the company Aspiro S.A. The activities of both insurance companies were taken over and will be continued in the same extent by Aspiro. The acquired companies were resolved on 2 March 2015, the day of their deletion from the register which was also the date of registered of the merger. The merger of the companies had no impact on the stand-alone profit of mBank and the consolidated profit of mBank Group.

- The sale of the company Transfinance a.s.

On 8 December 2014, an agreement for the sale of 100% shares of Transfinance a.s. between mBank S.A. and UniCredit Bank Czech Republic and Slovakia a.s. (UniCredit) was concluded. The transaction was finalized on 20 January 2015, after materialisation of all contractual suspending conditions. The sale of Transfinance is the result of implementing the One Bank Strategy for 2012-2016 and is the last stage of restructuring of foreign factoring activities of the Group i.e. after the sale of Magyar Factor zRt and Intermarket Bank AG in 2011.

- Interest in joint ventures

In the first quarter of 2015 a company under the name of Apartamenty Molo Rybackie Sp. z o.o. was registered, in which 50% of shares were acquired by mLocum S.A., a subsidiary of mBank. This is a result of the joint venture agreement entered by mLocum and Dalmor S.A., enitity of Polski Holding Nieruchomości S.A. group, related to the development of the first stage of Fishing Pier in Gdynia. The joint investment includes a construction of six five-storey apartment buildings located on the waterfront of the harbor dock, in which a development of new yacht marina is planned. Start of the construction is planned in 2016. The investment will be valued using the equity method. As of 31 December 2015, the exposure of mLocum S.A. in the joint venture amounted to PLN 7 500 thousand and is a stake of mBank Group in the SPV.

47. Information about the registered audit company

The entity entitled to audit financial statements, with which mBank S.A. concluded an agreement is Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k. The agreement to conduct an audit of mBank S.A. financial statements and consolidated financial statements of mBank S.A. Group was concluded on 20 May 2015.

The total gross amount of Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k. remuneration related to the audit and review of stand-alone financial statements and consolidated financial statements of mBank S.A. was PLN 2 759 thousand in 2015 (2014: PLN 2 893 thousand).

The total gross amount of remaining remuneration paid in 2015 to Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k. in respect of other services for mBank S.A. was PLN 1 007 thousand (2014: PLN 1 700 thousand).

48. Prudential consolidation

According to the Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 ("CRR Regulation"), mBank is a significant subsidiary of EU parent institution, responsible for the preparation of the consolidated prudentially financial data to fulfil the requirement of disclosures described in IAS 1.135 *Presentation of Financial Statements*.

Financial information presented below does not represent IFRS measures as defined by the standards.

mBank S.A. Group ("the Group") consists of entities defined in accordance with the rules of prudential consolidation, specified by the CRR Regulation.

Basis of the preparation of the consolidated financial data

mBank S.A. Group consolidated financial data based on the rules of prudential consolidation specified by the CRR Regulation ("Consolidated prudentially financial data") have been prepared for the 12-month period ended 31 December 2015 and for the 12-month period ended 31 December 2014.

The consolidated profit presented in the consolidated prudentially financial data may be included in consolidated Common Equity Tier 1 for the purpose of the calculation of consolidated Common Equity Tier 1 capital ratio, consolidated Tier 1 capital ratio and consolidated total capital ratio with the prior permission of the Polish Financial Supervisory Authority or after approval by the General Meeting of shareholders.

The accounting policies applied for the preparation of the Group consolidated prudentially financial data are identical to those, which have been applied to the mBank S.A. Group consolidated financial data for the year 2015, prepared in compliance with International Financial Reporting Standard ("IFRS"), except for the consolidation standards presented below.

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Consolidation

The consolidated prudentially financial data includes the Bank and the following entities:

Company	31.12.2015		31.12.2014	
	Share in voting rights (directly and indirectly)	Consolidation method	Share in voting rights (directly and indirectly)	Consolidation method
Aspiro S.A.	100%	full	-	-
Dom Maklerski mBanku S.A.	100%	full	100%	full
mBank Hipoteczny S.A.	100%	full	100%	full
mCentrum Operacji Sp. z o.o.	100%	full	100%	full
mFaktoring S.A.	100%	full	100%	full
mLeasing Sp. z o.o.	100%	full	100%	full
MLV 45 Sp. z o.o. spółka komandytowa	-	-	100%	full
mWealth Management S.A.	100%	full	-	-
Tele-Tech Investment Sp. z o.o.	100%	full	-	-
Transfinance a.s.	-	-	100.00%	full
mFinance France S.A.	99.998%	full	99.98%	full

Entities included in the scope of prudential consolidation are defined in the Regulation CRR – institutions, financial institutions or ancillary services undertakings, which are subsidiaries or undertakings in which a participation is held, except for entities in which the total amount of assets and off-balance sheet items of the undertaking concerned is less than the smaller of the following two amounts:

- EUR 10 million;
- 1 % of the total amount of assets and off-balance sheet items of the parent undertaking or the undertaking that holds the participation.

The consolidated financial data combine items of assets, liabilities, equity, income and expenses of the parent with those of its subsidiaries eliminating the carrying amount of the parent's investment in each subsidiary and the parent's portion of equity of each subsidiary. Thus arises goodwill. If goodwill has negative value, it is recognised directly in the income statement. The profit or loss and each component of other comprehensive income is attributed to the Group's owners and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. If the Group loses control of a subsidiary, it shall account for all amounts previously recognised in other comprehensive income in relation to that subsidiary on the same basis as would be required if the Group had directly disposed of the related assets or liabilities

Intra-group transactions, balances and unrealised gains on transactions between companies of the Group are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In 2015 the income of the Group, calculated as the sum of net interest income, net fee and commission income, dividend income, net trading income, gains less losses from investment securities, investments in subsidiaries and associates, other operating income and other operating expenses, amounted to PLN 4 086 379 thousand (2014 – PLN 3 759 919 thousand). This income relates in whole to the activity conducted within the European Union.

In 2015, the rate of return on assets of the Group, calculated as net profit divided by the average total assets, amounted to 1.07%.

In 2015, the Group did not received any public subsidies, in particular on the basis of the Act on the Government support for the financial institutions dated 12 February 2009 (Journal of Laws of 2014, No 158).

As at 31 December 2015 the employment in the Group was 6 483 FTEs and 8 529 persons (31 December 2014 respectively: 6 043 FTEs and 7 284 persons).

Consolidated prudentially income statement

	Period from 01.01.2015 to 31.12.2015	Period from 01.01.2014 to 31.12.2014
Interest income	3 655 896	3 930 574
Interest expense	(1 149 114)	(1 468 315)
Net interest income	**2 506 782**	**2 462 259**
Fee and commission income	1 448 741	1 358 468
Fee and commission expense	(535 835)	(482 126)
Net fee and commission income	**912 906**	**876 342**
Dividend income	17 540	30 133
Net trading income, including:	292 020	366 232
Foreign exchange result	*288 558*	*233 341*
Other net trading income and result on hedge accounting	*3 462*	*132 891*
Gains less losses from investment securities, investments in subsidiaries and associates, including:	348 898	29 205
Gains less losses from investment securities	*133 213*	*55 373*
Gains less losses from investments in subsidiaries and associates	*215 685*	*(26 168)*
Other operating income	107 338	137 734
Net impairment losses on loans and advances	(421 222)	(515 903)
Overhead costs	(1 837 816)	(1 500 946)
Amortisation	(199 146)	(186 251)
Other operating expenses	(99 105)	(141 986)
Operating profit	**1 628 195**	**1 556 819**
Profit before income tax	**1 628 195**	**1 556 819**
Income tax expense	**(307 887)**	**(333 587)**
Net profit	**1 320 308**	**1 223 232**
Net profit attributable to:		
- Owners of mBank S.A.	1 320 308	1 223 232
- Non-controlling interests	-	-

Consolidated prudentially statement of financial position

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ASSETS	31.12.2015	31.12.2014
Cash and balances with the Central Bank	5 938 132	3 054 548
Loans and advances to banks	1 897 233	3 727 309
Trading securities	557 541	1 156 450
Derivative financial instruments	3 349 328	4 865 517
Loans and advances to customers	78 464 673	74 697 423
Hedge accounting adjustments related to fair value of hedged items	130	461
Investment securities	30 980 449	27 906 260
Non-current assets held for sale	-	291 829
Intangible assets	519 049	456 522
Tangible assets	739 978	708 103
Current income tax assets	1 721	61 336
Deferred income tax assets	357 207	238 980
Other assets	702 967	509 114
Total assets	**123 508 408**	**117 673 852**
LIABILITIES AND EQUITY		
Liabilities		
Amounts due to the Central Bank	-	-
Amounts due to other banks	12 019 331	13 383 829
Derivative financial instruments	3 173 638	4 719 056
Amounts due to customers	81 185 025	72 615 316
Debt securities in issue	8 946 195	10 341 742
Hedge accounting adjustments related to fair value of hedged items	100 098	103 382
Liabilities held for sale	-	91 793
Other liabilities	1 708 139	1 301 051
Current income tax liabilities	50 126	1 441
Provisions for deferred income tax	981	1 980
Provisions	225 416	176 881
Subordinated liabilities	3 827 315	4 127 724
Total liabilities	**111 236 264**	**106 864 195**
Equity		
Equity attributable to Owners of mBank S.A.	**12 272 144**	**10 809 655**
Share capital:	**3 535 758**	**3 523 903**
- Registered share capital	168 956	168 840
- Share premium	3 366 802	3 355 063
Retained earnings:	**8 303 580**	**6 736 229**
- Profit from the previous years	6 983 272	5 512 997
- Profit for the current year	1 320 308	1 223 232
Other components of equity	**432 806**	**549 523**
Non-controlling interests	**-**	**2**
Total equity	**12 272 144**	**10 809 657**
Total liabilities and equity	**123 508 408**	**117 673 852**

49. Capital adequacy

One of the main tasks of the balance sheet management is to ensure an appropriate level of capital. Within the framework of the capital management policy of mBank Group, mBank prepares the guidelines for the most effective planning and use of capital basis which:

- are compliant with external and internal regulations in force,
- guarantee a continuity of financial targets achievement, which render an appropriate rate of return for shareholders,
- ensure the maintenance of a strong capital basis being a fundamental support for business development.

The capital management policy in mBank Group is based on:

- maintenance of an optimal level and structure of own funds with the application of available methods and means, like among others retention of net profit, subordinated loan or issue of shares,
- effective use of existing capital, among others through application of a set of measures of effective use of the capital, limitation of activities that do not provide an expected rate of return and development of products with lower capital absorption.

Effective use of capital is an integral part of the capital management policy oriented at reaching an optimal rate of return on capital and as a result forming a stable fundament of reinforcement of the capital basis in future periods. This enables to maintain the Common Equity Tier 1 capital ratio (calculated as a quotient of Common Equity Tier 1 capital to the total risk exposure amount) and the total capital ratio (calculated as a quotient of own funds to the total risk exposure amount) at least on the level required by the supervision authority.

The strategic goals of mBank Group are aimed at maintaining the consolidated total capital ratio as well as the consolidated Common Equity Tier 1 capital ratio above the level required by the supervision authority. It allows to maintain safe business development meeting the supervisory requirements in the long perspective.

Capital ratios

The calculation of capital ratios and the leverage ratio, the own funds and the total capital requirement in mBank Group is made according to the following regulations:

- the CRR Regulation and delegated and implementing regulations as well as technical standards of European Commission supplementary to the CRR Regulation,
- the Banking Act of 29 August 1997 (Dz.U. from the year 2002 No 72, item 665) with further amendments.

Entities included in prudential consolidation according to the rules of the CRR Regulation are taken into account in the process of calculation of own funds and own funds requirements.

The capital ratios of the Group in 2015 were driven by the following factors:

- including in own funds the subordinated liability of mBank in the amount of PLN 750 million, resulted from the subordinated bonds issue dated 17 December 2014, on the basis of the KNF permission from 8 January 2015,
- earlier repayment of subordinated loan, partially included in Tier 2 capital on the basis of the KNF permission from 8 January 2015 (loan granted on 24 June 2008 in nominal value of CHF 90 million),
- including in Common Equity Tier 1 capital the net profit of mBank Group for the year 2014, reduced by every foreseeable charges,
- including in Common Equity Tier 1 capital the verified net profit of mBank Group for the 1st half of the year 2015, reduced by every foreseeable charges, on the basis of the KNF permission from 20 October 2015,
- including in prudential consolidation subsidiaries: Aspiro from March 2015, Tele-Tech from July 2015 and mWealth Management from December 2015,
- including in own funds the unrealised gains measured at fair value in the 40% of their value, in accordance with the KNF recommendations,
- expanded application of the advanced internal rating based approach (AIRB approach) to calculation of own funds requirement for credit and counterparty credit risk resulting from supervisory AIRB decisions obtained in 2015,
- expansion of mBank Group business activity.

Minimum requirements for capital ratios imposed for banks for 2015 by the KNF stood at 12 percent and 9 percent for total capital ratio and Common Equity Tier 1 ratio respectively.

Additionally, as a result of risk assessment carried out by the Polish Supervisory Authority (KNF) within the supervisory review and evaluation process, in particular with regard to evaluation of risk related to portfolio of foreign exchange retail mortgage loans, mBank received an individual recommendation to maintain own funds to cover additional capital requirement of 4.39 p.p. in order to mitigate the risk (3.29 p.p. for Tier 1 capital).

One common methodology applied by KNF to calculate additional capital requirement for all Polish banks, irrespective of the approach Bank used to calculate own funds requirements for credit risk, resulted in a higher additional capital requirement for mBank, which applies Advanced Internal Ratings-Based Approach accepted by Supervisor. The methodology assumes that for all banks additional capital requirement is calculated on the basis of risk weight under standardised approach (100%), despite indications of internal models.

As an effect of it more than half of the additional capital requirement results from the increase of capital requirement to the level of capital requirement under standardised approach.

Bank has fully met KNF recommendation, capital ratios of mBank standalone and on consolidated basis stood above the target capital ratios, i.e. 16,39% at the level of own funds and 12,29% at the level of Tier 1 capital.

The total capital ratio of mBank as of 31 December 2015 amounted to 20.18% and Common Equity Tier 1 capital ratio for amounted to 16.70%.

The consolidated total capital ratio of mBank Group amounted to 17.25%. Additionally the consolidated Common Equity Tier 1 capital ratio of mBank Group amounted to 14.29%.

Taking into account the above described additional capital requirement as well as the conservation buffer of 1.25% enforced on 1 January 2016 on the basis of the Act on Macro-prudential Supervision over the Financial System and Crisis Management in the Financial System, starting from 1 January 2016 the Bank as well as mBank Group should maintain, on the stand alone and consolidated level respectively, the Common Equity Tier 1 ratio on the level not lower than 13.54% and the total capital ratio on the level not lower than 17.64%, which compares against 14.29% and 17.25% respectively reported by mBank Group as of 31 December 2015. As of 31 January 2016 on consolidated level the reported total capital ratio was below the afore-mentioned target ratio of 17.64%, whereas consolidated Common Equity Tier 1 ratio remained to well exceed the new target ratio, similar to the respective ratios on mBank stand-alone level. The Management Board of mBank believes that with the decisions to be made by the upcoming mBank Ordinary General Meeting (planned on 24 March 2016) the Group will exceed the total capital ratio target level of 17.64%.

Detailed information on calculation of the consolidated capital ratios and leverage ratio, the consolidated own funds and the consolidated total risk exposure amount of mBank Group were described in document *Disclosures regarding capital adequacy of the mBank S.A. Group as at 31 December 2015*, published on the mBank website.

Own Funds

In accordance with the CRR Regulation, the consolidated own funds consist of consolidated Common Equity Tier 1 capital, consolidated Additional Tier 1 capital and consolidated Tier 2 capital, however items that could be treated as Additional Tier 1 capital are not identified.

Common Equity Tier 1 capital of mBank Group contains:

- paid up capital instruments and the related share premium accounts,
- previous years retained earnings,
- independently reviewed interim profits,
- accumulated other comprehensive income,
- other reserves
- funds for general banking risk,
- items deducted from a Common Equity Tier 1 capital (fair value gains and losses arising from the institution's own credit risk related to derivative liabilities, value adjustments due to the requirements for prudent valuation, intangible assets, AIRB shortfall of credit risk adjustments to expected losses, own CET1 instruments, regulatory adjustments relating to accumulated other comprehensive income and net impairment losses).

Tier 2 capital of mBank Group contains:

- capital instruments and the related share premium accounts (subordinated liabilities with specified maturity),
- amount of qualifying items referred to in Article 484 (5) of the CRR Regulation and the related share premium accounts subject to phase out from Tier 2 capital (liabilities resulting from securities of unspecified maturity).

The consolidated own funds of mBank Group as of 31 December 2015 amounted to PLN 11 970 593 thousand. Additionally the consolidated Common Equity Tier 1 capital of mBank Group amounted to PLN 9 914 535 thousand.

Total risk exposure amount

The total risk exposure amount contains:

- risk weighted exposure amounts for credit risk, counterparty credit risk, dilution risk and free deliveries,
- risk exposure amount for market risk, including position risk, foreign exchange risk and commodities risk,
- risk exposure amount for operational risk,
- risk exposure amount for credit valuation adjustment,
- other risk exposure amounts, including supervisory floor and regulatory floor.

In 2015 mBank Group obtained consent to the application of AIRB approach to the calculation of own funds requirement relating to credit risk for further credit portfolios and as a result the coverage of the credit portfolio by AIRB approach increased to 85% till the end of 2015.

As at 31 December 2015 the AIRB approach was applied to the calculation of own funds requirements for credit and counterparty credit risk for the following portfolios:

- mBank corporate portfolio,
- mBank retail mortgage loan portfolio,
- mBank real estate-related specialised lending exposures (IRB slotting approach),
- mBank retail non-mortgage exposures (conditional consent),
- mBank retail microenterprises mortgage loan portfolio (conditional consent),
- bank exposures (conditional consent).
- mLeasing S.A. credit exposure (conditional consent),
- mBank Hipoteczny SA specialized lending exposures (IRB slotting approach).

In case of portfolios with conditional consent to the application of AIRB approach, mBank Group applies supervisory floor, which means that where the own funds requirement for credit risk calculated under AIRB approach is lower than the own funds requirement for credit risk calculated under standardised approach, it is necessary to supplement it up to the level of the own funds requirement for credit risk calculated under standardised approach.

With regard to conditional consent to the application of AIRB approach to the calculation of own funds requirement for credit risk for mBank retail non-mortgage exposures, high significance conditions specified by the bank supervision have been met, awaiting formal confirmation by the bank supervision.

With regard to conditional consent to the application of AIRB approach to the calculation of own funds requirement for credit risk for mLeasing credit exposures, high significance conditions specified by the bank supervision have been met, awaiting formal confirmation by the bank supervision.

In case of mBank retail microenterprises mortgage loan portfolio and bank exposures Bank is obliged to include the supervisory floor in its calculations till high significance conditions are met that is before May 2016. Fulfilment of the conditions has to be confirmed by the bank supervision.

Additionally, mBank Group applied regulatory floor in calculation of consolidated total risk exposure amount and capital ratios as at 31 December 2015 in accordance with provisions of the CRR Regulation. It means that when total risk exposure amount (AIRB driven) is lower than 80% of the comparable total risk exposure amount (standardized driven), mBank includes the difference in the calculation.

The total risk exposure amount of mBank Group as at 31 December 2015 amounted to PLN 69 391 743 thousand, including PLN 61 821 407 thousands of risk exposure amount for credit risk, counterparty credit risk and regulatory floor.

Internal capital

The ICAAP (Internal Capital Adequacy Assessment Process) implemented in mBank Group aims at adjusting own funds to the level and the profile of risk arising from mBank Group's operations.

The internal capital is the amount of capital estimated for mBank Group to cover all material risks identified in the activity of mBank Group. The internal capital is the total sum of the economic capital to cover risks included in the process of the economic capital calculation and the capital required to cover other risks (including hard to quantify risks).

Due to the fact that both, the total capital requirement of mBank Group calculated according to the CRR Regulation and the internal capital estimated for mBank Group according to the Resolution No. 258/2011 are lower than consolidated own funds, the consolidated own funds as at 31 December 2015 were maintained on the level consistent with the requirements of the CRR Regulation.

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The internal capital of mBank Group as at 31 December 2015 amounted to PLN 4 385 686 thousand.

Capital adequacy	31.12.2015	31.12.2014
Common Equity Tier 1 Capital	**9 914 535**	**8 142 307**
Total Own Funds	**11 970 593**	**9 750 540**
Risk weighted exposure amounts for credit, counterparty credit, dilution risk and free deliveries:	59 069 848	56 601 711
- including under standardised approach	11 718 792	12 987 810
- including under AIRB approach	47 350 835	43 613 901
- including risk exposure amount for contributions to the default fund of a CCP	221	-
Settlement / delivery risk exposure amount	-	-
Total risk exposure amount for position, foreign exchange and commodities risks	945 380	1 002 192
Total risk exposure amount for operational risks	6 362 805	6 413 869
Additional risk exposure amount due to fixed overheads	-	-
Total risk exposure amount for credit valuation adjustments	262 151	266 809
Total risk exposure amount for large exposures in the trading book	-	-
Other risk exposure amounts	2 751 559	2 215 316
Total risk exposure amount	**69 391 743**	**66 499 897**
Comon Equity Tier 1 capital ratio	**14.29%**	**12.24%**
Total capital ratio	**17.25%**	**14.66%**
Internal capital	**4 385 686**	**4 353 360**

OWN FUNDS	31.12.2015	31.12.2014
Own funds	**11 970 593**	**9 750 540**
TIER 1 CAPITAL	**9 914 535**	**8 142 307**
Common Equity Tier 1 Capital	**9 914 535**	**8 142 307**
Capital instruments eligible as CET1 Capital	3 535 412	3 522 891
Paid up capital instruments	168 916	168 840
Share premium	3 366 802	3 355 063
(-) Own CET1 instruments	(306)	(1 012)
Retained earnings	1 319 220	303 925
Previous years retained earnings	1 017 782	79 623
Profit or loss eligible	301 438	224 302
Accumulated other comprehensive income	432 806	549 523
Other reserves	4 870 037	4 391 421
Funds for general banking risk	1 095 453	1 041 953
Adjustments to CET1 due to prudential filters	(70 999)	(124 299)
Fair value gains and losses arising from the institution's own credit risk related to derivative liabilities	(4 418)	(3 777)
(-) Value adjustments due to the requirements for prudent valuation	(66 581)	(120 522)
(-) Intangible assets	(484 409)	(424 832)
(-) Other intangible assets gross amount	(519 049)	(456 522)
Deferred tax liabilities associated to other intangible assets	34 640	31 690
(-) IRB shortfall of credit risk adjustments to expected losses	(300 203)	(288 660)
Other transitional adjustments to CET1 Capital	(269 197)	(559 059)
CET1 capital elements or deductions - other	(213 585)	(270 556)
Additional Tier 1 capital	**-**	**-**
TIER 2 CAPITAL	**2 056 058**	**1 608 233**
Capital instruments and subordinated loans eligible as T2 capital	1 250 000	722 058
Tier 2 capital elements or deductions - other	-	-
Transitional adjustments due to grandfathered T2 capital instruments and subordinated loans	806 058	886 175

Credit risk	31.12.2015	31.12.2014
Risk weighted exposure amounts for credit risk, counterparty credit risk, dilution risk and free deliveries	**59 069 848**	**56 601 711**
Standardised approach	**11 718 792**	**12 987 810**
SA exposure classes excluding securitisation positions	11 718 792	12 987 810
Central governments or central banks	17 925	53 237
Regional governments or local authorities	318 321	387 325
Public sector entities	17 226	39 287
Multilateral Development Banks	-	-
International Organisations	-	-
Institutions	142 707	1 595 957
Corporates	5 274 077	5 118 708
Retail	1 095 739	1 080 009
Secured by mortgages on immovable property	4 102 617	3 555 432
Exposures in default	260 550	444 814
Items associated with particular high risk	20 690	15 695
Covered bonds	-	-
Claims on institutions and corporates with a short-term credit assessment	-	-
Collective investments undertakings (CIU)	2 654	-
Equity	445 187	654 245
Other items	21 099	43 101
AIRB approach	**47 350 835**	**43 613 901**
AIRB approaches when neither own estimates of LGD nor Conversion Factors are used	-	-
AIRB approaches when own estimates of LGD and/or Conversion Factors are used	44 998 439	40 679 146
Central governments and central banks	-	-
Institutions	2 267 332	-
Corporates - SME	5 082 710	4 325 250
Corporates - Specialised Lending	5 405 292	4 998 130
Corporates - Other	14 789 603	15 020 128
Retail - Secured by real estate SME	1 281 631	-
Retail - Secured by real estate non-SME	8 601 759	9 031 991
Retail - Qualifying revolving	-	-
Retail - Other SME	2 314 140	2 148 907
Retail - Other non-SME	5 255 972	5 154 740
Equity AIRB	-	-
Securitisation positions IRB	-	-
Other non credit-obligation assets	2 352 396	2 934 755
Risk exposure amount for contributions to the default fund of a CCP	**221**	**-**

50. Events after the balance sheet date

- Proposals concerning foreign currency mortgage loans restructuring

Some proposals of restructuring of foreign currency mortgage loans for individuals have been discussed recently, including the draft of the act on the restoration of the equality of parties of certain loan agreements published by the Chancellery of the President of the Republic of Poland on 15 January 2016. The solutions proposed in the draft are under discussion and their final form is not known yet. Therefore, at the moment, the Bank is not able to estimate reliably either the implementation probability of the discussed solutions or the potential impact of the final solutions on the consolidated financial statements of the Group.

- Act on tax on certain financial institutions

On 15 January 2016 the Polish Parliament adopted the "Act on tax on certain financial institutions". The Act came into force on 1 February 2016.

The Act regulates the taxation of the assets of certain financial institutions. In the case of the Bank, the tax base is the excess of the total value of assets, resulting from the trial balance determined on the basis of the general ledger records as of the last day of the month in accordance with the accounting standards applied by the Bank, above the amount of PLN 4 billion, reduced by the value of own funds and treasury securities. The tax rate introduced by the Act is 0.0366% of the tax base per month.

The Management Board of the Bank asseses that the tax paid under tis Act will have a significant negative impact on net profit and equity of the Bank.

- Regulatory capital buffers in 2016

In light of the entry into force of the Act on Macro-prudential Supervision over the Financial System and Crisis Management in the Financial System in 2015 transposing CRD IV provisions to Polish prudential regulations, beginning from 2016 banks are obliged to maintain additionally own funds to cover conservation buffer of 1.25% of total risk exposure amount.

Financial Stability Committee decided in December 2015 to set a the countercyclical capital buffer rate at 0 %, that shall be applicable till the day preceding the day since an institution will be obliged to apply the rate indicated in the regulation of the Minister of Finance.