2014

Disclosures regarding capital adequacy of mBank S.A. Group as at 31 December 2014

Warsaw, 2 March 2015
(update – 12 May 2015)

Contents:

1. Introduction

On the basis of Regulation (UE) 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 (hereinafter referred to as CRR Regulation) and on the basis of other regulations laying down implementing technical standards with regard to information disclosure, also in accordance with the Disclosure Policy of mBank SA (hereinafter referred to as mBank) available on website www.mbank.pl, information based on the data for mBank SA Group prudentially consolidated (hereinafter referred to as mBank Group) according to the requirements of the CRR Regulation are contained in the presented document.

Entities included in prudential consolidation according to the rules of the CRR Regulation were taken into account in the process of calculation of consolidated own funds and own funds requirements as at 31 December 2014. The scope of entities included in prudential consolidation is different from the scope of entities included in accounting consolidation based on International Financial Reporting Standards (hereinafter referred to as the IFRS) and presented in the mBank Group IFRS Consolidated Financial Statements for 2014.

The Condensed consolidated prudentially financial data of mBank Group as at 31 December 2014 (hereinafter referred to as Prudentially consolidated financial data for the year 2014) is presented in the Explanatory Note 48 of the mBank Group IFRS Consolidated Financial Statements for 2014 (hereinafter referred to as the Consolidated financial statements for the year 2014).

If not stated specifically further in the report, all the amounts are presented in PLN thousand.

2. Prudential scope of consolidation

According to Article 13 of the CRR Regulation, mBank as significant subsidiary of EU parent institution prepares the Condensed consolidated prudentially financial data based on the rules of prudential consolidation described in the CRR Regulation.

The accounting policies applied for the preparation of the Prudentially consolidated financial data for 2014 are the same as those, which have been applied to the Consolidated financial statements for the year 2014, prepared in compliance with IFRS, except for the consolidation standards presented below. The consolidated profit presented in the Prudentially consolidated financial data for the year 2014 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 (hereinafter referred to as PFSA) or the General Meeting decision on profit division.

Entities included in prudential consolidation are defined in the CRR Regulation as 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 Prudentially consolidated financial data include the following entities:

1. mBank S.A.
2. Dom Maklerski mBanku S.A.
3. mBank Hipoteczny S.A.
4. mCentrum Operacji Sp. z o.o.
5. mFaktoring S.A.
6. mLeasing Sp. z o.o.
7. MLV 45 Sp. z o.o. spółka komandytowa
8. Transfinance a.s.
9. mFinance France S.A

Detailed information on consolidated entities included in accounting consolidation is presented in Explanatory Note 1 of the Consolidated financial statements for the year 2014.

Reconciliation between IFRS statement of financial position and statement of financial position compliant with the CRR Regulation is presented below.

Reconciliation	IFRS statement of financial position	Deconsolidation of entities not included in prudential consolidation	Prudential consolidation / statement of financial position compliant with the CRR Regulation
ASSETS	**31.12.2014**	**31.12.2014**	**31.12.2014**
Cash and balances with the Central Bank	3 054 549	(1)	3 054 548
Loans and advances to banks	3 751 415	(24 106)	3 727 309
Trading securities	1 163 944	(7 494)	1 156 450
Derivative financial instruments	4 865 517	-	4 865 517
Loans and advances to customers	74 582 350	115 073	74 697 423
Hedge accounting adjustments related to fair value of hedged items	461	-	461
Investment securities	27 678 614	227 646	27 906 260
Non-current assets held for sale	576 838	(285 009)	291 829
Intangible assets	465 626	(9 104)	456 522
Tangible assets	717 377	(9 274)	708 103
Current income tax assets	61 751	(415)	61 336
Deferred income tax assets	272 416	(33 436)	238 980
Other assets	794 964	(285 850)	509 114
Total assets	**117 985 822**	**(311 970)**	**117 673 852**
LIABILITIES AND EQUITY			
Liabilities			
Amounts due to the Central Bank		-	
Amounts due to other banks	13 383 829	-	13 383 829
Derivative financial instruments	4 719 056	-	4 719 056
Amounts due to customers	72 422 479	192 837	72 615 316
Debt securities in issue	10 341 742	-	10 341 742
Hedge accounting adjustments related to fair value of hedged items	103 382	-	103 382
Liabilities held for sale	276 341	(184 548)	91 793
Other liabilities	1 349 654	(48 603)	1 301 051
Current income tax liabilities	1 969	(528)	1 441
Deferred income tax liabilities	9 785	(7 805)	1 980
Provisions	176 881	-	176 881
Subordinated liabilities	4 127 724	-	4 127 724
Total liabilities	**106 912 842**	**(48 647)**	**106 864 195**
Equity			
Equity attributable to Owners of mBank S.A.	**11 043 242**	(233 587)	**10 809 655**
Share capital:	**3 523 903**	**-**	**3 523 903**
- Registered share capital	168 840	-	168 840
- Share premium	3 355 063	-	3 355 063
Retained earnings:	**6 969 816**	**(233 587)**	**6 736 229**
- Profit from the previous years	5 683 148	(170 151)	5 512 997
- Profit for the current year	1 286 668	(63 436)	1 223 232
Other components of equity	**549 523**		**549 523**
Non-controlling interests	**29 738**	**(29 736)**	**2**
Total equity	**11 072 980**	**(263 325)**	**10 809 657**
TOTAL LIABILITIES AND EQUITY	**117 985 822**	**(311 970)**	**117 673 852**

Below the detailed structure of prudentially consolidated equity of mBank Group as at 31 December 2014 is presented.

Equity	
Equity attributable to Owners of mBank S.A.	**10 809 655**
Share capital:	**3 523 903**
- Registered share capital	168 840
- Share premium	3 355 063
Retained earnings:	**6 736 229**
- Other supplementary capital	4 334 618
- Other reserve capital	56 803
- General banking risk reserve	1 041 953
- Profit from the previous years	79 623
- Profit for the current year	1 223 232
Other components of equity	**549 523**
- Exchange differences on translation of foreign operations	(1 765)
- Valuation of available for sale financial assets	549 621
- Cash flow hedges	4 056
- Actuarial gains and losses relating to post-employment benefits	(2 389)
Non-controlling interests	**2**
Total equity	**10 809 657**

The prudentially consolidated profit & loss account for mBank Group as at 31 December 2014 presents net profit and net profit for shareholders amounting to 1 223 232 thousand PLN.

3. 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 two basic pillars:

- 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 capital 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.

4. Own funds

The consolidated own funds consist of Common Equity Tier 1 capital, Additional Tier 1 capital and Tier 2 capital. Detailed information on particular elements of consolidated own funds of mBank Group as at 31 December 2014 is presented in point 4.1. In point 4.2 the structure of consolidated own funds of mBank Group as at 31 December 2014 is presented.

4.1. Main information

COMMON EQUITY TIER 1 CAPITAL

Capital instruments and the related share premium accounts

The share capital, supplementary capital and reserve capital of mBank Group were included in Capital instruments and the related share premium accounts item as at 31 December 2014.

Capital instruments and the related share premium accounts	
Paid up capital	168 840
Supplementary capital from sales of shares over the nominal value	3 355 063
Other supplementary capital	4 334 618
Other reserve capitals	56 803
Total	**7 915 324**

Detailed information on share and supplementary capital is described in Explanatory Notes 38 and 39 of the Consolidated Financial Statements for 2014.

Retained earnings

In Retained earnings item the profit from the previous years of mBank Group as at 31 December 2014 in the amount of PLN 79 623 thousand were included. Detailed information regarding changes in equity is described in Explanatory Note 48 of the Consolidated Financial Statements for 2014.

Accumulated other comprehensive income

Unrealised gains and losses constitute mBank Group own capital as at 31 December 2014 in the amount of PLN 549 523 thousand were presented in Accumulated other comprehensive income item. The structure of accumulated other comprehensive income of mBank Group as at 31 December 2014 is described below.

Exchange differences from foreign units counting	-1 765
- unrealised gains	7 852
- unrealised losses	-9 617
- deferred tax	0
Instruments available for sale	549 621
- unrealized gains on debt instruments	506 206
- unrealised losses on debt instruments	-2 123
- unrealised gains on capital instruments	177 439
- unrealised losses on capital instruments	0
- deferred tax	-131 901
Cash flow security	4 056
- unrealised gains	5 008
- unrealised losses	0
- deferred tax	-952
Actuarial gains and losses on fringe benefits after employment period	-2 389
- actuarial gains	26
- actuarial losses	-2 975
- deferred tax	560
Total	**549 523**

Funds for general banking risk

mBank Group transfers some of its net profit to the funds for general banking risk to cover unexpected risks and future losses. The funds for general banking risk can be distributed only on consent of shareholders at a general meeting. As at 31 December 2014 the funds for general banking risk amounted to PLN 1 041 953 thousand.

Independently reviewed interim profits

Verified net profit for the 1st half of 2014, reduced by every foreseeable charges, of mBank Group prudentially consolidated was included in calculation of consolidated Common Equity Tier 1 capital as at 31 December 2014. The net profit of mBank Group for the 1st half of 2014 reduced by every foreseeable charges amounted to PLN 224 302 thousand. In accordance with the decision from 9 October 2014 mBank obtained a permission of PFSA to include the net profit of mBank Group to Common Equity Tier 1 capital in the amount of PLN 224 302 thousand.

REGULATORY ADJUSTMENTS / DEDUCTIONS FROM THE COMMON EQUITY TIER 1 CAPITAL

Additional value adjustments

In accordance with Article 34 of the CRR Regulation, additional value adjustments have been calculated to all assets measured at fair value in accordance with the requirements of Article 105 of the CRR Regulation and included in Common Equity Tier 1 capital of mBank Group as at 31 December 2014 in the amount of PLN 120 522 thousand.

Intangible assets

In accordance with Article 37 of the CRR Regulation, intangible assets reduced by the amount of associated deferred tax liabilities are included in Common Equity Tier 1 capital. The value included in Common Equity Tier 1 capital of mBank Group as at 31 December 2014 amounted to PLN 424 832 thousand.

Fair value gains and losses arising from the institution's own credit risk related to derivative liabilities

In accordance with Article 33(2) of the CRR Regulation, the fair value gains and losses arising from the institution's own credit risk related to derivative liabilities are not offset with those arising from its counterparty credit risk. As at 31 December 2014 the amount of PLN 3 777 thousand from fair value gains and losses was included in Common Equity Tier 1 capital of mBank Group.

Negative amount resulting from the calculation of expected loss amounts

mBank, being an institution calculating risk-weighted exposure amounts with the application of the AIRB approach, is obliged to include in calculation of own funds the negative amounts resulting from the calculation of expected loss amounts. According to Article 36 (1d), the negative amounts resulting from the calculation specified in Articles 158 and 159 of the CRR Regulation were included in consolidated Common Equity Tier 1 capital of mBank Group as at 31 December 2014 in the amount of PLN 288 660 thousand.

Direct and indirect holdings by an institution of own CET1 instruments

In direct and indirect holdings by an institution of own CET1 instruments item of consolidated Common Equity Tier 1 capital of mBank Group as at 31 December 2014 the synthetic holdings in the amount of PLN 1 012 thousand were included.

Net impairment losses

In net impairment losses item as at 31 December 2014 the net impairment losses on loans and advances for the period from 1 July 2014 to 31 December 2014 were included in the amount of PLN 270 556 thousand. An applied approach is compliant with the provisions of the Commission delegated Regulation (EU) No 183/2014 of 20 December 2013 supplementing the CRR Regulation with regard to regulatory technical standards for specifying the calculation of specific and general credit risk adjustments.

<u>Regulatory adjustments relating to unrealised gains and losses</u>

In accordance with Article 467 and 468 of the CRR Regulation and the PFSA recommendation, in 2014 institutions could include in Common Equity Tier 1 capital calculation the unrealised losses related to assets or liabilities measured at fair value in 80% of their value. Unrealised gains couldn’t be included in own funds calculation in 2014. Regulatory adjustments in the amount of PLN 559 059 thousand regarding unrealised gains and losses as at 31 December 2014 constitute adjustments item to the item Accumulated other comprehensive income, mentioned above.

ADDITIONAL TIER 1 CAPITAL

In mBank Group, items that could be treated as Additional Tier I capital are not identified.

TIER 2 CAPITAL

<u>Capital instruments and the related share premium accounts</u>

According to the decision of PFSA dated 12 August 2008 mBank obtained a written consent to include in Tier 2 capital the amount of CHF 90 000 thousand based on the agreement of a subordinated loan signed on 11 June 2008 between mBank and Commerzbank Aktiengesellschaft with maturity date on 24 June 2018. In accordance with the amortisation rules mentioned in Article 64 of the CRR Regulation, amount of PLN 222 058 thousand was included in Tier 2 capital as at 31 December 2014.

According to the decision dated 14 February 2014 mBank obtained a written consent to include in Tier 2 capital the amount of PLN 500 000 thousand constituting subordinated liabilities from the bonds issue dated 3 December 2013 with a nominal value of PLN 100,000 each and with 10 years maturity. The issue meet all the requirements of the CRR Regulation. As at 31 December 2014, the amount of PLN 500 000 thousand was included in Tier 2 capital.

As at 31 December 2014 the amount of PLN 722 058 thousand was included in consolidated Tier 2 capital in Capital instruments and the related share premium accounts item by virtue of above mentioned two tranches of capital instruments.

On 17 December 2014 mBank issued subordinated bonds with a nominal value of PLN 750 000 thousand with maturity date on 17 January 2025. mBank applied to the PFSA for approval to subject the financial liabilities in the amount of PLN 750 000 thousand obtained from the bonds issue into the Tier 2 capital and obtained the consent on 8 January 2015. However as at 31 December 2014 these bonds were not included in the Tier 2.

<u>Amount of qualifying items referred to in Article 484 (5) and the related share premium accounts subject to phase out from Tier 2 capital</u>

According to Article 484 (5) of the CRR Regulation, below mentioned subordinated liabilities can be 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. As at 31 December 2014 the amount of PLN 886 175 thousand was included in consolidated Tier 2 capital from the virtue of below mentioned three tranches of capital instruments with application of the rules of grandfathering and limits of grandfathering.

According to the decision No. 657 of 21 December 2006 mBank obtained a written consent of the Commission for Banking Supervision to include in Tier 2 capital the amount of CHF

80 000 thousand received from the bonds issue on 20 December 2006 with undefined maturity.

According to the decision No. 609 of 24 December 2007 mBank obtained a written consent of the Commission for Banking Supervision to include in Tier 2 capital the liability in the amount of CHF 170 000 thousand received from the bonds issue on 12 December 2007 with undefined maturity.

According to the decision of PFSA dated 1 July 2008 mBank obtained a written consent to include in Tier 2 capital the liability in the amount of CHF 90,000 thousand received from the bonds issue with undefined maturity based on the agreement signed on 11 June 2008 between mBank and Commerzbank Aktiengesellschaft. On 24 March 2014, the bonds in the amount of CHF 90,000 thousand was prepaid by mBank. The consent for the prepayment was obtained from PFSA.

The specifics of the above liabilities are described in Explanatory Note 31 of the Consolidated Financial Statements for 2014.

In accordance with the provisions of Commission Implementing Regulation (EU) No 1423/2013 of 20 December 2013 laying down implementing technical standards with regard to disclosure of own funds requirements for institutions according to the CRR Regulation (hereinafter referred to as Regulation No 1423/2013), the description of capital instruments' main features included in Tier 2 capital of mBank Group as at 31 December 2014 is presented on subsequent pages of the current document, prepared based on Appendix No 2 to the Regulation No 1423/2013.

TOTAL CAPITAL

In total capital item the amount of consolidated own funds of mBank Group as at 31 December 2014 was presented constituting the sum of consolidated Common Equity Tier 1 capital and consolidated Tier 2 capital. The consolidated own funds of mBank Group as at 31 December 2014 amounted to PLN 9 750 540 thousand.

Capital instruments' main features

Nr	Tranche	90mln CHF	80mln CHF	90mln CHF (repaid)	170mln CHF	500mln PLN
1	Issuer	mBank	mBank	mBank	mBank	mBank
2	Unique identifier (eg. CUSIP or Bloomberg identifier for private placement)	N/A	N/A	N/A	N/A	ISIN: PLBRE0005177 Series: BREO201223 BBGID: BBG005kWQ060
3	Governing law(s) of the instrument	German	English; Polish in terms of provisions relating to the subordinated status	English; Polish in terms of provisions relating to the subordinated status	English; Polish in terms of provisions relating to the subordinated status	Polish
	Regulatory treatment					
4	Transitional CRR rules	Tier 2 Article 63	Tier 2 Article 490 (5)	Tier 2 Article 484 (5)	Tier 2 Article 490 (5)	Tier 2 Article 63
5	Post-transitional CRR rules	Tier 2	Ineligible	Ineligible	Ineligible	Tier 2
6	Eligible at solo/(sub-)consolidated / solo & (sub-)consolidated	Solo and (Sub-) consolidated	Solo and (Sub-) consolidated	Solo and (Sub-) consolidated	Solo and (Sub-) consolidated	Solo and (Sub-) consolidated
7	Instrument type (types to be specified by each jurisdiction)	Loan „subordinated liabilities" – Polish Banking Act Art.127.3.2.b	Bond „subordinated bonds with undefined maturity"- Polish Banking Act Art.127.3.2.d	Bond „subordinated bonds with undefined maturity"- Polish Banking Act Art.127.3.2.d	Bond „subordinated bonds with undefined maturity"- Polish Banking Act Art.127.3.2.d	Bond „subordinated liabilities" – Polish Banking Act Art.127.3.2.b
8	Amount recognised in regulatory capital (currency in million, as of most recent reporting date)	PLN 222	PLN 886 PLN			PLN 500
9	Nominal amount of instrument	In issuance currency: CHF 90 million; in reporting currency: PLN 319 million	In issuance currency: CHF 80 million; in reporting currency: PLN 284 million	In issuance currency: CHF 90 million; in reporting currency: PLN 319 million	In issuance currency: CHF 170 million; in reporting currency: PLN 603 million	In issuance currency: PLN 500 million; in reporting currency: PLN 500 million
9a	Issue price	100,00%	100,00%	100,00%	100,00%	100,00%
9b	Redemption price	100,00%	100,00%	100,00%	100,00%	100,00%
10	Accounting classification	Liability – amortised cost	Liability – amortised cost	Liability – amortised cost	Liability – amortised cost	Liability – amortised cost
11	Original date of issue	24-06-2008	20-12-2006	24-06-2008	09-01-2008	03-12-2013
12	Perpetual or dated	Dated	Perpetual	Perpetual	Perpetual	Dated
13	Original maturity date	24-06-2018	No maturity	No maturity	No maturity	20-12-2023

14	Issuer call subject to prior supervisory approval	Yes	Yes	Yes	Yes	Yes
15	Optional call date, contingent call dates and redemption amount	1) 24-06-2013 Multiples of CHF 10M at price 100% 2) Redemption due to a regulatory event (PFSA consent required, notification of investors) at a price of 100%, at any Interest Payment Date	1) 20-12-2008 No minimum amount; at price100% 2) Redemption for tax reasons (PFSA consent required, notification of investors), at a price of 100%, at any Interest Payment Date. 3) Redemption due to a regulatory event (PFSA consent required, notification investors), at a price of 100%, at any Interest Payment Date	1) 24-06-2010 No minimum amount; at price100% 2) Redemption for tax reasons (PFSA consent required, notification of investors), at a price of 100%, at any Interest Payment Date. 3) Redemption due to a regulatory event (PFSA consent required, notification investors), at a price of 100%, at any Interest Payment Date	1) 09-01-2010 No minimum amount; at price100% 2) Redemption for tax reasons (PFSA consent required, notification of investors), at a price of 100%, at any Interest Payment Date. 3) Redemption due to a regulatory event (PFSA consent required, notification investors), at a price of 100%, at any Interest Payment Date	1) 20-12-2018 No minimum amount; at price100%; 2) Redemption due to a regulatory event (PFSA consent required, notification of investors) at a price of 100%, at any Interest Payment Date
16	Subsequent call dates, if applicable	1) Issuer has call option (PFSA consent required, notification of investors) at a price of 100% at any Interest Payment Date, after five years from the Issue Date 2) Redemption due to a regulatory event (PFSA consent required, notification of investors) at a price of 100%, at any Interest Payment Date	1) Issuer has call option (PFSA consent required, notification of investors), at a price of 100%, at any Interest Payment Date, after two years from the Issue Date 2) Redemption for tax reasons (PFSA consent required, notification of investors), at a price of 100%, at any Interest Payment Date. 3) Redemption due to a regulatory event (PFSA consent required, notification investors), at a price of 100%, at any Interest Payment Date	1) Issuer has call option (PFSA consent required, notification of investors), at a price of 100%, at any Interest Payment Date, after two years from the Issue Date 2) Redemption for tax reasons (PFSA consent required, notification of investors), at a price of 100%, at any Interest Payment Date. 3) Redemption due to a regulatory event (PFSA consent required, notification investors), at a price of 100%, at any Interest Payment Date	1) Issuer has call option (PFSA consent required, notification of investors), at a price of 100%, at any Interest Payment Date, after two years from the Issue Date 2) Redemption for tax reasons (PFSA consent required, notification of investors), at a price of 100%, at any Interest Payment Date. 3) Redemption due to a regulatory event (PFSA consent required, notification investors), at a price of 100%, at any Interest Payment Date	1) Redemption due to a regulatory event (PFSA consent required, notification of investors) at a price of 100%, at any Interest Payment Date
	Coupons / dividends					

17	Fixed or floating dividend/coupon	Floating	Floating	Floating	Floating	Floating
18	Coupon rate and any related index	CHF LIBOR 3M+2.5%	CHF LIBOR 3M+1.4%; after 10 years from Issue Date: CHF LIBOR 3M+3.4%	CHF LIBOR 3M+4.0%	CHF LIBOR 3M+2.2%; after 10 years from Issue Date: CHF LIBOR 3M+4.2%	WIBOR 6M+2.25%
19	Existence of a dividend stopper	No	Yes	Yes	Yes	No
20a	Fully discretionary or mandatory (in terms of timing)	Mandatory	Mandatory Please note: The Issuer does not have discretion over whether a coupon gets paid, but has some discretion of when it is paid (interest deferral)	Mandatory Please note: The Issuer does not have discretion over whether a coupon gets paid, but has some discretion of when it is paid (interest deferral)	Mandatory Please note: The Issuer does not have discretion over whether a coupon gets paid, but has some discretion of when it is paid (interest deferral)	Mandatory
20b	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory
21	Fully discretionary, partially discretionary or mandatory (in terms of amount)	No	Yes	No	Yes	No
22	Nonculmulative or cumulative	Noncumulative	Cumulative (possibility of interest deferral)	Cumulative (possibility of interest deferral)	Cumulative (possibility of interest deferral)	Noncumulative
23	Convertible or non-convertible	Nonconvertible	Nonconvertible	Nonconvertible	Nonconvertible	Nonconvertible
24	If convertible or non-convertible, conversion trigger(s)	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable
25	If convertible, fully or partially	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable
26	If convertible, conversion rate	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable
27	If convertible, mandatory or optional conversion	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable
28	If convertible, specify instrument type convertible into	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable
29	If convertible, specify issuer of instrument it converts info	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable
30	Write-down features	Not applicable	Yes	Yes	Yes	Not applicable
31	If write-down, write-down trigger(s)	Not applicable	Loss absorption	Loss absorption	Loss absorption	Not applicable
32	If write-down, full or partial	Not applicable	Fully or partially	Fully or partially	Fully or partially	Not applicable

33	If write-down, permanent or temporary	Not applicable	Temporary	Temporary	Temporary	Not applicable
34	If write-down, description of write-up mechanism	Not applicable	In the event the Issuer incurs Losses and following an appropriate resolution of the Ordinary Shareholders' Meeting of the Issuer, the Issuer shall allocate the principal of the Notes together with the Deferred Interest and Additional Interest Amount thereon to covering (coverage) such Losses (the "Sub-Debt Loss Allocation") provided that own funds in the funds in the form of undistributed profits for the last and previous financial years, reserve capitals other supplementary capital and other reserve capital and other reserves and its total paid up capital, have been previously allocated to cover such Losses. The Sub-Debt Loss Allocation shall be made as follow: (1) Deferred Interest and Additional Interest Amounts accrued but unpaid relating to the Notes shall be allocated in chronological order as they fell due. (2) If no Deferred Interest and Additional Interest Amount remain to be so allocated, principal of the Notes to be so allocated to cover the Losses as between Noteholders pro rata to the aggregate of the principal amounts then outstanding. The amounts of the principal of the Notes and, where appropriate, the Deferred Interest and Additional Interest Amount thereon allocated to covering the said Losses, may not be claimed by the Noteholders affected and thereon shall not give rise to any payment obligation from the Issuer to such Noteholders in respect of such amounts UNTIL the Ordinary Shareholders' Meeting of the Issuer approves the audited non-consolidated profit and loss account for any of its financial years following the date of covering the Losses and decides to allocated the Profits so that the Noteholders affected shall have the right to claim the amounts of the principal of the Notes and, where appropriate, the Deferred Interest and Additional Interest Amount thereon previously allocated to cover the Losses. The Sub-Debt Profit Allocation will only be carried out if, and to the extent, the core capital and other obligatory funds of the Issuer as required under the specific laws and regulations, have been previously restored to ensure the relevant CAR of the Issuer. If the Profit is insufficient to satisfy the full amounts of the principal of the Notes and where appropriate, the Deferred Interest and Additional Interest Amount thereon and all corresponding amounts due under Subordinated Profit Absorption Indebtedness, the total amount of principal and/or Deferred Interest and Additional Interest Amount payable in respect of the Notes on the basis of such Profit shall be such proportion of the amount to be paid under all Subordinated Profit Absorption Indebtedness which corresponds to the proportion which the aggregate principal amount of the Notes outstanding bears to the aggregate principal amount outstanding of all Subordinated Profit Absorption Indebtedness. For the avoidance of doubt, the amounts of the principal of the Notes and, where appropriate, the Deferred Interest and Additional Interest Amount thereon allocated to covering the Losses shall not bear interest in the period between such allocation and the Sub-Debt Profit Allocation. "Losses" in respect of any period means balance sheet losses, in detail annual net results after taxes including extraordinary items and changes in reserves, as derived from the audited non-consolidated profit and loss			Not applicable

			account approved by the Ordinary Shareholders' Meeting of the Issuer for such period (equivalent expressed in CHF of the Losses shall be determined using CHF/PLN fixing rate quoted by National Bank of Poland at 11AM (Warsaw time) on the date of the Ordinary Shareholders' Meeting, or if no such fixing quoted on that date, the spot rate quoted by the Calculation Agent. "Subordinated Profit Absorption Indebtedness" means any and all financing arrangements of the Issuer, including the Notes.			
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Senior Unsecured Bonds	Senior Unsecured Bonds	Senior Unsecured Bonds	Senior Unsecured Bonds	Senior Unsecured Bonds
36	Non-compliant transitional features	No	Yes	Yes	Yes	No
37	If yes, specify non-compliant features	Not applicable	Step-up, put option at any Interest Payment Date after the elapse of 5 years, Call option after only 2 years	Put option at any Interest Payment Date after the elapse of 5 years, Call option after only 2 years	Step-up, put option at any Interest Payment Date after the elapse of 5 years, Call option after only 2 years	Not applicable

4.2 Structure of consolidated own funds

In accordance with the provisions of Regulation No 1423/2013, the structure of own funds is presented below based on Appendix No 6 to the Regulation No 1423/2013.

Common Equity Tier 1 capital: instruments and reserves	Amount at disclosure date	Amounts subject to pre-CRR Regulation treatment or prescribed residual amount of CRR Regulation
Capital instruments and the related share premium accounts	7 915 324	0
Retained earnings	79 623	0
Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards)	549 523	0
Funds for general banking risk	1 041 953	0
Amount of qualifying items referred to in Article 484 (3) and the related share premium accounts subject to phase out from CET1	0	0
Public sector capital injections grandfathered until 1 January 2018	0	0
Minority Interests (amount allowed in consolidated CET1)	0	0
Independently reviewed interim profits net of any foreseeable charge or dividend	224 302	0
Common Equity Tier 1 (CET1) capital before regulatory adjustments	**9 810 725**	**0**
Common Equity Tier 1 capital: regulatory adjustments		
Additional value adjustment	-120 522	0
Intangible assets (net related tax liability)	-424 832	0
Fair value gains and losses arising from the institution's own credit risk related to derivative liabilities	-3 777	0
Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability where the conditions in Article 38 (3) are met)	0	0
Fair value reserves related to gains or losses of expected loss amounts	0	0
Negative amount resulting from the calculation of expected loss amounts	-288 660	0
Any increase in equity that results from securitised assets	0	0
Gains or losses on liabilities valued at fair values resulting from changes in own credit standing	0	0
Defined-benefit pension fund assets	0	0
Direct and indirect holdings by an institution of own CET1 instruments	-1 012	0

Holdings of the CET1 instruments of financial sector entities where those entities have reciprocal cross holding with the institution designed to inflate artificially the own funds of the institution	0	0
Direct and indirect holdings by an institution of own CET1 instruments of financial sector entities where the institution does not have a significant investment in these entities (amount above the 10% threshold and net of eligible short positions)	0	0
Direct, indirect and synthetic holding by the institution of CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above the 10% threshold and net of eligible short positions)	0	0
Exposure amount of the following items which qualify for a RW of 1250%, where the institution opts for the deduction alternative	0	0
Deferred tax assets arising for temporary differences (amount above 10% threshold, net of related tax liability where the conditions in 38 (3) are met)	0	0
Amount exceeding the 15% threshold	0	0
Net impairment losses	-270 556	0
Losses for the current financial year	0	0
Foreseeable tax charges relating to CET1 items	0	0
Regulatory adjustments applied to Common Equity Tier 1 in respect of amounts subject to pre-CRR treatment	0	0
Regulatory adjustments relating to unrealised gains and losses pursuant to Article 467 and 468 of the CRR Regulation	-559 059	0
Of which: filter for unrealised loss related to assets or liabilities measured at fair value	2 384	0
Of which: filter for unrealised gain related to assets or liabilities measured at fair value	-561 443	0
Amount to be deducted from of added to Common Equity Tier 1 capital with regard to additional filters and deductions required pre CRR	0	0
Qualifying AT1 deductions that exceed the AT1 capital of the institution	0	0
Total regulatory adjustments to Common equity Tier 1	**-1 668 418**	**0**
Common Equity Tier 1 capital	**8 142 307**	**0**
Additional Tier 1 capital: instruments		
Capital instruments and the related share premium accounts	0	0
Amount of qualifying items referred to in Article 484 (4) and the related share premium accounts subject to phase out from AT1	0	0
Public sector capital injections grandfathered until 1 January 2018	0	0
Qualifying Tier 1 capital included in consolidated AT1 capital (including minority interests not included in other items regarding Additional Tier 1 capital) issued by subsidiaries and held by third parties	0	0
Capital instruments and the related share premium accounts	0	0

Additional Tier 1 capital: regulatory adjustments		0
Direct and indirect holding by an institution of own AT1 Instruments	0	0
Holdings of the AT1 instruments of financial sector entities where those entities have reciprocal cross holding with the institution designed to inflate artificially the own funds of the institution	0	0
Direct and indirect holdings of the AT1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above the 10% threshold and net of eligible short positions)	0	0
Direct and indirect holdings by the institution of the AT1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above the 10% threshold net of eligible short positions)	0	0
Regulatory adjustment applied to additional tier 1 in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in CRR Regulation (i.e. CRR residual amounts)	0	0
Residual amounts deducted from Additional Tier 1 capital with regard to deduction from Common Equity Tier 1 capital during the transitional period pursuant to article 472 of CRR Regulation	0	0
Residual amounts deducted from Additional Tier 1 capital with regard to deduction from Tier 2 capital during the transitional period pursuant to article 472 of CRR Regulation	0	0
Amount to be deducted from of added to Additional Tier 1 capital with regard to additional filters and deductions required pre- CRR	0	0
Qualifying T2 deductions that exceed the T2 capital of the institution	0	0
Total regulatory adjustments to Additional Tier 1 capital	**0**	**0**
Additional Tier 1 capital	**0**	**0**
Tier 1 capital (CET1 + AT1)	**8 142 307**	**0**
Tier 2 capital: instruments and provisions		
Capital instruments and the related share premium accounts	722 058	0
Amount of qualifying items referred to in Article 484 (5) and the related share premium accounts subject to phase out from T2	886 175	0
Public sector capital injections grandfathered until 1 January 2018	0	0
Qualifying own funds instruments included in consolidate T2 capital (including minority interests and AT1 instruments not included in other items regarding Tier 2 capital) issued by subsidiary and held by third parties	0	0
Credit risk adjustments	0	0
Tier 2 capital before regulatory adjustments	**1 608 233**	**0**

Tier 2 capital: regulatory adjustments		
Direct and indirect holdings by an institution of own T2 instruments and subordinated loans	0	0
Holdings of the T2 instruments and subordinated loans of financial sector entities where those entities have reciprocal cross holding with the institution designed to inflate artificially the own funds of the institution	0	0
Direct and indirect holdings of the T2 instruments and subordinated loans of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions)	0	0
Direct and indirect holdings by the institution of own T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions)	0	0
Regulatory adjustments applied to tier 2 in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in CRR Regulation (i.e. CRR residual amounts)	0	0
Residual amounts deducted from Tier 2 capital with regard to deduction from Common Equity Tier 1 capital during the transitional period pursuant to article 472 of CRR Regulation	0	0
Residual amounts deducted Tier 2 capital with regard to deduction from Additional Tier 1 capital during the transitional period pursuant to article 474 of CRR Regulation	0	0
Amount to be deducted from or added to Tier 2 capital with regard to additional filters and deductions required pre CRR	0	0
Total regulatory adjustments to Tier 2 capital	**0**	**0**
Tier 2 capital	**1 608 233**	**0**
Total capital (T1 + T2)	**9 750 540**	**0**
Risk weighted assets in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in CRR Regulation (i.e. CRR residual amounts)	0	0
Total risk weighted assets	**66 499 897**	**0**
Capital ratios and buffers		
Common Equity Tier 1 (as a percentage of risk exposure amount)	**12.24%**	**0**
Tier 1 (as a percentage of risk exposure amount)	**12.24%**	**0**
Total capital (as a percentage of risk exposure amount)	**14.66%**	**0**

Institution specific buffer requirement (CET1 requirement in accordance with article 92 (1) (a) plus capital conservation and countercyclical buffer requirements, plus systematic risk buffer, plus the systemically important institution buffer (G-SLL or O-Sll buffer), expressed as a percentage of risk exposure amount)	0	0
of which: capital conservation buffer requirement	0	0
of which: countercyclical buffer requirement	0	0
of which: systemic risk buffer requirement	0	0
of which: Global Systemically Important Institution (G-SII) or Other System Important Institution (O-SII) buffer	0	0
Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	0	0
Capital ratios and buffers		
Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	0	0
Direct and indirect holdings by an institution of the CET1 instruments of financial sector entities where the institution have a significant investment in these entities (amount below 10% threshold and net of eligible short positions)	75 331	0
Deferred tax assets arising for temporary differences (amount below 10% threshold, net off related tax liability where the conditions in Article 38 (3) are met)	268 691	0
Applicable caps on the inclusion of provisions in Tier 2		
Credit risk adjustments included in T2 in respect of exposures subject to standardized approach (prior to the application of the cap)	0	0
Cap on inclusion of credit risk adjustment in T2 under standardised approach	0	0
Credit risk adjustments included in T2 in respect of exposures subject to internal ratings-based approach (prior to the application of the cap)	0	0
Cap on inclusion of credit risk adjustment in T2 under internal ratings-based approach	0	0
Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2013 and Jan 2022)		
Current cap on CET1 instruments subject to phase out arrangements	0	0
Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	0	0
Current cap on AT1 instruments subject to phase out arrangements	0	0
Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	0	0
Current cap on T2 instruments subject to phase out arrangements	921 210	0
Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	0	0

5. Capital requirements

5.1. Assessment of adequacy of internal capital – description of the approach

On 4 July 2012 PFSA and Bundesanstalt fur Finanzdienstleistungsaufsicht (BaFin) granted consent to the application of the advanced internal rating based approach (AIRB approach) by mBank to the calculation of the capital requirement for credit risk for the corporate portfolio and the retail mortgage loan portfolio. Additionally, on 27 August 2012 BaFin in cooperation with PFSA granted consent to the application of internal rating based approach concerning the risk weighting for specialized lending exposures (IRB slotting approach) by mBank Hipoteczny SA (hereinafter referred to as the mBH) to the calculation of the capital requirement for credit risk.

On 7 March 2014 mBank SA received conditional consent of the PFSA to the application of AIRB approach to the calculation of the capital requirement for credit risk for the specialized lending exposures - income producing real estate. At the same time mLeasing received the consent of the PFSA to the application of the AIRB approach to the calculation of capital requirement for credit risk. On 28 April 2014 mBank SA applied for a consent to use AIRB approach for retail mortgage loan portfolio (micro companies) and on 1 July 2014 mBank applied for a consent to use AIRB approach for the portfolio of banks. On 4 November 2014 mBank SA received conditional consent of the PFSA to use AIRB approach to the calculation of capital requirement for credit risk with respect to non-mortgage retail exposures.

Within the AIRB Roll-out plan, mBank plans to provide PFSA with the motion concerning specialized lending portfolio – commodities, objects and projects. This portfolio is planned to be included in the AIRB method starting from 2017.

In 2014 in the calculation of the total capital ratio of mBank Group as of 31 December 2014 total risk exposure amount took account of the risk weighted exposure amount for credit risk determined under the AIRB approach pursuant to provisions of CRR and also of the 80% of comparative total risk exposure amount calculated taking account of the risk weighted exposure amount for credit risk determined under the standardised approach (i.e. regulatory floor), according to provisions of CRR Regulation.

5.2. Results of the internal capital adequacy assessment

mBank Group adjusts the own funds to the level and type of risk, mBank Group is exposed to and to the nature, the scale and the complexity of its operations. For that purpose Internal Capital Adequacy Assessment Process (ICAAP) is realized in 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 mBank Group's operations.

Internal capital is the amount of capital estimated by mBank and required to cover all material risks identified in mBank Group's operations. Internal capital is the total sum of the economic capital to cover risks included in economic capital calculation and capital necessary to cover other risks (including hard to quantify risks).

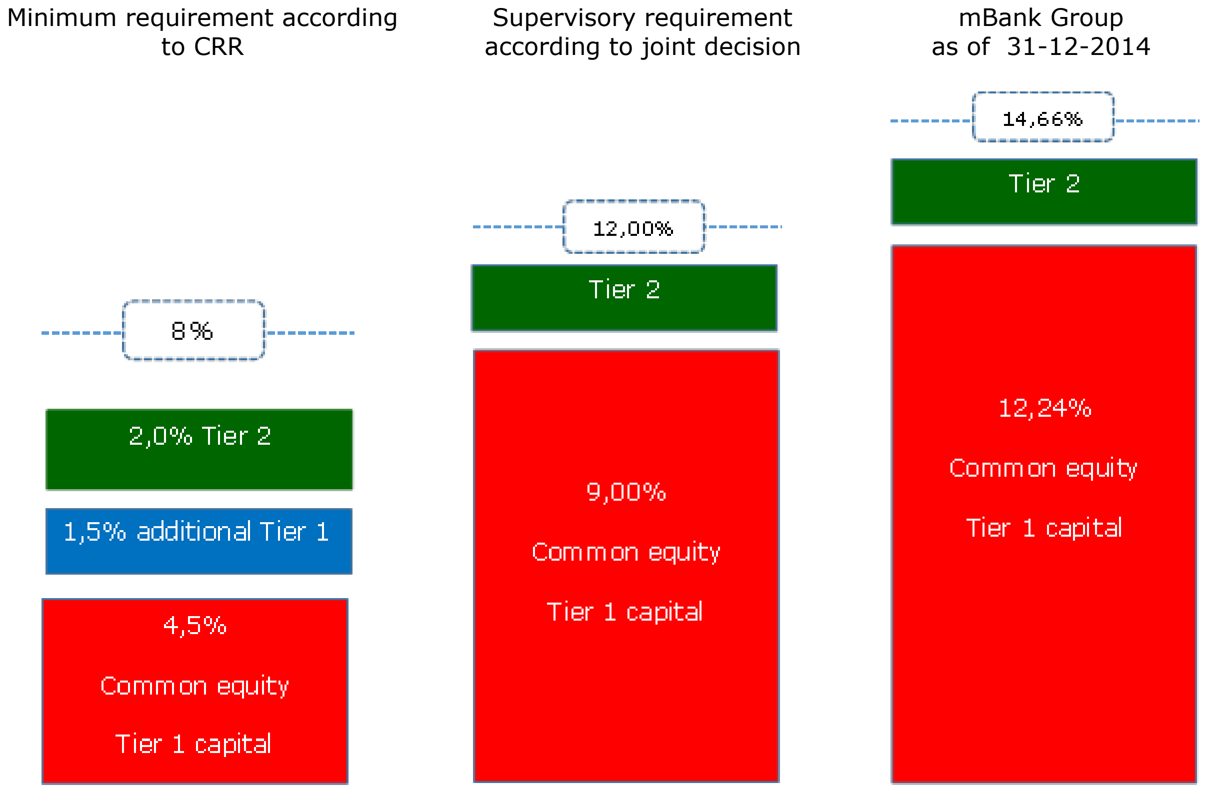
In 2014 mBank calculated the economic capital at the 99.91% confidence level over a one-year time horizon, for all risk types. Diversification between different risks was not included while calculating total economic capital.

The internal capital adequacy assessment process is continuous in mBank Group and is composed of six stages implemented by organizational units of mBank and mBank Group subsidiaries. The process includes:

- risk inventory in mBank Group,
- calculation 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 the business of mBank Group and the analysis of the level of capital for risk coverage.

In order to assess the adequacy of internal capital Bank calculates risk coverage potential (RCP), i.e. economic own funds. Having estimated internal capital as well as RCP both under normal and under stressed conditions Bank determines risk absorbance capacity and limits for economic capital for particular risks is determined.

The internal capital adequacy assessment process is accepted by the Supervisory Board of mBank. The whole internal capital adequacy assessment process is reviewed annually. The Management Board of mBank is responsible for the internal capital adequacy assessment process in mBank Group.



mBank Group maintains capital ratios above the minimum levels resulting from provisions of CRR Regulation as well as above the levels required by the bank supervision (total capital ratio – 12%, common equity Tier 1 capital ratio – 9%).

The Management Board of the Bank decided to maintain capital ratios above the levels required by bank supervision. Additional capital buffers are maintained, which address the key risk concentrations resulting from e.g. rapid changes of risk factors that have significant impact on Group's risk level. The capital 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 are calculated on the basis of total risk exposure amount that corresponds to the sum of risk exposure amounts for particular risk types that are calculated according to provisions of CRR Regulation.

5.3. Quantitative data regarding capital adequacy

Total risk exposure amount of mBank Group consists of:

- risk weighted exposure amount for credit risk, counterparty credit risk, dilution risk and free deliveries calculated under AIRB approach as regards the large part of the credit exposures portfolio,
- risk exposure amount for market risk, including position risk, foreign exchange risk and commodities risk calculated under standardised approaches,
- risk exposure amounts for operational risk calculated under standardised approach,
- risk exposure amount for credit valuation adjustments, calculated under standardised approach,
- other risk exposure amounts including regulatory and supervisory floors.

(in PLN thousand)

	2014*		2013**	
	Risk exposure amount	Own funds requirement	Risk exposure amount	Own funds requirement
TOTAL	66 499 897	5 319 992	58 822 325	4 705 786
for credit, counterparty credit	56 601 711	4 528 137	51 714 063	4 137 125
under AIRB approach	43 613 901	3 489 112	30 256 351	2 420 508
under standardised approach	12 987 810	1 039 025	21 457 712	1 716 617
for market risk (standardised approach), including:	1 002 192	80 176	856 387	68 511
Foreign exchange risk	0	0	0	0
Commodities risk	371	30	0	0
Position risk	1 001 821	80 146	856 387	68 511
for operational risk (standardised approach)	6 413 869	513 110	6 055 263	484 421
for credit valuation adjustment risk (standardised approach)	266 809	21 345		
for large exposures in the trading book	0	0	0	0
other (floor)	2 215 316	177 225	196 612	15 729
Total capital ratio	**14.66%**		**19.38%**	
Common equity tier 1 capital ratio	**12.24%**			
Tier 1 capital ratio	**12.24%**		**14.21%**	

*according with CRR Regulation provisions
** according with provisions of PFSA Resolution No. 76/2010

In 2014 mBank Group obtained consent to the application of the advanced internal rating based approach (AIRB approach) to the calculation of own funds requirement for credit risk for further credit portfolios. As a result the coverage of the credit portfolio by AIRB approach rose to 82% as of the end of 2014. As of December 31st 2014 AIRB approach was applied to the calculation of own funds requirement for credit risk for the following portfolios:

- mBank corporate portfolio,
- mBank retail mortgage loan portfolio,
- mBank real estate-related specialized lending exposures (IRB slotting approach),
- mBank retail non-mortgage exposures (conditional consent),
- mLeasing credit exposures (conditional consent),
- mBank Hipoteczny specialized lending exposures (IRB slotting approach).

In the case of portfolios with conditional consent to the application of AIRB approach mBank Group applies supervisory floor. It means that where 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 calculated under the standardised approach.

With regard to conditional consent to the application of the advanced internal rating based approach (AIRB approach) to the calculation of own funds requirement for credit risk for mLeasing credit exposures, high significance conditions determined by the bank supervision have been met, awaiting formal confirmation by the bank supervision. In case of mBank retail non-mortgage exposures Bank is obliged to include the supervisory floor in its calculations till high significance conditions are met, that is before October 31st 2015. Fulfilment of the conditions has to be confirmed by the bank supervision.

Simultaneously mBank Group applies regulatory floor when calculating consolidated total risk exposure amount and capital ratios as of December 31st 2014 in order to comply with CRR Regulation provisions. It means that when total risk exposure amount (AIRB driven) is lower than 80% of the comparable total risk exposure amount (standardised driven), the Bank includes the difference in the calculation.

Detailed segmentation regarding risk weighted exposure amount and own funds requirement for credit and credit counterparty risk for each approach used (in PLN thousand)

in thousand PLN

	December 31, 2014*						December 31, 2013**					
	Gross exposure	**Net exposure**	**Total exposure covered by guarantees**	**Total exposure covered by eligible financial collateral and other eligible collateral*** **	**Risk weighted exposure amount**	**Own funds requirement**	**Gross exposure**	**Net exposure**	**Total exposure covered by guarantees**	**Total exposure covered by eligible financial collateral and other eligible collateral*** **	**Risk weighted exposure amount**	**Own funds requirement**
Credit and counterparty credit risk	**143 800 387**	**143 211 571**	**2 075 489**	**10 535 257**	**56 601 711**	**4 528 137**	**135 298 273**	**134 160 833**	**2 252 600**	**11 947 661**	**51 714 063**	**4 137 125**
AIRB approach	**79 675 553**	**79 675 553**	**1 380 707**	**180 990**	**43 613 901**	**3 489 112**	**58 803 914**	**58 803 914**	**1 497 034**	**216 764**	**30 256 351**	**2 420 508**
Corporates - SME	7 084 639	7 084 639	374 436	119 811	4 325 250	346 020	10 728 620	10 728 620	944 222	202 215	8 065 590	645 246
Corporates - Specialised Lending	7 102 046	7 102 046	0	0	4 998 130	399 851	3 841 678	3 841 678	0	0	2 338 277	187 062
Corporates - Other	20 488 314	20 488 314	1 006 271	60 965	15 020 128	1 201 610	11 632 091	11 632 091	552 812	14 549	7 932 618	634 609
Retail - Secured by real estate SME	0	0	0	0	0	0	0	0	0	0	0	0
Retail - Secured by real estate non-SME	27 512 670	27 512 670	0	0	9 031 991	722 559	27 059 170	27 059 170	0	0	9 411 574	752 925
Retail - Other SME	4 887 383	4 887 383	0	214	2 148 907	171 913	0	0	0	0	0	0
Retail - Other non-SME	9 644 211	9 644 211	0	0	5 154 740	412 379	0	0	0	0	0	0
Other non credit-obligation assets	2 956 290	2 956 290	0	0	2 934 755	234 780	5 542 355	5 542 355	0	0	2 508 292	200 666
Standardised Approach	**64 124 834**	**63 536 018**	**694 782**	**10 354 267**	**12 987 810**	**1 039 025**	**76 494 359**	**75 356 919**	**755 566**	**11 730 897**	**21 457 712**	**1 716 617**
Central governments or central banks	29 486 417	29 486 416	0	0	53 237	4 259	25 720 845	25 720 845	0	0	71 473	5 718
Regional governments or local authorities	1 668 709	1 667 466	0	0	387 325	30 986	1 874 745	1 874 256	0	0	437 107	34 969
Public sector entities	142 623	142 284	60 889	700	39 287	3 143	136 171	135 909	75 202	816	31 425	2 514

Institutions	8 535 075	8 533 222	1 103	2 755 019	1 595 957	127 676	9 682 339	9 681 557	29 026	4 221 997	1 136 852	90 948
Corporates	14 719 953	14 702 970	296 078	7 598 431	5 118 708	409 497	16 686 547	16 619 892	332 791	7 507 319	7 090 542	567 243
Retail	1 976 039	1 959 435	56 019	0	1 080 009	86 401	13 594 924	13 376 951	21 709	766	7 274 961	581 997
Secured by mortgages on immovable property	5 764 829	5 751 259	0	0	3 555 432	284 434	6 024 301	5 977 592	0	0	4 286 870	342 950
Exposures in default,	1 171 039	673 922	265 051	117	444 814	35 585	1 816 066	1 022 934	280 604	0	838 460	67 077
High risk exposures	29 426	29 183	15 642	0	15 695	1 256	53 604	53 091	16 234	0	55 285	4 423
Equities	587 452	546 589	0	0	654 245	52 340	0	0	0	0		
Other items	43 272	43 272	0	0	43 101	3 448	904 817	893 892	0	0	234 737	18 778

* according with CRR Regulation provisions
** according with provisions of PFSA Resolution No. 76/2010
*** after the application of volatility adjustments

Breakdown of AIRB retail exposures by credit quality grade as of 31 December 2014 (in PLN thousand)

mBank rating	S & P			Gross exposure	Of which: off balance sheet exposures	Exposure weighted average LGD	Exposure weighted average PD	Exposure weighted average risk weight	Risk weighted exposure amount
1,2	AAA	AAA	Investment grade	344 961	10 211	26,09%	0,03%	2,56%	8 734
1,4	AA+	AA		395 258	9 471	29,04%	0,03%	2,85%	11 175
1,6	AA, AA-			710 627	24 328	29,60%	0,04%	3,51%	24 553
1,8	A+, A	A		1 367 428	60 692	29,49%	0,07%	5,57%	74 679
2	A-			4 065 030	109 685	28,72%	0,11%	7,85%	315 614
2,2	BBB+	BBB		5 704 900	461 816	30,23%	0,18%	11,70%	650 317
2,4	BBB			6 158 467	1 087 696	33,00%	0,25%	16,61%	963 699
2,6				4 976 385	877 537	33,70%	0,38%	22,63%	1 054 129
2,8	BBB-			4 017 276	828 925	35,67%	0,56%	30,16%	1 104 026
3	BB+	BB	Non-investment grade	2 255 874	442 993	38,74%	0,80%	39,73%	809 090
3,2	BB			1 705 224	318 536	39,67%	1,14%	47,77%	740 765
3,4				1 378 730	207 481	39,94%	1,55%	54,31%	685 776
3,6	BB-			1 087 855	113 620	38,68%	2,11%	60,71%	616 085
3,8	B+	B		832 650	81 455	40,22%	2,72%	65,35%	505 392
4				826 977	57 001	38,95%	3,53%	71,36%	552 166
4,2	B			613 810	74 343	40,78%	4,35%	74,97%	424 017
4,4				549 893	34 580	39,86%	5,39%	80,44%	416 978
4,6				428 669	22 219	37,94%	6,71%	82,92%	334 218
4,8	B-			331 009	11 620	34,38%	8,40%	92,45%	294 290
5				290 397	7 937	33,67%	10,47%	100,81%	282 926
5,2	CCC+	CCC		327 496	8 426	36,84%	12,89%	114,60%	356 908
5,4				302 591	5 547	32,96%	16,18%	132,22%	391 034

5,6	CCC bis CC-			238 827	4 027	32,77%	20,28%	149,46%	350 690
5,8				587 504	8 183	34,82%	32,47%	157,84%	908 138
6	C, D-I, D-II	DEFAULT	DEFAULT	2 546 426	26 273	57,05%	100,00%	175,42%	4 460 239
RAZEM				**42 044 264**	**4 894 602**	**35,29%**	**7,89%**	**41,03%**	**16 335 638**

Breakdown of AIRB corporate exposures by credit quality grade as of 31 December 2014 (in PLN thousand)

mBank rating	S & P			Gross exposure	Of which: off balance sheet exposures	Exposure weighted average LGD	Exposure weighted average PD	Exposure weighted average risk weight	Risk weighted exposure amount
1,4	AA+	AA	Investment grade	239 609	182 189	38,51%	0,03%	10,20%	9 657
1,6	AA, AA-	AA	Investment grade	249 075	49 533	54,78%	0,04%	26,98%	58 742
1,8	A+, A	A	Investment grade	108 170	59 076	49,87%	0,06%	17,75%	15 392
2	A-	A	Investment grade	153 910	106 446	37,88%	0,11%	19,15%	16 547
2,2	BBB+	BBB	Investment grade	1 250 994	920 570	46,82%	0,18%	38,64%	278 920
2,4	BBB	BBB	Investment grade	664 600	434 063	49,13%	0,25%	50,82%	222 861
2,6	BBB	BBB	Investment grade	3 581 823	1 674 294	47,97%	0,39%	64,73%	1 726 243
2,8	BBB-	BBB	Investment grade	3 438 658	1 975 503	48,29%	0,56%	72,44%	1 580 860
3	BB+	BB	non-investment rating	2 020 475	933 070	45,49%	0,82%	79,87%	1 336 419
3,2	BB	BB	non-investment rating	2 431 611	1 008 386	45,06%	1,17%	99,19%	1 903 609
3,4	BB	BB	non-investment rating	4 967 519	1 817 014	45,71%	1,49%	105,03%	4 312 915
3,6	BB-	BB	non-investment rating	3 115 067	929 694	40,66%	2,13%	100,60%	2 738 918
3,8	B+	B	non-investment rating	1 819 525	712 212	43,36%	2,68%	111,44%	1 574 381
4	B+	B	non-investment rating	681 004	176 807	39,14%	3,54%	109,05%	634 584
4,2	B	B	non-investment rating	576 282	165 916	36,42%	4,34%	104,14%	492 710
4,4	B	B	non-investment rating	271 787	59 445	32,98%	5,35%	101,09%	243 928
4,6	B	B	non-investment rating	190 208	50 194	32,84%	6,77%	109,15%	182 097
4,8	B-	B	non-investment rating	133 289	36 026	32,30%	8,33%	119,58%	129 751
5	B-	B	non-investment rating	162 694	27 440	18,22%	10,94%	70,33%	94 743
5,2	CCC+	CCC	non-investment rating	63 615	18 569	19,57%	12,91%	86,47%	40 661
5,4	CCC+	CCC	non-investment rating	73 539	28 981	20,41%	16,18%	93,79%	51 633
5,6	CCC bis CC-	CCC	non-investment rating	21 936	7 997	13,80%	19,54%	64,91%	10 723

5,8				136 434	51 023	20,55%	40,62%	109,59%	123 653
6	C, D-I, D-II	DEFAULT	DEFAULT	1 221 129	85 344	68,22%	100,00%	132,42%	1 565 431
RAZEM				**27 572 953**	**11 509 792**	**45,53%**	**7,08%**	**90,13%**	**19 345 378**

Breakdown of AIRB specialised lending exposures under slotting approach by risk category as of 31 December 2014 (in PLN thousand)

Risk category	Gross exposure	Of which: off balance sheet exposures	Risk weighted exposure amount	Average risk weight
1	71 127	11 200	42 120	68,87%
2	5 694 935	1 158 404	4 041 142	87,65%
3	849 576	86 503	886 014	115,00%
4	11 542	0	28 854	250,00%
5*	474 867	8 138	0	0,00%
Total	**7 102 046**	**1 264 245**	**4 998 130**	**84,44%**

*exposures in default

6. Capital buffers

As at the date of preparing this report the CRR Regulation requirements regarding capital buffers did not concern mBank Group due to lack of detailed rules in this matter.

7. Leverage ratio

In 2014 mBank Group calculates leverage ratio according to CRR Regulation provisions. The purpose of the introduction of the supplementary measure depicting relation between Tier 1 capital and exposure measure for balance and off balance sheet exposures by the regulators was to reduce excessive and unsustainable debt of credit institutions that may be inadequate to capital base in place. In the coming years the binding level of the leverage ratio shall be determined to be met by credit institutions.

Exposures of mBank Group as at 31 December 2014 (in PLN thousand)

Exposure value, of which:	**128 154 434**
SFT exposure according to CRR 220	268 709
SFT exposure according to CRR 220	0
Derivatives: Market value	899 451
Derivatives: Add-on Mark-to-Market Method	800 727
Derivatives: Original Exposure Method	0
Undrawn credit facilities, which may be cancelled unconditionally at any time without notice	155 405
Medium/ low risk trade related off-balance sheet items	309 373
Medium risk trade related off-balance sheet items and officially supported export finance related off-balance sheet items	36 788
Other off-balance sheet items	20 247 669
Other assets	105 436 312
Capital and regulatory adjustments	
Tier 1 capital - transitional definition	8 142 307
Amount to be added due to CRR 429 (4), 2nd subparagraph - transitional definition	0
Regulatory adjustments regarding own credit risk	0
Regulatory adjustments - Tier 1 - transitional definition	-1 118 895
Leverage ratio	
Leverage Ratio - using a transitional definition of Tier 1	6,41%

The leverage ratio is constantly monitored. On monthly basis mBank prepares report "Capital Management in mBank Group – Effectiveness of allocated capital" presenting view on early warning indicators herein as well as monitoring of the leverage ratio and covering development of economic capital and regulatory capital together with view on effectiveness of capital usage by particular business lines. This report is passed to the Capital Management Committee as well as to the Management Board of mBank.

mBank conducts continuous monitoring and makes short- and mid-term forecasts in respect of capital adequacy development as an "early warning system" in the capital management process. The "early warning system" is a comprehensive tool composed of minimum internal requirements and triggers designed in order to assure fulfilment of both regulatory minimum requirement as well as indicated internally strategic targets on specific capital ratios. The purpose of an early warning system is to ensure awareness in the institution for an evolving capital constrain. In case of breach of any specified trigger, the Group is ready for initiating a number of steps aimed at reinstating the capital ratios at the level regarded as acceptable by mBank Group.

8. Credit risk mitigation techniques

8.1. Collateral valuation and management

The policies and processes for on- and off-balance sheet netting

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.

The main types of guarantor and credit derivative counterparty and their creditworthiness

As at 31 December 2014 mBank Group did not hold credit derivatives.

Collateral

Retail

mBank mitigates the credit risk of the retail portfolio i.a. by requesting legal collaterals for granted loans. In the case of property-secured transactions, major components of the collateral policy include maximum admissible levels of LtV (Loan to Value – the ratio of loan amount to value of property used as collateral) and the rules of accepting collaterals.

<u>Retail properties</u>

When drafting the LtV policy for mortgage loans, mBank adheres to Recommendation S, which is a set of good practices in the field of mortgage-secured retail credit exposure risk management. In the case of commercial real properties, due to lower liquidity of the collateral, mBank takes on a more prudent approach in terms of admissible LtV values than the one that is required by the regulator.

mBank carries out a careful selection of real properties which may serve as collateral. Within the analysis of a credit application, a liquidity assessment of a local real property market and of the nature of a real property (typical, non-typical) is conducted – that is aimed at ensuring the assumed effectiveness of recovery from the collateral accepted.

Prior to taking a credit decision, mBank in each case determines the value of the real property accepted as collateral. In the case of typical real properties and when the loan amount does not exceed the determined thresholds, such a valuation is effected by an internal unit of mBank based on average prices of real properties of that sort situated in the same location. In the remaining cases, customer is required to present an up-to-date valuation of the real property in the form of a valuation survey drawn up by the expert approved by mBank.

mBank, on a periodic basis, monitors the value and quality of collaterals within mortgage loan portfolio. In this process, mBank makes an individual revaluation of a chosen group of real properties, selected based on the criteria taking into account: stress test results, analysis of prices changes on the real property market, reasons for impairment that were determined, LTV ratio.

Vehicles

In the car loan segment, mBank mitigates credit risk by the own contribution policy. When determining the collateral portfolio structure, mBank diversifies requirements related to own contribution depending on the age of the vehicle and its value. The approved minimum required levels of own contribution take account of loss of vehicle's value during the lending period and the possibility of selling it in the case of enforcement. Through the own contribution policy, mBank also promotes shorter lending periods. Thanks to faster principal amortisation, it ensures better LtV ratio during the lending period.

Requirements regarding the collateral valuation are dependent on the type of the financed vehicle.

In the case of new vehicles purchased from an authorised dealer, a credit analyst accepts the vehicle value based on the invoice.

In the case of used vehicles, mBank's analyst makes a valuation of the vehicle based on a market value catalogue of vehicles, or accepts the value indicated on the motor hull insurance (AC) delivered by the customer, which includes a value verified by the insurance company.

In the case where a specific vehicle model is not included in the catalogue, the analyst may require that the customer submits a valuation made by an authorised expert approved by mBank. The same approach is also used in the case of doubts related to the value or the technical condition of a vehicle.

Insurance

In the case of bridging insurance (used as interim collateral up until the moment when the mortgage is registered) the value of the real property that constitutes a target collateral for the loan is accepted as the value of collateral.

Corporates

The credit risk taken by mBank when granting credit products to clients may be mitigated by collateral. The types of collateral accepted by mBank and rules for establishing collateral are set out in detailed internal instructions of mBank. The rules for credit collateral evaluation and collateral management are set out in the policies and procedures applicable at mBank. mBank's collateral policy is based on the assumption that mBank's decision to grant a credit product entails an effort to obtain collateral of the highest quality and value adequate to the scale of risk taken. The collateral value should be correlated not only with the borrower's creditworthiness, but also with the amount of the product posing credit risk and the risk level arising from the specific qualities of the credit product. Under justified circumstances, mBank may refrain from asking for collateral.

Collateral provides protection in accordance with the terms discussed in "Main types of collateral". Moreover, in the case of personal collateral (e.g. surety, guarantee) the standing and reliability of the collateral provider is evaluated using the standards applicable to the assessment of borrowers. The value of fixed assets accepted as collateral is determined on the basis of an appraisal report compiled by a licensed expert. The report is submitted to mBank and verified by a team of specialists located in the risk area who analyse it in terms of correctness of the assumed market value and assess the liquidity of the collateral from mBank's viewpoint.

On a regular basis, mBank monitors the quality of collateral. The monitoring covers in particular the effectiveness of the legal establishment of collateral, collateral valuation and documentation validity, e.g. assignment of rights from collateral agreement. The process of valuing and monitoring collateral is supported by an IT application called Credit System. The system gathers information on:

- necessary data on collateral and its providers/owners,
- original valuation and its updates,
- participants and course of the process of collateral registration, valuation and monitoring.

In addition, mBank systematically supervises the control of credit risk monitoring in the scope of accepted collateral.

8.2. Main types of collateral

Retail

Mortgage on real property

Mortgage on a financed (or other) real property is a basic collateral for mortgage loans. mBank accepts only a first lien mortgage. The mortgage registration equals 150% of the original loan exposure.

Partial transfer of ownership

Partial transfer of ownership of a vehicle is a standard collateral for loans for the purchase of a vehicle. Information about a co-ownership of mBank is indicated in the car registration document. Up until the moment of full loan repayment, the customer may not freely dispose of a vehicle (e.g. sell it).

Conditional transfer of ownership

It is admissible to establish a collateral in the form of conditional transfer of ownership in the case of selected transactions designated for the financing of the purchase of new cars (meeting additional restrictions in terms of LtV and the loan amount). The customer enters into an agreement on the transfer of ownership with mBank, by which they undertake to transfer the ownership of a vehicle to mBank in the case of a failure to repay the loan when due.

Bridging insurance

For loans, for which the target collateral has the form of a mortgage on a real property, a so-called "bridging insurance" is used up until the time when that mortgage is established. Sales of this type of insurance ceased in Q3 2013.

The „de minimis" guarantee

The guarantee provided by Polish state bank Bank Gospodarstwa Krajowego within the governmental aid program addressed to entrepreneurs, covering the working capital loans and investment loans. The guarantee might secure up to the 60% of the loan amount and not more than PLN 3,5 million.

Corporates

When making a decision on granting funding to a client, mBank aims at obtaining collateral adequate to the risk taken. mBank prefers highly liquid property collateral or personal collateral provided by entities characterised by high PD-rating and having assets and financial strength acceptable by mBank.

The accepted collateral acts as credit risk mitigant, provided that it carries a specified real value at the time of potential enforcement and meets the qualitative requirements making it possible to recover the debt by way of enforcement. The quality of property collateral is evaluated in terms of liquidity and market value, while the quality of personal collateral is assessed in terms of the financial standing of the collateral provider.

The most frequently used collateral types include:

- property collateral. i.e. mortgage, registered pledge, transfer of ownership rights, assignment of rights to the creditor, security deposit or blockade of funds on bank account,
- personal collateral, i.e. guarantee, surety, bill of exchange, aval, loan repayment insurance.

The assessment of collateral includes the evaluation of the possibility to establish the collateral, in particular, analysis of any encumbrances in favour of other creditors (verification of land and mortgage registers, entries in the pledge register, etc.). It is essential that the validity period of collateral is longer than the maturity period of the product backed by it, so that mBank has enough time to perform all the legal acts necessary to satisfy its claims.

Moreover, mBank indicates a separate group of properties which are not recommended as collateral due to their specific qualities making it impossible for mBank to satisfy its claims due to quick loss of value by the property or difficulties with its disposal.

8.3. Market or credit risk concentration

Taking into account the reduction of the concentration risk arising from the exposure to a single currency (or indexed to a single currency), the Bank monitors - on a monthly basis – the currency structure of the portfolio.

The Bank is reducing exposures to a single entity/group of affiliated entities by setting a General Limit (approved by the appropriate decision-making body) for exposures to a customer/group of affiliated customers.

On a daily basis, the Bank monitors exposures in terms of exceeding 10% of the Bank's own funds in relation to a single entity/group of affiliated entities exposed to a common economic risk, and controls the concentration limit to a single entity/group of affiliated entities set out in the Banking Law.

The Bank maintains a list of entities for which there is a risk a default (Watch List) and analyses (on a quarterly basis) concentration risk of exposures exposed to the default risk.

In order to control and reduce concentration risk arising from exposures to entities representing the same sector, the Bank monitors and controls sectors, in which the Bank's exposure exceeds 5% of the total amount of exposures as well as higher-risk sectors, and sets the limit for sectors due to the risk associated with them.

The Bank controls risk arising from concentration of exposures to entities representing the same geographical region as well as individual countries by setting and monitoring country or regional limits.

Within control of concentration risk arising from exposures secured with the same type of collateral or by the same provider, the Bank sets and monitors limits for mortgage-backed exposures and analyses the Bank's concentration to such collaterals as shares and rights to shares of companies listed on the WSE and corporate personal collaterals.

On a quarterly basis, the Bank analyses the Group's credit portfolio in terms of concentration, taking into account the largest exposures to customers/groups of affiliated customers.

9. Credit risk adjustments

9.1. Overdue and impaired exposures– definitions used

The Bank applies uniform default definition in all areas of the credit risk management, i.a. for the purpose of calculating impairment charges, provisions and capital requirement. The default definition is based on the definition included in CRR Regulation.

Reclassification of the customer to the default category is made in the case of occurrence of at least one of the following events:

- any customer's credit obligation to mBank, mBank's parent company or mBank's subsidiary is more than 90 days overdue, and the total overdue amount of all customer's credit exposures exceeds PLN 500 in the case of retail and Private Banking customers and PLN 3 000 in the case of other corporate customers. In the case of a credit line the overdue period shall begin at the date of exceeding the set limit, the beginning date of the application of a new limit lower than the used loan amount or the date of drawing of loan without mBank's consent,
- mBank recognizes that the customer is unlikely to pay in full its credit obligations to the Bank, the Bank's parent company or the Bank's subsidiary without the necessity to undertake corrective or restructuring actions or efforts aimed at realization of collaterals, if there are any.

Reclassification of at least one of the customer's obligations to the default category results in the reclassification of all credit and non-credit obligations of this customer to the default category.

Reclassification to the default category is not required in the case of customer whose delay in the repayment of the total credit obligation does not exceed PLN 500 in the case of retail and Private Banking customers and PLN 3 000 in the case of other corporate customers and this delay has no direct impact on the increase of risk related to the given obligation and at the same time there are no other loss events.

For corporate portfolio 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 so that credit analysts who are responsible for identification of default cases pay attention to cases that may potentially increase the credit risk of the debtor, which may result in the loss of the debtor's ability to repay loan to the Bank.

<u>The list of definite loss events:</u>

- The number of days from which any exposure being the obligor's credit obligation becomes overdue is above 90 days and the overdue amount exceeds PLN 3,000.
- mBank has sold exposures with a significant economic loss related to the change of the debtor creditworthiness.
- mBank 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:

  - reduction of financial obligations by remitting part of these obligations, or
  - 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.

- Filing by mBank, the parent or subsidiary entity of mBank a bankruptcy motion against debtor or filing similar motion in respect of credit obligations of the debtor towards mBank, the parent or subsidiary entity of mBank.
- 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 mBank.
- Termination of part or whole credit agreement by mBank and the beginning of restructuring/collection procedures.
- 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 aimed at reflecting specificity of particular types of entities in identification of loss events.

Identification of impaired credit exposures is carried out in the case of:

- occurrence of loss events, which are being analysed during the monitoring of customer,
- identification of loss events, which occurred independently of the monitoring, and the information has been obtained from external sources.

For retail portfolio, the conditions for loss events are as follows:

- the debtor's delay in repayment of credit exposure to the Bank is more than 90 days,
- the transaction has been identified as fraudulent
- other conditions for loss events have occurred in the case of a given exposure.

In individual cases, other characteristics of the transaction or customer are considered additional conditions for loss events, in particular:

- the Bank has sold credit exposure with a significant economic loss,

- the Bank agrees for enforced restructuring of the credit obligation, if it is likely that this will result in the reduction of the financial obligation resulting from the substantial remitting or postponing the repayment of the principal, interest or (if it refers to) fees or commissions,
- mBank applied for instigating enforcement proceeding against the debtor,
- an application for instigating bankruptcy proceedings or reorganisation proceedings against the debtor (resulting in a discontinuation of or delay in payment of the credit obligation to mBank),
- the debtor intends to challenge his credit obligation in court.

9.2. Quantitative information

Specific and general credit risk adjustments

Corporates

The portfolio provision is formed on the credit portfolio of customers not classified to the default category. The amount of provisions is an estimate of incurred losses resulting from arisen economic events which haven't been identified by mBank at the provisions calculation date.

The Bank measures impairment of loan exposures in accordance with the International Accounting Standards 39. 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:

- identifying impairment indicator on individual basis (loss events) and if they exist, classifying a customer to a default category;
- assessing estimated future cash flows (repayments) both from collateral and from repayments by a customer;
- calculating impairment losses taking into account the future amount of estimated discounted cash flows using the effective interest rate;
- booking of impairment losses (specific provisions).

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 results in the ascertainment 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 with binary character of occurrence, the Bank estimates the probability of such events as the basis for calculating the impairment charge.

Retail

In mBank's retail division losses for impaired exposures are calculated, similarly to the corporate division, with the usage of the IMPAIRMENT application. Retail exposures are considered impaired when the natural person with the given product obligation is in default status in accordance with the AIRB methodology implemented in mBank, i.e.:

- the total sum of overdue exposures for all products exceeds PLN 500 and the eldest delay is more than 90 days,
- one of the contracts has been identified as fraudulent,
- one of the contracts is restructured,
- mBank applies for instigating enforcement proceedings, bankruptcy proceedings or reorganisation proceedings (resulting in a potential discontinuation of or delay in payments) against the debtor,
- the debtor intends to challenge his credit obligation in court.

The estimate of provision for impaired contracts is made based on the LGD model for default customers. On the basis of historical data, the model estimates the future discounted recovery being contingent upon the type of contract, collateral level and the period of customers' default.

In order to reflect the credit risk embedded in derivative instruments the Bank 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 on customer level. The value of this correction is included in income statement in net trading income.

The geographic distribution of the exposures and distribution of exposures by sector and counterparty type

The below table presents the distribution of the gross exposure of mBank Group by type of counterparty. It includes the allocation into exposures for standardized and IRB Approach (Internal Ratings-Based Approach) - in PLN million:

	31/12/2014						
	Standardised Approach		AIRB		Total		
	Gross exposure	EAD	Gross exposure	EAD	Gross exposure	EAD	Average gross exposure in 2014
Central governments or central banks	29,486	29,827	-	-	29,486	29,827	28 071
Local governments	1,669	1,937	-	-	1,669	1,937	1 738
Public sector entities	143	52	-	-	143	52	145
Institutions	8,535	3,747	-	-	8,535	3,747	12 073
Corporates	14,720	5,235	34,675	27,936	49,395	33,171	46 460
Retail	1,976	1,545	42,044	40,639	44,020	42,184	42 311
Mortgage-backed exposures	5,765	5,704	-	-	5,765	5,704	5 352
Exposures in default	1,171	407	-	-	1,171	407	1 712
High-risk exposures	29	10	-	-	29	10	24
Equity exposures	587	547	-	-	587	547	580
Other	43	43	2,956	2,956	3,000	2,999	2 974
Total	**64,125**	**49,053**	**79,676**	**71,532**	**143,800**	**120,585**	**141 440**

The below table presents the distribution of impaired and overdue exposures and the distribution of provisions by countries with the highest gross exposures value. - in PLN million:

Country	Gross exposure	EAD
Poland	131,419	112,892
Czech Republic	3,959	3,658
Slovakia	773	690
Other	7,649	3,345

The residual maturity breakdown

The table below presents the breakdown of gross exposure of mBank Group by residual maturity in PLN thousand:

	31/12/2014						
	1D - 3M	3M - 6M	6M - 12M	1Y - 5Y	> 5Y	No term	Total
AIRB approach	**3,810,460**	**4,499,106**	**10,664,462**	**13,085,725**	**31,310,576**	**16,305,224**	**79,675,553**
Corporates - SME	581,362	819,892	1,756,807	1,669,030	743,448	1,514,100	7,084,639
Corporates - Specialised Lending	54,042	225,775	107,714	1,016,886	625,969	5,071,660	7,102,046
Corporates - Other	1,494,986	1,651,648	5,339,598	7,991,052	1,769,115	2,241,915	20,488,314
Retail - Secured by real estate SME	0	0	0	0	0	0	0
Retail - Secured by real estate non-SME	889	998	4,086	204,269	27,301,589	839	27,512,670
Retail - qualifying revolving	0	0	0	0	0	0	0
Retail - Other SME	421,380	494,913	675,703	594,606	81,827	2,618,954	4,887,383
Retail - Other non-SME	1,257,801	1,305,880	2,780,554	1,609,882	788,628	1,901,466	9,644,211
Other non credit-obligation assets	0	0	0	0	0	2,956,290	2,956,290
Standardised Approach	**16,356,093**	**2,181,565**	**4,316,596**	**19,270,182**	**9,331,729**	**12,668,669**	**64,124,834**
Central governments or central banks	4,744,640	918,848	2,686,244	16,020,709	1,694,388	3,421,588	29,486,417
Regional governments or local authorities	20,540	66,247	50,882	417,295	978,005	135,740	1,668,709
Public sector entities	17,926	1,976	12,282	41,762	6,584	62,093	142,623
Institutions	3,412,740	642,241	438,666	1,045,328	53,941	2,942,159	8,535,075
Corporates	8,026,125	409,991	897,176	1,079,945	1,222,710	3,084,006	14,719,953
Retail	80,713	106,577	158,972	155,795	1,174,594	299,388	1,976,039
Secured by mortgages on immovable property	20,343	2,795	24,532	213,079	3,724,574	1,779,506	5,764,829
Exposures in default,	29,151	32,431	44,530	280,528	476,933	307,466	1,171,039
High risk exposures	3,821	459	3,312	15,741	0	6,093	29,426
Equities	0	0	0	0	0	587,452	587,452
Other items	94	0	0	0	0	43,178	43,272
Total	**20,166,553**	**6,680,671**	**14,981,058**	**32,355,907**	**40,642,305**	**28,973,893**	**143,800,387**

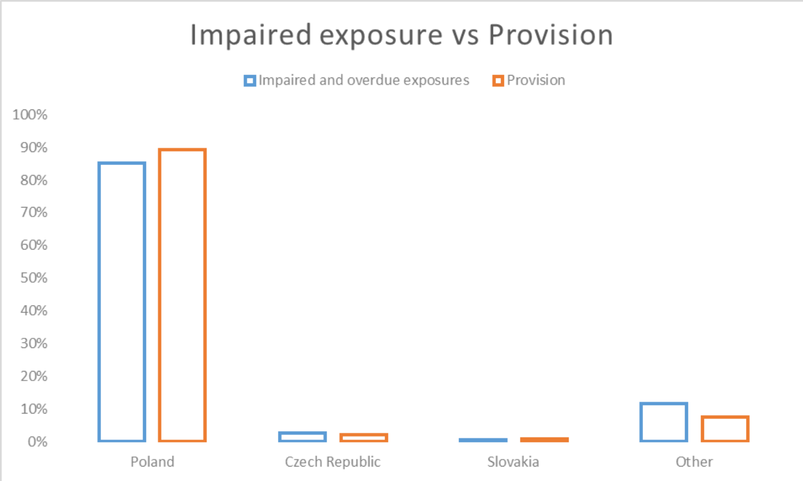
Impaired and overdue exposures

The below table presents both the distribution of impaired and overdue exposures and the distribution of provision by the type of counterparty in mBank Group. It includes also the allocation into exposure value for standardized approach and IRB Approach (Internal Ratings-Based Approach) - in PLN million:

	31/12/2014						
		Impaired and overdue exposures			Provision for impaired items and IBNI		
	Gross exposure	Standardized approach	AIRB	Total	Standardized approach	AIRB	Total
Central governments or central banks	29,486	-	-	-	-	-	-
Local governments	1,669	-	-	-	-	-	-
Public sector entities	143	-	-	-	-	-	-
Institutions	8,535	-	-	-	-	-	-
Corporates	49,395	-	1,696	1,696	-	977	977
Retail	44,020	-	2,546	2,546	-	1,316	1,316
Mortgage-backed exposures	5,765	-	-	-	-	-	-
Exposures in default	1,171	1,171	-	1,171	497	-	497
High-risk exposures	29	-	-	-	-	-	-
Equity exposures	587	-	-	-	-	-	-
Other	3,000	-	-	-	-	-	-
Total	**143,800**	**1,171**	**4,242**	**5,413**	**497**	**2,293**	**2,790**

The below table presents the distribution of impaired and overdue exposures and the distribution of provisions by countries with the highest gross exposures value - in PLN million:

Country	Impaired and overdue exposures		Provision
Poland	4,614	-	2,488
Czech Republic	139	-	63
Slovakia	31	-	27
Other	630	-	212



Reconciliation of changes in the specific and general credit risk adjustment

The below table presents the distribution of movements in provisions for impaired exposures (in PLN thousand). It includes the 2014 opening and closing balances, provisions created, release of provisions and other adjustments.

Movements in provisions - 2014 (in PLN thousand)	Provision as at 01.01.2014	Provisions created	Release of provisions	Reclassification and foreign exchange difference	Write-offs	Provisions as at 31.12.2014
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)**
Other	-	-	-	-	-	**-**
Corporate customers	**(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)**
Terms loans, including::	(915,235)	(512,930)	324,214	11,273	30,948	**(1,061,730)**
Corporate and institutional customers	(180,681)	(74,498)	63,586	(2,355)	-	**(193,948)**
Medium and small enterprises	(734,554)	(438,432)	260,628	13,628	30,948	**(867,782)**
Other	(55,464)	(31,984)	1,036	(21,210)	101,404	**(6,218)**
Public sector	**(11,797)**	**(2,100)**	**12,527**	**1**	**-**	**(1,369)**
Total movements in provisions	**(2,371,407)**	**(1,749,336)**	**1,227,892**	**(57,088)**	**159,098**	**(2,790,841)**

10. 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.

While organizing the operational risk management process, the Bank takes into account regulatory requirements. Resolutions and recommendations of the Polish Financial Supervision Authority (in particular Recommendation M) are the starting point for preparation of framework for the operational risk control and management system in 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.

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.

mBank operates in a number of major business areas nationwide, and through its subsidiaries and foreign branches, also outside of Poland. The Bank offers a wide and diverse range of financial products to its customers from various market segments. Bank's customers include both major corporations operating in Poland and large, medium-size, small and micro-enterprises, as well as individual customers in Poland and abroad.

Based on CRR Regulation for the purpose of collecting operational loss data, the operations are classified into the following business lines:

- Corporate finance,
- Trading and sales,
- Commercial banking,
- Retail banking,
- Payment and settlement,
- Agency services (custody services).

mBank subsidiaries also carry out operations classified in the remaining two business lines indicated in CRR Regulation and not listed above:

- Asset management,
- Retail brokerage services.

This diverse range of products addressed to a very wide spectrum of customers makes the Bank naturally exposed to operational risks which may and actually do derive from a variety of sources.

The vast majority of Bank Group's operational losses refers to the lines: trading and sales, commercial banking, retail banking.

Losses are also monitored by risk categories:

- Crimes committed by employees
- Crimes committed by outsiders
- Deliberate destruction
- Staff habits and workplace safety
- Customers, products and business practices
- Natural disasters and public safety
- IT irregularities
- Execution, delivery and process management

In terms of such division of losses, the Bank incurs the highest losses in three categories of operational risk: crimes committed by outsiders; execution, delivery and process management; customers, products and business practices.

Using the database available in mBank Group, the data on operational risk losses are recorded taking into consideration causes of their occurrence and analysed in terms of the necessary corrective actions.

11. Risk takers remuneration

Information on the policy of variable remuneration

The process of determining the policy of variable remuneration components started from presenting the main remuneration rules during the meeting of the Supervisory Board in December 2011. Also in December 2011, the Management Board of BRE Bank (currently mBank) approved the main rules of the remuneration policy in mBank, familiarised itself with the long list of positions considered as potential managerial positions according to Article 28 of the Resolution of PFSA and indicated a short list of positions for consideration as having significant influence on the risk profile of mBank (risk-takers).

In March 2012, the Remuneration Committee of the Supervisory Board (hereinafter the Committee) was Established. Since 12 December 2013 the Remuneration Committee is composed as follows:

1/ Dr Andre Carls – Chairman

2/ Maciej Leśny – Member

3/ Prof. Marek Wierzbowski – Member

Since 1st April 2014 the additional Member – Martin Zielke has been appointed to the Committee.

In accordance with the applicable rules, the main tasks of the Committee are as follows:

I. In general concerning mBank:
   1. Issuing opinions on the remuneration policy (and proposed changes in this respect) at mBank and submitting its opinion to the Supervisory Board.
   2. Annual verification of the adopted by the Supervisory Board remuneration policy and rules for so-called "risk takers" and eventual proposing of the modifications in this issue.
   3. Verification of the bonus pool of mBank Group calculated on the basis of EVA/ROE index.
   4. Annual assessment of appropriateness of the remuneration policies and procedures in place at mBank Group considering current regulatory requirements; submission of assessment to the Supervisory Board.
   5. Issuing recommendations to the Supervisory Board regarding general guidelines for the Management Board on the level and structure of remuneration for the senior management of mBank and monitoring the level and structure of remuneration, especially for the so-called "risk takers".
   6. Annual determination of mBank Group Results component of Non-MB Risk Takers (i.e. group performance status for non-MB Risk Takers of mBank Group)
   7. Verification of remuneration paid to risk takers. The amounts of bonuses and base remuneration paid to risk takers are reported on an annual basis to Remuneration Committee within 60 calendar days following the approval of the consolidated financial statements of mBank Group for a given year by the Annual General Meeting
   8. Issuing opinions and monitoring variable remuneration for persons holding managerial positions in charge of risk management and compliance.

II. Concerning mBank Management Board Members:

1. Consideration of matters concerning the rules and amounts of remuneration of members of the Management Board, including:
   a) approval of management contracts,
   b) determination of remuneration rates, amounts of severance payments and giving recommendations in this respect to the Supervisory Board.
2. Approval and determination of the MbO Targets and results for Members of the Management Board.
3. Annual completion of Risk Taker Scorecard for Management Board Members of mBank.
4. Approval and determination of bonus amounts for Management Board Members, including discretionary bonuses.
5. Recommending to the Supervisory Board a suspension in whole or a decrease in the amount of payment of the deferred part of bonus for Members of the Management Board under the provisions of the management contract.
6. Recommending to the Supervisory Board a suspension in whole or in part or a decrease in the amount of payment of severance for Members of the Management Board under the provisions of the management contract.
7. Annual determination of the situation of mBank Group in relation to Article 142 (1) of the Banking Law (i.e. solvency / liquidity status of mBank Group) for the purposes connected with determination of bonuses for the Management Board Members. Recommending to the Supervisory Board a suspension in whole or a decrease in the amount of payment of the above bonuses.
8. Tabling opinions concerning approval for Member of the Management Board to engage in competitive activity.
9. Adopting other decisions and performing activities stipulated in or resulting from the management contracts concluded with the Management Board Members.

Subsequently, on 10 July the Management Board of BRE Bank (currently mBank) approved in the form of a resolution "The remuneration system in BRE Bank", "The policy and the remuneration rules applicable to risk-takers in the BRE Bank" including i.a. information about the criteria indicating that the employee is a risk-taker and the list of positions covered by the new rules of variable remuneration for mBank Group.

On 25 June 2012 the aforementioned documents were adopted by resolution of the Supervisory Board.

Full information concerning the policy and the remuneration rules applicable to risk-takers were approved by the Remuneration Committee on 20 November 2012.

In the successive year (December 2013) the aforementioned documents were verified and modified by the Management Board, Remuneration Committee of the Supervisory Board and the Supervisory Board.

At the end of 2014 the Management Board of mBank and then the Remuneration Committee of the Supervisory Board conducted the annual verification of policies concerning remuneration and identification of positions having significant influence on the risk profile and accepted the changes which were aimed at, among others, reflecting the provisions of the "Commission Delegated Regulation (EU) No 604/2014 of 4 March 2014 supplementing Directive 2013/36/EU of the European Parliament and of the Council with regard to regulatory technical standards with respect to qualitative and appropriate quantitative criteria to identify categories of staff whose professional activities have a material impact on an institution's risk profile" and "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". The process of verification and implementation appropriate amendments in the policies concerning remuneration and identification of positions having significant influence on the risk profile was coordinated by the Director of the Personnel Administration and Remuneration Department (organisational unit reporting directly to the President of the Management Board of mBank), supported by: Integrated Risk and Capital Management Department (in issues related to the selection of criteria indicating the positions having significant influence on the risk profile), Internal Audit Department (in issues related to the selection of criteria and the compliance of suggested solutions with the binding internal rules), Legal Department (in issues related to the selection of criteria and the compliance of suggested solutions with the binding internal and external rules) and external consultants (in issues related to selection of criteria indicating the positions having significant influence on the risk profile, compliance of applicable policies with regulatory requirements and market practices in this scope).

The Remuneration Committee of the Supervisory Board held 4 meetings in 2014.

The most important information concerning the formation of remuneration

Members of the Management Board:

The following components are assumed as the basis for acquiring the right to the bonus for the member of the Management Board and for calculating the base amount for the given accounting year

I. net ROE (net ROE for the given accounting year is calculated as consolidated net profit of mBank Group attributable to mBank shareholders divided by consolidated mBank Group equity attributable to mBank shareholders; Consolidated mBank Group equity attributable to mBank shareholders, with the exception of current accounting year net profit:

1. Share capital,
2. Retained earnings (with the exception of current accounting year net profit),
3. Other reserves.

Consolidated mBank Group equity attributable to mBank shareholders is calculated on a yearly average basis as the arithmetic mean of consolidated mBank Group equity attributable to mBank shareholders as at 1 January, 31 March, 30 June, 30 September and 31 December of the given accounting year) achieved by mBank in the accounting year for which the bonus is granted and

II. monthly remuneration which was payable to the member of the Management Board as at 31 December of the accounting year for which the bonus was granted,

III. assessment of the financial standing of mBank conducted by the Remuneration Committee of the Supervisory Board.

50% of the base amount calculated as the multiplier of the monthly remuneration (fixed values assigned to the particular ROE values) is granted to the member of the Management

Board after the financial result ROE has been achieved. The Remuneration Committee of the Supervisory Board conducts an assessment of the performance of the Manager on an annual basis as well as for longer time intervals and in the case it finds that the Manager met the annual/long-term business and development goals - Management By Objectives ("MBO") it can grant a the second part of the bonus in scope of the remaining 50% base amount. The decision on granting the so second part of the bonus is made at the sole discretion of Remuneration Committee of the Supervisory Board, which in accordance with its independent assessment and decision confirms reaching MBO, taking into account the situation on financial markets in the last/recent financial periods.

MBO shall be set by a member of the Management Board and the Remuneration Committee for the following accounting year by the end of the year preceding the accounting year. According to the rules of determining the business-development objectives MBO approved by i.a. the Remuneration Committee of the Supervisory Board for the Management Board:

I. team quantitative objectives (at the level of mBank Group) account for 35% to 55% of the objectives (net ROE, loan to deposit ratio, cost to income ratio, Economic Profit)

II. individual quantitative objectives account for 10% to 55% of the objectives (objectives determined depending on the responsibility of a given member of a Management Board)

III. individual qualitative objectives account for 40% of the objectives.

40% of the bonus is granted to a member of the Management Board in the year following a given accounting year:

I. 50% in the form of a cash payment,

II. 50% in the form of a non-cash payment (mBank shares). The non-cash bonus is converted to shares at the average market price of mBank S.A. shares value on the Warsaw Stock Exchange for the 30 days preceding the granting date of the bonus, i.e. from the date of approval of the bonus amount by the Supervisory Board Remuneration Committee.

60% of the bonus will be deferred to three successive years in three equal, annual tranches. The bonus under each tranche is granted to a member of the Management Board upon meeting specific conditions, in the same way to the 40% of the bonus granted after the accounting year for which the bonus is calculated, i.e.:

I. 50% in the form of a cash payment,

II. 50% in the form of a non-cash payment (mBank shares).

Employees not being members of the Management Board:

The Management Board of mBank conducts an assessment of the performance of the employee on an annual basis as well as for longer time intervals and in the case it finds that the employee met the annual/long-term business-development objective - Management By Objective ("MBO"), upon having taken into account the value of the total remuneration of the employee, it can decide on determining the amount of the so called discretionary bonus. The decision on the amount of the discretionary bonus is made at the sole discretion of the Management Board of mBank, which in accordance with its independent assessment and decision confirms reaching MBO, taking into account the situation on financial markets in the last/recent financial periods. The amount of the discretionary bonus cannot exceed the amount of annual base remuneration of the employee (total of base remuneration paid to the employee every month in the year for which the discretionary bonus is awarded).

MBO is determined by the Management Board of mBank (the objectives must result from the objectives determined for the Management Board of mBank - the rule of cascading objectives on subsequent management levels) for the next accounting year until 31 December of the year preceding the accounting year. According to the rules of determining the business-development objectives MBO approved by i.a. the Remuneration Committee of the Supervisory Board for mBank:

I. team quantitative objectives (at the level of mBank Group) account for 10% to 35% (10% to 20% Economic Profit, the rest: loan to deposit ratio, cost to income ratio depend on influence on the them by particular managers)

II. individual quantitative objectives account for 65% to 90% of the objectives (objectives determined depending on the responsibilities on a given position and objectives cascading by a member of the Management Board supervising this position)

III. individual qualitative objectives account for 20% of the objectives.

60% of the bonus is granted in the year following the given accounting year:

I. 50% in the form of a cash payment,

II. 50% in the form of a non-cash payment (mBank shares), The non-cash bonus is converted to shares at the average market price of mBank's shares listed on the Warsaw Stock Exchange for the period starting 30 days prior to the date of acquisition of the right to the bonus, i.e. the date of the bonus amount approval by the Management Board of mBank.

40% of the bonus will be deferred to three successive years in three equal, annual tranches. The bonus under each tranche is granted to an employee upon meeting specific conditions, in the same way to the 60% of the bonus granted after the accounting year for which the bonus is calculated, i.e.:

I. 50% in the form of a cash payment,

II. 50% in the form of a non-cash payment (mBank shares),

The costs resulting from the deferred tranches in the form of the shares are settled according to the IFRS.

Information on the criteria of performance assessment, which are the basis for the rights to the remuneration components

Members of the Management Board:

Deferred tranches of the bonus granted for a given accounting year shall be issued for a member of the Management Board in three equal, annual parts.

The Supervisory Board on the basis of recommendation issued by the Remuneration Committee of the Supervisory Board may make a decision on suspending in full or decreasing the amount of the deferred tranche due to the later assessment of the performance of the member of the Management Board over a period of time longer than 1 financial/accounting year (i.e. for the period of at least 3 years), which takes into account the business cycle of mBank 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 aforementioned assessment of the performance of member of the Management Board (over a longer period of time) will be made annually and communicated internally at the bank, together with the assessment of the performance of the member of the Management Board for a given period.

Remuneration Committee of the Supervisory Board can make a decision on suspending in full or decreasing the bonus amount for a given financial/accounting year, as well as on the scope of the deferred tranche not paid out yet, in the situation referred to in Article 142 (1) of the Banking Law Act. Suspending in full or decreasing the bonus, as well as any deferred tranche by the Remuneration Committee of the Supervisory Board can also apply to the bonus and/or the deferred tranche not paid out to the member of the Management Board upon termination or expiry of the management contract.

Employees not being members of the Management Board:

The deferred tranches of the discretionary bonus for a given accounting year will be issued for the employee in three equal, annual parts.

The Management Board of mBank may take a decision on suspending in full or decreasing the amount of the deferred tranche due to (i) not reaching the MBO result by the employee at the level of at least 80% in the accounting year preceding the year of granting and paying out the amount of the deferred tranche, (ii) reaching by mBank Group a result calculated as the economic value added EVA (value indicated each year by the Controlling and Management Information Department of mBank) in the accounting year preceding the year of granting and paying out the amount of the deferred tranche smaller than 10% of the value set in the financial plan for a given accounting year, (iii) later assessment of the performance of the employee over a period longer than 1 financial/accounting year (i.e. for the period of at least 3 years), which takes into account the business cycle of mBank, as well as risk connected with pursuing business activity by the bank, but only when the employee's acts or omissions had a direct and adverse impact on the bank's financial result and market position within the assessment period. The Management Board of mBank upon consent of the Remuneration Committee of the Supervisory Board may modify the level of the planned result of mBank Group with respect to the market situation.

The Management Board of mBank may take a decision on suspending in full or decreasing the amount of the discretionary bonus for a given financial/accounting year, as well as in the scope of the discretionary bonus or a deferred tranche not paid out yet, in a situation when there is a balance sheet loss or a threat of its occurrence or the occurrence of mBank's insolvency (Article 142 (1) of the Banking Law Act). Suspending in full or decreasing the discretionary bonus, as well as any deferred tranche by the Management Board of mBank can also apply to the discretionary bonus and/or the deferred tranche paid out to the employee upon termination or expiry of the employment agreement.

Main parameters and the rules of determining the remuneration of mBank managers, including the manner of linking the level of remuneration with the results in the case of remunerations dependent on results

Members of the Management Board:

The base of the variable remuneration for the members of the Management Board is the multiplier of fixed remuneration assigned to a particular ROE value (ROE range, e.g. ROE>=13% means an 18-fold, ROE>=14% means a 20-fold of the gross base salary, etc.) achieved by mBank Group in the accounting year for which the bonus is granted (ROE calculated according to the aforementioned definition).

The values of the variable remuneration base assigned to the ROE value are approved by the Remuneration Committee of the Supervisory Board and the Supervisory Board.

The base of the variable remuneration is divided in half. The condition of granting 50% is achieving by mBank Group the given ROE ratio. The Remuneration Committee of the Supervisory Board conducts an assessment of the performance of the member of the Management Board on an annual basis as well as for longer time intervals and in the case it finds that the member of the Management Board met the annual/long-term business-development objective - Management By Objectives ("MBO" defined according to the aforementioned description), it can make a decision on granting the second part of the bonus in the scope of the remaining 50% base amount.

Employees not being members of the Management Board:

Variable remuneration for employees who are not members of the Board shall be granted by the Management Board, which on the basis of the results achieved under the annual/long-term business-development objective - Management By Objectives ("MBO" defined according to the aforementioned description), after taking into account the value of the total remuneration of an employee (i.a. comparison of the employee’s remuneration to the market benchmark provided by an external company specializing in the development of such data), determines the amount of the so-called discretionary bonus. There is no formula, that calculates automatically the amount of bonus. Granting of bonus and the amount depend on the joint decision of the Management Board.

Aggregate quantitative information on remuneration, broken down by business lines used in the management of mBank

The below information for 2014 include the following personnel costs incurred in 2014: remuneration costs, social insurance costs, remuneration for share-based payments.

2014 remuneration costs (in PLN thousand)	
Financial Markets Area	44 281
Corporate & Investment Banking Area	145 158
Retail Banking Area	191 437
Operations and IT Area	79 550
Finance Area	25 277
Risk Management Area	67 355
General Area	45 353
Management Board	29 184
mBank	627 595

Aggregated quantitative data regarding remuneration of mBank S.A. risk takers with a break down into:

I. *Senior management*

<table>
<tr><th>No</th><th>Information regarding</th><th colspan="2">Value/Comments</th></tr>
<tr><td>1.</td><td>Number of employees</td><td colspan="2">14 persons: 7 Management Board Members and 7 other mBank S.A. senior management employees</td></tr>
<tr><td>2.</td><td>Base salary paid in 2014</td><td colspan="2">PLN 13 345 890</td></tr>
<tr><td>3.</td><td>2014 variable remuneration subject to PFSA 258/2011 Resolution, granted in 2015</td><td colspan="2">*</td></tr>
<tr><td>4.</td><td colspan="3">Calculated for 2014 non-deferred component of the variable remuneration subject to PFSA 258/2011 Resolution, including:</td></tr>
<tr><td>4.1.</td><td>Cash</td><td colspan="2">*</td></tr>
<tr><td>4.2.</td><td>Financial instrument – number of shares, amount of the component</td><td colspan="2">*</td></tr>
<tr><td>5.</td><td colspan="3">Calculated for 2014, not yet granted deferred component of the variable remuneration subject to PFSA 258/2011 Resolution, including:</td></tr>
<tr><td>5.1.</td><td>Cash</td><td colspan="2">*</td></tr>
<tr><td>5.2.</td><td>Financial instrument – number of shares, amount of the component</td><td colspan="2">*</td></tr>
<tr><td>6.</td><td colspan="3">Deferred component of variable remuneration prior 2014, payment possible in 2014, including:</td></tr>
<tr><td>6.1.</td><td>Cash</td><td colspan="2">-</td></tr>
<tr><td rowspan="2">6.2.</td><td rowspan="2">Financial instrument – number of shares, amount of the component</td><td>PLN 2 460 794</td><td>Value of the deferred bonus component settled in mBank shares, granted within 2012 bonus</td></tr>
<tr><td>7 150 shares</td><td>The conversion of non-cash bonus at the average market price of mBank S.A. shares value on the Warsaw Stock Exchange for the 30 days preceding the granting date of the bonus</td></tr>
<tr><td>7.</td><td colspan="3">Deferred component of variable remuneration prior 2014, payment not yet possible in 2014, including:</td></tr>
<tr><td>7.1.</td><td>Cash</td><td colspan="2">-</td></tr>
<tr><td rowspan="2">7.2.</td><td rowspan="2">Financial instrument – number of shares, amount of the component</td><td>PLN 13 083 038</td><td>Value of the deferred bonus component settled in mBank shares, granted within 2012 and 2013 bonus</td></tr>
<tr><td>29 928 shares</td><td>The conversion of non-cash bonus at the average market price of mBank S.A. shares value on the Warsaw Stock Exchange for</td></tr>
</table>

			the 30 days preceding the granting date of the bonus
8.	Value of deferred remuneration granted in the given accounting year, paid and reduced due to an adjustment related to results	-	
9.	Payments related to commencement and termination of employment relationship		
9.1.	Number of employees who receive such payments	-	
9.2.	The highest payment	-	
10.	Number of employees who received total remuneration in the amount exceeding EUR 1 mln	1 (remuneration in the range of EUR 1M & 1,5M)	Pursuant to the requirements of Resolution 258/2011 information has been reported to the Financial Supervision Authority

**The fields have not been filled due to the fact, that as at 2 March 2015, i.e. the date of publishing of this report the variable remuneration for 2014 has not yet been approved by the competent authorities of mBank. This document will be modified by variable remuneration for 2014, granted in 2015, following approval by the General Meeting of Shareholders the financial statements for 2014 .*

Moreover, in 2014 the formerly functioning option scheme regarding the Members of the Management Board, which did not meet the requirements of Resolution 258/2011 of the PFSA, was settled:

1. cash settlement of deferred tranches granted in 2014 as part of a bonus based on Commerzbank shares for 2010 and 2011 – PLN 3 015 006 zł.

2. settlement of deferred tranches granted in mBank shares as part of a bonus for 2010 and 2011 - 5 612 shares, which amounted to PLN 1 726 336,72 zł. The above mentioned value results from number of granted shares, which were calculated based on the amount of granted bonus and the share's value for the 30 days preceding the date of granting bonus for relevant years.

II. *Other staff whose actions have a material impact on the risk profile of the institution*
- lack of risk takers in this employees group in 2014.

12. mBank S.A. risk takers remuneration - update of the information after the approval of the variable part of remuneration, regarding 2014 year, by the competent authorities of mBank S.A.

Aggregated quantitative data regarding remuneration of mBank S.A. risk takers with a break down into:

I. *Senior management*

No	Information regarding	Value/Comments	
1.	Number of employees	14 persons: 7 Management Board Members and 7 other mBank S.A. senior management employees	
2.	Base salary paid in 2014	PLN 13 345 890	
3.	2014 variable remuneration subject to PFSA 258/2011 Resolution, granted in 2015	PLN 16 635 000	
4.	Calculated for 2014 non-deferred component of the variable remuneration subject to PFSA 258/2011 Resolution, including:		
4.1.	Cash	PLN 3 555 500	
4.2.	Financial instrument – number of shares, amount of the component	PLN 3 555 500	
		8 085 shares	
5.	Calculated for 2014, not yet granted deferred component of the variable remuneration subject to PFSA 258/2011 Resolution, including:		
5.1.	Cash	PLN 4 762 000	
5.2.	Financial instrument – number of shares, amount of the component	PLN 4 762 000	
		10 820 shares	
6.	Deferred component of variable remuneration prior 2014, payment possible in 2014, including:		
6.1.	Cash	-	
6.2.	Financial instrument – number of shares, amount of the component	PLN 2 460 794	Value of the deferred bonus component settled in mBank shares, granted within 2012 bonus
		7 150 shares	The conversion of non-cash bonus at the average market price of mBank S.A. shares value on the Warsaw Stock Exchange for the 30 days preceding the granting date of the bonus
7.	Deferred component of variable remuneration prior 2014, payment not yet possible in 2014, including:		
7.1.	Cash	-	
7.2.	Financial instrument – number of shares, amount of the component	PLN 13 083 038	Value of the deferred bonus component settled in mBank shares, granted within 2012 and 2013 bonus

		29 928 shares	The conversion of non-cash bonus at the average market price of mBank S.A. shares value on the Warsaw Stock Exchange for the 30 days preceding the granting date of the bonus
8.	Value of deferred remuneration granted in the given accounting year, paid and reduced due to an adjustment related to results	-	
9.	Payments related to commencement and termination of employment relationship		
9.1.	Number of employees who receive such payments	-	
9.2.	The highest payment	-	
10.	Number of employees who received total remuneration in the amount exceeding EUR 1 mln	1 (remuneration in the range of EUR 1M & 1,5M)	Pursuant to the requirements of Resolution 258/2011 information has been reported to the Financial Supervision Authority

Moreover, in 2014 the formerly functioning option scheme regarding the Members of the Management Board, which did not meet the requirements of Resolution 258/2011 of the PFSA, was settled:

1. cash settlement of deferred tranches granted in 2014 as part of a bonus based on Commerzbank shares for 2010 and 2011 – PLN 3 015 006 zł.

2. settlement of deferred tranches granted in mBank shares as part of a bonus for 2010 and 2011 - 5 612 shares, which amounted to PLN 1 726 336,72 zł. The above mentioned value results from number of granted shares, which were calculated based on the amount of granted bonus and the share's value for the 30 days preceding the date of granting bonus for relevant years.

Description of the option schemes regarding the Members of the Management Board functioning prior to the year 2014 can be found in the Explanatory Note 44 of the Consolidated financial statements for the year 2014.

II. *Other staff whose actions have a material impact on the risk profile of the institution*

- lack of risk takers in this employees group in 2014.