mBank S.A. Group

IFRS Consolidated Financial Statements 2014

Selected financial data

The selected financial data are supplementary information to these Consolidated Financial Statements of mBank S.A. Group for 2014.

		in PLN '000		in EUR '000	
		Year ended 31.12.2014	Year ended 31.12.2013	Year ended 31.12.2014	Year ended 31.12.2013
I.	Interest income	3 956 254	3 949 971	944 371	938 013
II.	Fee and commission income	1 399 601	1 303 834	334 089	309 626
III.	Net trading income	369 156	342 978	88 119	81 448
IV.	Operating profit	1 652 700	1 517 703	394 505	360 414
V.	Profit before income tax	1 652 700	1 517 703	394 505	360 414
VI.	Net profit attributable to Owners of mBank S.A.	1 286 668	1 206 375	307 132	286 482
VII.	Net profit attributable to non-controlling interests	2 642	2 603	631	618
VIII.	Net cash flows from operating activities	481 916	(871 524)	115 035	(206 964)
IX.	Net cash flows from investing activities	(196 312)	(146 971)	(46 860)	(34 902)
X.	Net cash flows from financing activities	721 173	(2 846 202)	172 146	(675 897)
XI.	Net increase / decrease in cash and cash equivalents	1 006 777	(3 864 697)	240 321	(917 762)
XII.	Basic earnings per share (in PLN/EUR)	30.50	28.62	7.28	6.80
XIII.	Diluted earnings per share (in PLN/EUR)	30.47	28.61	7.27	6.79
XIV.	Declared or paid dividend per share (in PLN/EUR)	17.00	10.00	4.06	2.37

		in PLN '000		in EUR '000	
		As at		As at	
		31.12.2014	31.12.2013	31.12.2014	31.12.2013
I.	Total assets	117 985 822	104 282 761	27 681 257	25 145 342
II.	Amounts due to the Central Bank	-	-	-	-
III.	Amounts due to other banks	13 383 829	19 224 182	3 140 049	4 635 461
IV.	Amounts due to customers	72 422 479	61 673 527	16 991 408	14 871 124
V.	Equity attributable to Owners of mBank S.A.	11 043 242	10 229 342	2 590 911	2 466 566
VI.	Non-controlling interests	29 738	27 096	6 977	6 534
VII.	Share capital	168 840	168 696	39 612	40 677
VIII.	Number of shares	42 210 057	42 174 013	42 210 057	42 174 013
IX.	Book value per share (in PLN/EUR)	261.63	242.55	61.38	58.49
X.	Capital adequacy ratio	14.66	19.38	14.66	19.38

The following exchange rates were used in translating selected financial data into euro:

- for items of the consolidated statement of financial position – exchange rate announced by the National Bank of Poland as at 31 December 2014: EUR 1 = 4.2623 and 31 December 2013: EUR 1 = PLN 4.1472.
- for items of the consolidated income statement – exchange rate calculated as the arithmetic mean of exchange rates announced by the National Bank of Poland as at the end of each month of 2014 and 2013: EUR 1 = PLN 4.1893 and EUR 1 = PLN 4.2110 respectively.

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IFRS Consolidated Financial Statements 2014 PLN (000's)

Consolidated income statement

	Note	Year ended 31 December	
		2014	**2013**
Interest income	6	3 956 254	3 949 971
Interest expense	6	(1 465 596)	(1 724 160)
Net interest income		**2 490 658**	**2 225 811**
Fee and commission income	7	1 399 601	1 303 834
Fee and commission expense	7	(497 911)	(469 096)
Net fee and commission income		**901 690**	**834 738**
Dividend income	8	19 992	26 856
Net trading income, including:	9	369 156	342 978
Foreign exchange result		*233 048*	*282 545*
Other net trading income and result on hedge accounting		*136 108*	*60 433*
Gains less losses from investment securities, investments in subsidiaries and associates	23	51 926	78 578
Other operating income	10	346 922	374 821
Net impairment losses on loans and advances	13	(515 903)	(477 778)
Overhead costs	11	(1 580 543)	(1 490 153)
Amortisation	25,26	(190 022)	(187 890)
Other operating expenses	12	(241 176)	(210 258)
Operating profit		**1 652 700**	**1 517 703**
Profit before income tax		**1 652 700**	**1 517 703**
Income tax expense	14	(363 390)	(308 725)
Net profit		**1 289 310**	**1 208 978**
Net profit attributable to:			
- Owners of mBank S.A.		1 286 668	1 206 375
- Non-controlling interests		2 642	2 603

Net profit attributable to Owners of mBank S.A.		**1 286 668**	**1 206 375**
Weighted average number of ordinary shares	15	**42 189 705**	**42 155 456**
Basic earnings per share (in PLN)	15	**30.50**	**28.62**
Weighted average number of ordinary shares for diluted earnings	15	**42 221 295**	**42 167 491**
Diluted earnings per share (in PLN)	15	**30.47**	**28.61**

Notes presented on pages 10–157 constitute an integral part of these Consolidated Financial Statements.

IFRS Consolidated Financial Statements 2014 PLN (000's)

Consolidated statement of comprehensive income

	Note	Year ended 31 December	
		2014	2013
Net profit		**1 289 310**	**1 208 978**
Other comprehensive income net of tax, including:	16	**231 456**	**(165 942)**
Items that may be reclassified subsequently to the the income statement		**233 361**	**(165 233)**
Exchange differences on translation of foreign operations (net)		245	(2 116)
Change in valuation of available for sale financial assets (net)		229 060	(163 117)
Cash flows hedges (net)		4 056	-
Items that will not be reclassified to the income statement		**(1 905)**	**(709)**
Actuarial gains and losses relating to post-employment benefits (net)		(1 905)	(709)
Total comprehensive income (net)		**1 520 766**	**1 043 036**
Total comprehensive income (net), attributable to:			
- Owners of mBank S.A.		1 518 124	1 040 433
- Non-controlling interests		2 642	2 603

IFRS Consolidated Financial Statements 2014 PLN (000's)

Consolidated statement of financial position

ASSETS	Note	31.12.2014	31.12.2013
Cash and balances with the Central Bank	17	3 054 549	1 650 467
Loans and advances to banks	18	3 751 415	3 471 241
Trading securities	19	1 163 944	763 064
Derivative financial instruments	20	4 865 517	2 349 585
Loans and advances to customers	22	74 582 350	68 210 385
Hedge accounting adjustments related to fair value of hedged items	21	461	970
Investment securities	23	27 678 614	25 341 763
Non-current assets held for sale	24	576 838	-
Intangible assets	25	465 626	455 345
Tangible assets	26	717 377	709 552
Current income tax assets		61 751	7 332
Deferred income tax assets	33	272 416	370 821
Other assets	27	794 964	952 236
Total assets		**117 985 822**	**104 282 761**

LIABILITIES AND EQUITY			
Liabilities			
Amounts due to the Central Bank		-	-
Amounts due to other banks	28	13 383 829	19 224 182
Derivative financial instruments	20	4 719 056	2 459 715
Amounts due to customers	29	72 422 479	61 673 527
Debt securities in issue	30	10 341 742	5 402 056
Hedge accounting adjustments related to fair value of hedged items	21	103 382	(4 349)
Liabilities held for sale	24	276 341	-
Other liabilities	32	1 349 654	1 267 672
Current income tax liabilities		1 969	9 581
Deferred income tax liabilities	34	9 785	2 954
Provisions	33	176 881	228 228
Subordinated liabilities	31	4 127 724	3 762 757
Total liabilities		**106 912 842**	**94 026 323**

Equity			
Equity attributable to Owners of mBank S.A.		**11 043 242**	**10 229 342**
Share capital:		**3 523 903**	**3 512 338**
- Registered share capital	38	168 840	168 696
- Share premium	39	3 355 063	3 343 642
Retained earnings:	40	**6 969 816**	**6 398 937**
- Profit from the previous years		5 683 148	5 192 562
- Profit for the current year		1 286 668	1 206 375
Other components of equity	41	**549 523**	**318 067**
Non-controlling interests		**29 738**	**27 096**
Total equity		**11 072 980**	**10 256 438**
TOTAL LIABILITIES AND EQUITY		**117 985 822**	**104 282 761**

Total capital ratio/capital adequacy ratio *)	47	**14.66**	**19.38**
Common Equity Tier 1 capital ratio/Core Tier 1 ratio *)		**12.24**	**14.21**
Book value		**11 043 242**	**10 229 342**
Number of shares		**42 210 057**	**42 174 013**
Book value per share (in PLN)		**261.63**	**242.55**

*) As at 31 December 2014, total capital ratio and common equity Tier 1 capital ratio are presented, calculated in accordance with the Regulation of the European Parliament and of the Council (EU) No 575/2013 of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 (rules based on "Basel III"). As at 31 December 2013 capital adequacy ratio and Core Tier 1 ratio are presented, calculated in accordance with the requirements of Article 128 of the Banking Law of 29 August 1997 as later amended (rules based on "Basel II").

Notes presented on pages 10–157 constitute an integral part of these Consolidated Financial Statements.

IFRS Consolidated Financial Statements 2014 PLN (000's)

Consolidated statement of changes in equity

Changes in equity from 1 January to 31 December 2014

	Note	Share capital		Retained earnings					Other components of equity				Equity attributable to Owners of mBank S.A., total	Non-controlling interests	Total equity
		Registered share capital	Share premium	Other supplementary capital	Other reserve capital	General banking risk reserve	Profit from the previous years	Profit for the current year attributable to Owners of mBank S.A.	Exchange differences on translation of foreign operations	Valuation of available for sale financial assets	Cash flows hedges	Actuarial gains and losses relating to post-employment benefits			
Equity as at 1 January 2014		**168 696**	**3 343 642**	**4 118 312**	**100 057**	**989 953**	**1 190 615**	**-**	**(2 010)**	**320 561**	**-**	**(484)**	**10 229 342**	**27 096**	**10 256 438**
Total comprehensive income	16							**1 286 668**	**245**	**229 060**	**4 056**	**(1 905)**	**1 518 124**	**2 642**	**1 520 766**
Dividends paid	42	-	-	-	-	-	(716 984)	-	-	-	-	-	(716 984)	-	(716 984)
Transfer to General Risk Fund	40	-	-	-	-	52 000	(52 000)	-	-	-	-	-	-	-	-
Transfer to supplementary capital		-	-	295 513	-	-	(295 513)	-	-	-	-	-	-	-	-
Issue of shares	38,39	144	-	-	-	-	-	-	-	-	-	-	144	-	144
Stock option program for employees	44	-	11 421	-	1 195	-	-	-	-	-	-	-	12 616	-	12 616
- value of services provided by the employees		-	-	-	*12 616*	-	-	-	-	-	-	-	*12 616*	-	*12 616*
- settlement of exercised options		-	*11 421*	-	*(11 421)*	-	-	-	-	-	-	-	-	-	-
Equity as at 31 December 2014		**168 840**	**3 355 063**	**4 413 825**	**101 252**	**1 041 953**	**126 118**	**1 286 668**	**(1 765)**	**549 621**	**4 056**	**(2 389)**	**11 043 242**	**29 738**	**11 072 980**

Changes in equity from 1 January to 31 December 2013

	Note	Share capital		Retained earnings					Other components of equity				Equity attributable to Owners of mBank S.A., total	Non-controlling interests	Total equity
		Registered share capital	Share premium	Other supplementary capital	Other reserve capital	General banking risk reserve	Profit from the previous years	Profit for the current year attributable to Owners of mBank S.A.	Exchange differences on translation of foreign operations	Valuation of available for sale financial assets	Cash flows hedges	Actuarial gains and losses relating to post-employment benefits			
Equity as at 1 January 2013		**168 556**	**3 333 077**	**3 353 504**	**94 863**	**945 953**	**1 214 468**	**-**	**106**	**483 678**	**-**	**225**	**9 594 430**	**24 491**	**9 618 921**
Total comprehensive income	16							**1 206 375**	**(2 116)**	**(163 117)**	**-**	**(709)**	**1 040 433**	**2 603**	**1 043 036**
Dividends paid		-	-	-	-	-	(421 420)	-	-	-	-	-	(421 420)	-	(421 420)
Transfer to General Risk Fund	40	-	-	-	-	44 000	(44 000)	-	-	-	-	-	-	-	-
Transfer to supplementary capital		-	-	764 808	-	-	(764 808)	-	-	-	-	-	-	-	-
Issue of shares	38,39	140	-	-	-	-	-	-	-	-	-	-	140	-	140
Other changes		-	-	-	-	-	-	-	-	-	-	-	-	2	2
Stock option program for employees	44	-	10 565	-	5 194	-	-	-	-	-	-	-	15 759	-	15 759
- value of services provided by the employees		-	-	-	*15 759*	-	-	-	-	-	-	-	*15 759*	-	*15 759*
- settlement of exercised options		-	*10 565*	-	*(10 565)*	-	-	-	-	-	-	-	-	-	-
Equity as at 31 December 2013		**168 696**	**3 343 642**	**4 118 312**	**100 057**	**989 953**	**(15 760)**	**1 206 375**	**(2 010)**	**320 561**	-	**(484)**	**10 229 342**	**27 096**	**10 256 438**

Notes presented on pages 10–157 constitute an integral part of these Consolidated Financial Statements.

IFRS Consolidated Financial Statements 2014 PLN (000's)

Consolidated statement of cash flows

	Note	Year ended 31 December	
		2014	2013
A. Cash flows from operating activities		**481 916**	**(871 524)**
Profit before income tax		**1 652 700**	**1 517 703**
Adjustments:		***(1 170 784)***	***(2 389 227)***
Income taxes paid		(398 422)	(462 013)
Amortisation	25, 26	240 441	239 684
Foreign exchange (gains) losses related to financing activities		796 603	40 555
(Gains) losses on investing activities		(2 121)	(13 600)
Impairment of investment securities		3 447	472
Dividends received	8	(19 992)	(26 856)
Interest income (income statement)	6	(3 956 254)	(3 949 971)
Interest expense (income statement)	6	1 465 596	1 724 160
Interest received		4 226 919	4 270 272
Interest paid		(1 259 024)	(1 699 052)
Changes in loans and advances to banks		(1 002 595)	135 485
Changes in trading securities		(72 578)	(28 764)
Changes in assets and liabilities on derivative financial instruments		(204 904)	(535 158)
Changes in loans and advances to customers		(6 406 450)	(1 389 151)
Changes in investment securities		(2 284 104)	(5 747 785)
Changes in other assets		(387 566)	(87 423)
Changes in amounts due to other banks		(2 846 865)	1 664 490
Changes in amounts due to customers		9 799 826	3 393 828
Changes in debt securities in issue		818 384	178 988
Changes in provisions		(51 347)	14 901
Changes in other liabilities		370 222	(112 289)
Net cash generated from/(used in) operating activities		**481 916**	**(871 524)**
B.Cash flows from investing activities		**(196 312)**	**(146 971)**
Investing activity inflows		**54 988**	**69 536**
Disposal of shares in subsidiaries, net of cash disposed		-	2
Disposal of intangible assets and tangible fixed assets		34 996	29 264
Dividends received	8	19 992	26 856
Other investing inflows		-	13 414
Investing activity outflows		**251 300**	**216 507**
Acquisition of shares in subsidiaries		-	18
Purchase of intangible assets and tangible fixed assets		251 300	216 488
Other investing outflows		-	1
Net cash generated from/(used in) investing activities		**(196 312)**	**(146 971)**
C. Cash flows from financing activities		**721 173**	**(2 846 202)**
Financing activity inflows		**6 027 185**	**2 743 526**
Proceeds from loans and advances from other banks		-	82 356
Proceeds from other loans and advances		1 050 075	636 430
Issue of debt securities		4 226 966	1 524 600
Increase of subordinated liabilities	31	750 000	500 000
Issue of ordinary shares		144	140
Financing activity outflows		**5 306 012**	**5 589 728**
Repayments of loans and advances from other banks		3 601 459	3 729 163
Repayments of other loans and advances		10 064	239 751
Redemption of debt securities		136 462	1 156 900
Acquisition of shares in subsidiaries - increase of involvement		-	2 000
Decrease of subordinated liabilities		480 122	-
Payments of financial lease liabilities		439	448
Dividends and other payments to shareholders		716 984	421 420
Interest paid from loans and advances received from other banks and from subordinated liabilities		360 482	40 046
Net cash generated from/(used in) financing activities		**721 173**	**(2 846 202)**
Net increase / decrease in cash and cash equivalents (A+B+C)		**1 006 777**	**(3 864 697)**
Effects of exchange rate changes on cash and cash equivalents		19 088	(27 980)
Cash and cash equivalents at the beginning of the reporting period		3 685 640	7 578 317
Cash and cash equivalents at the end of the reporting period	43	**4 711 505**	**3 685 640**

Notes presented on pages 10–157 constitute an integral part of these Consolidated Financial Statements.

Explanatory notes to the consolidated financial statements

1. Information regarding the Group of mBank S.A.

The Group of mBank S.A. (the "Group") consists of entities under the control of mBank S.A. (the "Bank") of the following nature:

- strategic: shares and equity interests in companies supporting particular business segment of mBank S.A. (corporates and financial markets segment, retail banking segment and other) with an investment horizon not shorter than 3 years. The formation or acquisition of these companies was intended to expand the range of services offered to the clients of the Bank;
- other: shares and equity interests in companies acquired in exchange for receivables, in transactions resulting from composition and work out agreements with debtors, with the intention to recover a part or all claims to loan receivables and insolvent companies under liquidation or receivership.

The parent entity of the Group is mBank S.A., which is a joint stock company registered in Poland and a part of Commerzbank AG Group.

The head office of the Bank is located at 18 Senatorska St., Warsaw.

The shares of the Bank are listed on the Warsaw Stock Exchange.

As at 31 December 2014, mBank S.A. Group covered by the Consolidated Financial Statements comprised the following companies:

mBank S.A., the parent entity

mBank S.A. was established under the name of Bank Rozwoju Eksportu SA by Resolution of the Council of Ministers N° 99 of 20 June 1986. The Bank was registered pursuant to the legally valid decision of the District Court for the Capital City of Warsaw, 16th Economic Registration Division, on 23 December 1986 in the Business Register under the number RHB 14036. The 9th Extraordinary Meeting of Shareholders held on 4 March 1999 adopted the resolution changing the Bank's name to BRE Bank S.A. The new name of the Bank was entered in the Business Register on 23 March 1999. On 11 July 2001, the District Court in Warsaw issued the decision on the entry of the Bank in the National Court Register (KRS) under number KRS 0000025237.

On 22 November 2013, the District Court for the Capital City of Warsaw, 12th Commercial Division of the National Court Register, registered the amendments to the Bank's By-lows arising from Resolutions N° 26 and Resolutions N° 27 of the 26th Annual General Meeting of mBank S.A., which was held on 11 April 2013. With the registration of changes in By-lows, the name of the Bank has changed from the current BRE Bank Spółka Akcyjna on mBank Spółka Akcyjna (abbreviated mBank S.A.).

According to the Polish Classification of Business Activities, the business of the Bank was classified as 'Other monetary intermediation' under number 6419Z. According to the Stock Exchange Quotation, the Bank is classified as 'Banks' sector as part of the 'Finance' macro-sector.

According to the By-laws of the Bank, the scope of its business consists of providing banking services and consulting and advisory services in financial matters, as well as of conducting business activities within the scope described in its By-laws. The Bank operates within the scope of corporate, institutional and retail banking (including private banking) throughout the whole country and operates trade and investment activities as well as brokerage activities.

The Bank provides services to Polish and international corporations and individuals, both in the local currency (Polish Zloty, PLN) and in foreign currencies.

The Bank may open and maintain accounts in Polish and foreign banks, and can possess foreign exchange assets and trade in them.

The Bank conducts retail banking business in Czech Republic and Slovakia through its foreign mBank branches in these countries.

As at 31 December 2014 the headcount of mBank S.A. amounted to 4 895 FTEs (Full Time Equivalents) and of the Group to 6 318 FTEs (31 December 2013: Bank 4 696 FTEs, Group 6 073 FTEs).

As at 31 December 2014 the employment in mBank S.A. was 6 015 persons and in the Group 8 277 persons (31 December 2013: Bank 5 681 persons, Group 7 826 persons).

The business activities of the Group are conducted in the following business segments presented in detail in Note 5.

Corporates and Financial Markets Segment, including:

Corporate and Investment Banking

- mFaktoring S.A., subsidiary

The company operates in Poland and provides factoring services for domestic, export and import transactions. It is a member of the Polish Factors Association and Factors Chain International. mBank holds an indirect stake (through MLV 45 Sp. z o.o. spółka komandytowa, its subsidiary) of 100% of shares in the share capital and 100% of votes at the General Meeting of the company.

- mLeasing Sp. z o.o., subsidiary (the corporate segment of the company's activity)

The company's core business is to lease chattels such as: machinery, equipment, technology lines, passenger cars, vans and trucks, tractors, trailers and semi-trailers, buses, vehicles, special equipment, ships, aircraft, rolling stock, office equipment, computer hardware. mLeasing's offer for corporate clients includes leasing of real estate, mainly offices, hotels, warehouses and logistics centres, petrol stations, public buildings and municipal infrastructure. The company has a network of offices in the largest cities of Poland. mBank holds indirectly through its subsidiary MLV 45 Sp. z o.o. spółka komandytowa 100% shares of mLeasing.

- Garbary Sp. z o.o., subsidiary

The only business of the company is to administer the buildings of a former meat factories located at 101/111 Garbary St. in Poznań.

- MLV 45 Sp. z o.o. spółka komandytowa, subsidiary

The company was founded as a result of the transformation of BRE Holding Sp. z o.o. into commandite company. The company's assets consists of 100% shares of mLeasing Sp. z o.o., 100% shares of mFaktoring S.A., 73.06% shares of mBank Hipoteczny S.A. and 79.99% shares of mLocum S.A.

- Transfinance a.s., subsidiary

Transfinance a.s. provides factoring services to small and medium-sized enterprises in the Czech Republic. Its services include domestic and international factoring. The core business of the company also includes purchase of collections, letters of credit, bank guarantees, as well as forfeiting. As at 31 December 2014, the Bank held 100% of Transfinance's shares. In January 2015, the Bank sold 100% of the company's shares. The transaction has been described under Note 24 "Assets and liabilities held for sale".

- Dom Maklerski mBanku S.A., (the corporate segment of the company's activity).

Financial Markets

- mFinance France S.A., subsidiary

The core business of the company is to raise funds for the Bank by issuing euro-notes on international financial markets. In 2012, the company issued Eurobonds with a nominal value of EUR 500 000 thousand with maturity date in 2015. In 2013, the company has issued the following tranches of Eurobonds maturing in 2018: nominal value of CHF 200 000 thousand and the nominal value of CZK 500 000 thousand. In 2014 there were two issues of Eurobonds with a nominal value of EUR 500 000 thousand each, and maturing dates in 2019 and 2021.

Retail Banking Segment (including Private Banking)

- Aspiro S.A., subsidiary

Aspiro S.A. offers mBank S.A. and third party banks' products. Its offer includes mortgage loans, business products, cash loans, insurance products and leasing. It has a national distribution network comprising 23 Stationary Financial Centres, 23 Mobile Financial Centres, 67 mKiosks, including 5 Partner mKiosks.

- AWL I Sp. z o.o., subsidiary

AWL I Sp. z o.o is the special purpose entity, an indirect subsidiary of mBank SA (100% of the shares in the company holds BRE TUiR S.A.). The company was acquired for the purpose of restructuring the insurance business within the mBank Group.

- Dom Maklerski mBanku S.A., subsidiary (the retail segment of the company's activity)

The company's core business is to provide services related to trading in securities, rights in property other than securities, and other financial instruments on the capital market in accordance with the applicable law and the licences held by the company.

- mBank Hipoteczny S.A., subsidiary

The core business of mBank Hipoteczny S.A. is to grant mortgage loans to finance commercial real estate, residential development projects and local government investments. The company issues mortgage and public bonds to finance its lending operation.

- mLeasing Sp. z o.o., subsidiary (the retail segment of the company's activity)

- mWealth Management S.A., subsidiary

The company's core business is to provide comprehensive wealth management services. In 2011, a new business model focused on offering investment related advice was implemented. The Company continues its strategic direction communicated as a change in the offer "From Asset Manager for Wealth Manager." The new model provides advice on all assets, financial and non-financial, focusing on client business plans and assistance in this regard.

- BRE Ubezpieczenia TUiR S.A., subsidiary, insurer

The core business of the company is insurance activity within the scope of the second division of underwriting – property and casualty insurance. The company sells its products through the Internet platform developed in cooperation with retail branches of the Bank. Also, typical products known as bancassurance for customers of the Bank are sold via an insurance agent, the company BRE Ubezpieczenia Sp. z o.o. The Bank holds indirectly, through its subsidiary Aspiro S.A., 100% of the company's shares. On 11 September 2014, Aspiro S.A. concluded an agreement with Avanssur SA the company belonging to AXA Group for the sale of 100% shares in BRE TUiR. The transaction is conditioned by meeting specific conditions precedent.

- BRE Ubezpieczenia Sp. z o.o., subsidiary, insurance agent

The core business of the company involves services provided as an insurance agent and services within the scope of settlements due to insurance agreements of insured persons. The Bank holds indirectly, through its subsidiary Aspiro S.A., 100% of the company's shares.

- BRE Agent Ubezpieczeniowy Sp. z o.o., subsidiary, insurance agent

The core business of the company is to provide services as an insurance agent within the scope of settlements and administration of the low contribution insurance contracts in credits. The Bank holds indirectly, through its subsidiary Aspiro S.A., 100% of the company's shares.

Other

- mCentrum Operacji Sp. z o.o., subsidiary

The core business of the company is i.a. providing services in the field of data and document management, as well as an electronic archive, a traditional archive, business processes and transaction banking.

- mLocum S.A., subsidiary

mLocum S.A. is a property developer operating in the primary market of residential real estate. The company develops and assesses investment projects; arranges, supervises and manages building designs and construction work; acts as a 'substitute investor'; sources funds for investment. The Bank holds indirectly, through MLV 45 Sp. z o.o spółka komandytowa, 79.99% of the shares of the company.

- BDH Development Sp. z o.o., subsidiary

The company's core business is implementation and completion of development projects on the basis of residential property taken over by mBank S.A. Group through restructuring and recovery of investment loans, in order to recover the greatest possible value of the real estate taken over. The Bank holds 100% of the shares of the company.

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Other information concerning companies of the Group

As a part of the reorganisation of mBank S.A. Group, on 25 February 2014, the share capital of the company AWL I Sp. z o.o. was increased by the amount of PLN 72 876 thousand. All shares in the increased share capital were taken by the current partner BRE Ubezpieczenia TUiR S.A. ("BRE TUiR S.A.") in exchange for a contribution in kind in the form of 100% of the shares of BRE Ubezpieczenia Sp. z o.o. and 100% of the shares of BRE Agent Ubezpieczeniowy Sp. z o.o.

Therefore, starting from the first quarter of 2014, the Group began to consolidate the subsidiary AWL I Sp. z oo, which was the direct owner of shares in companies BRE Ubezpieczenia Sp. z o.o. and BRE Agent Ubezpieczeniowy Sp. z o.o.

On 30 July 2014, as part of the reorganisation of the insurance business in mBank Group, the company Aspiro S.A. acquired from AWL I Sp. z o.o. 100% of shares of BRE Ubezpieczenia Sp. z o.o. and BRE Agent Ubezpieczeniowy Sp. z o.o. for a total amount of PLN 72 876 thousand. The transaction resulted in redemption of shares in the company AWL I Sp. z o.o., by which its current share capital amounts to PLN 300 thousand. The sole shareholder of AWL I Sp. z o.o remains BRE Ubezpieczenia TUiR S.A. These events had no impact on the result of mBank Group.

On 11 September 2014, the Bank's subsidiary Aspiro S.A., a shareholder of the company BRE TUiR, concluded an agreement with Avanssur SA the company belonging to AXA Group for the sale of 100% shares of BRE TUiR.

Therefore, starting from the financial statements as at 30 September 2014, the Group classified BRE TUiR and indirectly its subsidiary AWL I Sp. z o.o. as non-current assets (disposal groups) held for sale.

On 8 December 2014, an agreement for the sale of 100% shares of Transfinance a.s. between mBank S.A. and UniCredit Bank Czech Republic and Slovakia a.s. (UniCredit) was concluded. The transaction was finalized on 20 January 2015, after the fullfilment of all contractual suspending conditions. The sale of Transfinance is the result of implementing the One Bank Strategy for 2012-2016 and is the last stage of restructuring of foreign factoring activities of the Group i.e. after the sale of Magyar Factor zRt. and Intermarket Bank AG in 2011.

In accordance with the above mentioned, the Group classified Transfinance a.s. as non-current assets (disposal groups) held for sale as at 31 December 2014.

Information of the sale of BRE TUiR and Transfinance a.s. are included under Note 24 "Assets and liabilities held for sale".

Information concerning the business conducted by the Group's entities is presented under Note 5 "Business Segments" of these Consolidated Financial Statements.

The consolidated financial statements of the Bank cover the following companies:

Company	31.12.2014		31.12.2013	
	Share in voting rights (directly and indirectly)	Consolidation method	Share in voting rights (directly and indirectly)	Consolidation method
Aspiro S.A.	100%	full	100%	full
AWL I Sp. z o.o.	100%	full	-	-
BDH Development Sp. z o.o.	100%	full	100%	full
BRE Agent Ubezpieczeniowy Sp. z o.o.	100%	full	100%	full
BRE Ubezpieczenia Sp. z o.o.	100%	full	100%	full
BRE Ubezpieczenia TUiR S.A.	100%	full	100%	full
Dom Maklerski mBanku S.A.	100%	full	100%	full
Garbary Sp. z o.o.	100%	full	100%	full
mBank Hipoteczny S.A.	100%	full	100%	full
mCentrum Operacji Sp. z o.o.	100%	full	100%	full
mFaktoring S.A.	100%	full	100%	full
mLeasing Sp. z o.o.	100%	full	100%	full
mWealth Management S.A.	100%	full	100%	full
MLV 45 Sp. z o.o. spółka komandytowa	100%	full	100%	full
Transfinance a.s.	100%	full	100%	full
mFinance France S.A.	99.98%	full	99.98%	full
mLocum S.A.	79.99%	full	79.99%	full

The Management Board of mBank S.A. approved these Consolidated Financial Statements for issue on 2 March 2015.

2. Description of relevant accounting policies

The most important accounting policies applied to the drafting of these Consolidated Financial Statements are presented below. These principles were applied consistently over all presented periods.

2.1. Accounting basis

These Consolidated Financial Statements of mBank S.A. Group have been prepared for the 12-month period ended 31 December 2014.

The Consolidated Financial Statements of mBank S.A. Group have been prepared in compliance with the International Financial Reporting Standards (IFRS) as adopted for use in the European Union, according to the historical cost method, as modified by the revaluation of available for sale financial assets, financial assets and financial liabilities measured at fair value through the income statement as well as all derivative contracts, as well as liabilities related to cash-settled share-based payment transactions measured at fair value. Non-current assets held for sale or group of these assets classified as held for sale are stated at the lower of the carrying value and fair value less costs to sell.

The preparation of the financial statements in compliance with IFRS requires the application of specific accounting estimates. It also requires the Management Board to use its own judgment when applying the accounting policies adopted by the Group. The issues in relation to which a greater degree of judgment is required, more complex issues, or such issues where estimates or judgments are material to the consolidated financial statements are disclosed in Note 4.

Financial statements are prepared in compliance with materiality principle. Material omissions or misstatements of positions of financial statements are material if they could, individually or collectively, influence the economic decisions that users make on the basis of Group's financial statements. Materiality depends on the size and nature of the omission or misstatement of the position of financial statements or a combination of both. The Group presents separately each material class of similar positions. The Group presents separately positions of dissimilar nature or function unless they are immaterial.

These consolidated financial statements were prepared under the assumption that the Group continues as a going concern in the foreseeable future, i.e. in the period of at least 12 months following the reporting date. As of the date of approving these statements, the Bank Management Board has not identified any events that could indicate that the continuation of the operations by the Group is endangered.

2.2. Consolidation

Subsidiaries

Subsidiaries comprise entities, regardless of the nature of the involvement with an entity (including special purpose vehicles) over which the Group controls the investee. The control is achieved when the Group has power over the investee, is exposed or has rights, to variable returns from its involvement with the investee and has the ability to use its power over the investee to affect its returns. When the Group has less than a majority of the voting rights of an investee, it considers all relevant facts and circumstances in assessing whether it has power over the investee, including a contractual arrangements between the Group and other vote holders, rights arising from other contractual arrangements, the Group's voting rights and potential voting rights. If facts and circumstances indicate that there are changes in at least one of the three elements of control listed above, the Group reassess whether it controls an investee. The consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. The consolidated financial statements combine items of assets, liabilities, equity, income and expenses of the parent with those of its subsidiaries eliminating the carrying amount of the parent's investment in each subsidiary and the parent's portion of equity of each subsidiary. Thus arises goodwill. If goodwill has negative value, it is recognised directly in the income statement (see Note 2.20). The profit or loss and each component of other comprehensive income is attributed to the Group's owners and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. If the Group loses control of a subsidiary, it shall account for all amounts previously recognised in other comprehensive income in relation to that subsidiary on the same basis as would be required if the Group had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group shall reclassify the gain or loss from equity to profit or loss (as a reclassification adjustment) when it loses control of the subsidiary. If a revaluation surplus previously recognised in other comprehensive income would be transferred directly to retained earnings on the disposal of the assets, the Group shall transfer the revaluation surplus directly to retained earnings when it loses control of the subsidiary.

Non-controlling interest is equity in a subsidiary not attributable, directly or indirectly, to a parent. The Group presents non-controlling interest in the consolidated statement of financial position within equity, separately from the equity of the owners of the parent. Changes in a parent's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transaction (i.e. transactions with owners in their capacity as owners). In such cases, the Group adjusts the carrying amount of the controlling and non-controlling interests to reflect the changes in their relative interests in the subsidiary. The Group recognises directly in the equity any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received and attributes it to the owners of the parent.

In case when an acquirer made a bargain purchase, which is a business combination, and a result of that is a gain, the acquirer recognises the resulting gain in profit or loss on the acquisition date. Before recognising a gain on a bargain purchase, the acquirer reassesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and recognises any additional assets and liabilities that are identified in that review. The acquirer then reviews the procedures used to measure the amounts required to be recognised at the acquisition date to ensure that the measurements appropriately reflect consideration of all available information as of the acquisition date.

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

The company also applies accounting policies in line with IFRS 3 Business Combinations to combinations of business under common control in the case of the economic content of the transaction.

Consolidation does not cover those companies whose scale of business operations is immaterial in relation to the volume of business of the Group. Those companies were recognised at cost less impairment.

2.3. Associates and joint ventures

Associates are all entities over which the Group has significant influence but not control or joint control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control of those policies.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

Under the equity method, on initial recognition the investment in an associate or a joint venture is recognised at cost. The carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. Goodwill forms part of the carrying amount of an investment in an associate or a joint venture and it is neither amortised nor tested for impairment.

After application of the equity method, the Group determines whether it is necessary to recognise any additional impairment with respect to its net investment in the associate or joint venture. At the reporting date the Group determines whether there was an objective evidence for impairment of an investment in an associate or a joint venture. If there was an objective evidence for impairment, the Group calculates impairment comparing the recoverable amount of the investment with its carrying value. Investments in associates and joint ventures are settled using the equity method of accounting and they are initially recognised at cost.

The share of the Group in the profits (losses) of associates since the date of acquisition is recognised in the income statement, whereas its share in other comprehensive income since the date of acquisition – in other comprehensive income. The carrying amount of the investment is adjusted by the total changes of share of net assets. When the share of the Group in the losses of an associate becomes equal to or greater than the share of the Group in that associate, possibly covering receivables other than secured claims, the Group discontinues the recognition of any further losses, unless it has assumed obligations or has settled payments on behalf of the respective associate.

Unrealised gains on transactions between the Group and its associates are eliminated proportionally to the extent of the Group's interest in the respective associate. Unrealised losses are also eliminated, unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies applied by associates have been adjusted, wherever necessary, to assure consistency with the accounting principles applied by the Group.

The Group discontinues the use of the equity method from the date when its investment ceases to be an associate or a joint venture. If the retained interest in the former associate or joint venture is a financial asset, the Group measures the retained interest at fair value. The Group recognises in profit or loss any difference between the carrying amount of the investment at the date the equity method was discontinued and the fair value of any retained interest and any proceeds from disposing of a part interest in the associate or joint venture.

2.4. Interest income and expenses

All interest income on financial instruments carried at amortised cost using the effective interest rate method is recognised in the income statement as well as interest income from financial assets held for trading and available for sale.

The effective interest rate method is a method of calculation of the amortised initial value of financial assets or financial liabilities and allocation of interest income or interest expense to the proper periods. The effective interest rate is the interest rate at which the discounted future payments or future cash inflows in the expected life of the financial instrument, are equal to the net present carrying value of the respective financial asset or liability. When calculating the effective interest rate, the Group estimates the cash flows taking into account all the contractual terms of the financial instrument, but without taking into account possible future losses on account of non-recovered loans and advances. This calculation takes into account all the fees paid or received between the parties to the contract, which constitute an integral component of the effective interest rate, as well as transaction expenses and any other premiums or discounts.

Following the recognition of an impairment loss on a financial asset or a group of similar financial assets, the interest income is calculated on the net value of financial assets and recognised using the interest rate at which the future cash flows were discounted for the purpose of valuation of impairment.

Interest income includes interest and commissions received or due on account of loans, inter-bank deposits or investment securities recognised in the calculation of the effective interest rate.

Interest income, including interest on loans, is recognised in the income statement and on the other side in the statement of financial position as part of receivables from banks or from other customers.

The calculation of the effective interest rate takes into account the cash flows resulting from only those embedded derivatives, which are strictly linked to the underlying contract.

Income and expenses related to the interest component of the result on interest rate derivatives and resulting from current calculation of swap points on currency derivatives classified into banking book are presented in the interest results in the position Interest income/expense on derivatives classified into banking book. The banking book includes transactions, which are not concluded for trading purposes i.e. not aimed at generating a profit in a short-term period (up to 6 months) and those that do not constitute hedging a risk arising from the operations assigned into trading book.

Interest income and interest expenses related to the interest measurement component of derivatives concluded as hedging instruments under fair value hedge are presented in the interest result in the position interest income/expense on derivatives under the fair value hedge accounting.

Interest income related to the interest measurement component of derivatives concluded as hedging instruments under cash flow hedge are presented in the interest result in the position interest income on derivatives under the cash flow hedge accounting.

2.5. Fee and commission income

Income on account of fees and commissions is recognised on the accrual basis, at the time of performance of the respective services. Fees charged for the granting of loans which are likely to be drawn down are deferred (together with the related direct costs) and recognised as adjustments of the effective interest rate charge on the loan. Fees on account of syndicated loans are recognised as income at the time of closing of the process of organisation of the respective syndicate, if the Group has not retained any part of the credit risk on its own account or has retained a part of the risk of a similar level as other participants. Commissions and fees on account of negotiation or participation in the negotiation of a transaction on behalf of a third party, such as the acquisition of shares or other securities, or the acquisition or disposal of an enterprise, are recognised at the time of realisation of the transaction. The same principle is applied in the case of management of client assets, financial planning and custody services, which are continuously provided over an extended period of time.

Fee and commissions collected by the Group on account of issuance, renewal and change in the limit of credit and payment cards, guarantees granted as well as opening, extension and increase of letters of credit are accounted for a straight-line basis.

Fee and commissions collected by the Group on account of cash management operations, keeping of customer accounts, money transfers and brokerage business activities are recognised directly in the income statement.

Additionally, fee and commission income on insurance activity comprises income on services provided by an insurance agent and income on account of payments for arranging instalments for a premium for insurance products sold through the Internet platform. The fee for the distribution of premium installment is settled in accordance with the duration of the policy.

Income on account of services provided as an insurance agent is recognised at the time of performance of the services in the net amount.

The Group's fee and commission income comprises also income from offering insurance products of third parties. In case of selling insurance products that are not bundled with loans, the revenues are recognized as upfront income or in majority of cases settled on a monthly basis.

2.6. Revenue and expenses from sale of insurance products bundled with loans

The Group treats sold insurance products as bundled with loans, in particular when insurance product is offered to the customer only with the loan, i.e. it is not possible to purchase from the Group the insurance product which is identical in a legal form, content and economic conditions without purchasing the loan.

Revenue and expenses from sale of insurance products bundled with loans are split into interest income and fee and commission income based on the relative fair value analysis of each of these products.

The remuneration included in interest income is recognised over time as part of effective interest rate calculation for the bundled loan. The remuneration included in fee and commission income is recognised partly as upfront income and partly including deferring over time based on the analysis of the stage of completion of the service.

Expenses directly linked to the sale of insurance products are recognised using the same pattern as in case of income observing the matching concept. A part of expenses is treated as an element adjusting the calculation of effective interest rate for interest income and the remaining part of expenses is recognised in fee and commission expenses as upfront cost or as cost accrued over time.

The Group estimates also the part of remuneration which in the future will be returned due to early termination of insurance contract and appropriately decreases interest income or fee and commission income to be recognised.

2.7. Insurance premium revenue

Insurance premium revenue accomplished upon insurance activity is recognised at the policy issue date and calculated proportionally over the period of insurance cover. Insurance premium revenue is recognised under other operating income in the consolidated financial statements of the Group.

2.8. Compensations and benefits, net

Compensations and benefits, net relate to insurance activity. They comprise payoffs and charges made in the reporting period due to compensations and benefits for events arising in the current and previous periods, together with costs of claims handling and costs of enforcement of recourses, less received returns, recourses and any recoveries, including recoveries from sale of remains after claims and reduced by reinsurers' share in these positions. Costs of claims handling and costs of enforcement of recourses also comprise costs of legal proceedings. The item also comprises compensations and benefits due to co-insurance activity in the part related to the share of the Group. Compensations and benefits, net are recognised together with insurance premium revenue recognition under other operating income in the consolidated financial statements of the Group.

2.9. Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the Group), whose operating results are regularly reviewed by the Group's chief operating decision-maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker is the person or group that allocates resources to and assesses the performance of the operating segments of an entity. As defined in IFRS 8, the Group has determined the Management Board of the Bank as its chief operating decision-maker.

In accordance with IFRS 8, the Group has the following business segments: Corporates and Financial Markets including the sub-segments *Corporate and Investment Banking* as well as *Financial Markets*, Retail Banking (including Private Banking), and the Other business.

2.10. Financial assets

The Group classifies its financial assets to the following categories: financial assets valued at fair value through the income statement; loans and receivables; financial assets held to maturity; financial assets available for sale. The classification of financial assets is determined by the Management at the time of their initial recognition.

Standardised purchases and sales of financial assets at fair value through the income statement, held to maturity and available for sale are recognised on the settlement date – the date on which the Group delivers or receives the asset. Changes in fair value in the period between trade and settlement date with respect to assets carried at fair value is recognised in profit or loss or in other components of equity. Loans are recognised when cash is advanced to the borrowers. Derivative financial instruments are recognised beginning from the date of transaction.

A financial asset is de-recognized if Group loses control over any contractual rights attached to that asset, which usually takes place if the financial instrument is disposed of or if all cash flows attached to the instrument are transferred to an independent third party.

Financial assets valued at fair value through the income statement

This category comprises two subcategories: financial assets held for trading and financial assets designated at fair value through the income statement upon initial recognition. A financial asset is classified in this category if it was acquired principally for the purpose of short-term resale or if it was classified in this category by the companies of the Group. Derivative instruments are also classified as "held for trading", unless they were designated for hedging according to IAS 39.

Disposals of debt and equity securities held for trading are accounted according to the weighted average method.

The Group classifies financial assets/financial liabilities as measured at fair value through the income statement if they meet either of the following conditions:

- assets/liabilities are classified as held for trading i.e. they are acquired or incurred principally for the purpose of selling or repurchasing them in the near term, they are a part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit making or they are derivatives (except for derivatives that are designated as and being effective hedging instruments and financial guarantee contracts),
- upon initial recognition, assets/liabilities are designated by the entity at fair value through the income statement according to IAS 39.

If a contract contains one or more embedded derivatives, the Group designates the entire hybrid (combined) contract as a financial asset or financial liability at fair value through the income statement unless:

- the embedded derivative(s) does not significantly modify the cash flows that otherwise would be required by the contract; or
- it is clear with little or no analysis when a similar hybrid instrument is first considered that separation of the embedded derivative(s) is prohibited, such as a prepayment option embedded in a loan that permits the holder to prepay the loan for approximately its amortised cost.

The Group also designates the financial assets/financial liabilities at fair value through the income statement when doing so results in more relevant information, because either:

- it eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as "an accounting mismatch") that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; or
- a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the entity's key management personnel.

Financial assets and financial liabilities classified to this category are valued at fair value upon initial recognition.

Interest income/expense on financial assets/financial liabilities designated at fair value (Note 2.4), except for derivatives the recognition of which is discussed in Note 2.17, is recognised in net interest income. The valuation and result on disposal of financial assets/financial liabilities designated at fair value is recognised in trading income.

Loans and receivables

Loans and receivables consist of financial assets not classified as derivative instruments, with payments either determined or possible to determine, not listed on an active market. They arise when the Group supplies monetary assets, goods or services directly to the debtor without any intention of trading the receivable.

Held to maturity investments

Investments held to maturity comprise listed on active markets financial assets, not classified as derivative instruments, where the payments are determined or possible to determine and with specified maturity dates, and which the Group intends and is capable of holding until their maturity.

In the case of sale by the Group before maturity of a part of assets held to maturity which cannot be deemed insignificant the held to maturity portfolio is tainted, and there with all the assets of this category are reclassified to the available for sale category.

In reporting periods presented in these financial statements, there were no assets held to maturity at the Group.

Available for sale investments

Available for sale investments consist of investments which the Group intends to hold for an undetermined period of time. They may be sold, e.g., in order to improve liquidity, in reaction to changes of interest rates, foreign exchange rates, or prices of equity instruments.

Interest income and expense from available for sale investments are presented in net interest income. Gains and losses from sale of available for sale investments are presented in gains and losses from investment securities.

Available for sale financial assets and financial assets measured at fair value through the income statement are valued at the end of the reporting period according to their fair value. Loans and receivables, as well as investments held to maturity are measured at adjusted cost of acquisition (amortised cost), applying the effective interest rate method. Gains and losses resulting from changes in the fair value of "financial assets measured at fair value through the income statement" are recognised in the income statement in the period in which they arise.

Gains and losses arising from changes in the fair value of available for sale financial assets are recognised in other comprehensive income until the derecognition of the respective financial asset in the statement of financial position or until its impairment: at such time the aggregate net gain or loss previously recognised in other comprehensive income is now recognised in the income statement. However, interest calculated using the effective interest rate is recognised in the income statement. Dividends on available for sale equity instruments are recognised in the income statement when the entity's right to receive payment is established.

The fair value of quoted investments in active markets is based on current market prices. If the market for a given financial asset is not an active one, the Group determines the fair value by applying valuation techniques. These comprise recently conducted transactions concluded according to normal market principles, reference to other instruments, discounted cash flow analysis, as well as valuation models for options and other valuation methods generally applied by market participants.

If the application of valuation techniques does not ensure obtaining a reliable fair value of investments in equity instruments not quoted on an active market, they are stated at cost.

2.11. Reinsurance assets

The Group transfers insurance risks to reinsurers in the course of typical operating activities in insurance activity. Reinsurance assets comprise primarily reinsurers' share in technical-insurance provisions.

The amounts of settlements with reinsurers are estimated according to relevant reinsured polices and reinsurance agreements.

Tests for impairment of reinsurance assets are carried out if there is objective evidence that the reinsurance asset is impaired. Impairment loss of reinsurance asset is calculated if either there is an objective evidence that the Group might not receive the receivable in accordance with the agreement or the value of such impairment can be reliably assessed.

If in a subsequent period the impairment loss is decreasing and the decrease can be objectively related to an event occurring after the recognition of impairment, then the previously recognised impairment loss is reversed as an adjustment of the impairment loss through the consolidated income statement.

The reversal cannot cause an increase of the carrying amount of the financial asset more than the amount which would constitute the amortised cost of this asset on the reversal date if the recognition of the impairment did not occur at all.

2.12. Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

2.13. Impairment of financial assets

Assets carried at amortised cost

At the end of the reporting period, the Group estimates whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the future cash flows of the financial asset or group of financial assets that can be reliably estimated. Loss events were divided into definite ('hard') loss events of which occurrence requires that there is a need to classify the client into the default category, and indefinite ('soft') loss events of which occurrence may imply that there is a need to classify the client into the default category.

The Group first assesses whether objective indications exist individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Group determines that for the given financial asset assessed individually there are no objective indications of its impairment (regardless of whether that particular item is material or not), the given asset is included in a group of financial assets featuring similar credit risk characteristics, which is subsequently collectively assessed in terms of its possible impairment. Financial assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If there is impairment indicator for impairment of loans and receivables or investments held to maturity and recognised at amortised cost, the impairment amount is calculated as the difference between the carrying value in the statement of financial position of the respective asset and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying value of the asset is reduced through the use of an allowance account, and the resulting impairment loss is charged to the income statement. If a loan or held to maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

The calculation of the present value of estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purpose of collective evaluation of impairment, the credit exposures are grouped in order to ensure the uniformity of credit risk attached to the given portfolio. Many different parameters may be applied to the grouping into homogeneous portfolios, e.g., the type of counterparty, the type of exposure, estimated probability of default, the type of collateral provided, overdue status outstanding, maturities, and their combinations. Such features influence the estimation of the future cash flows attached to specific groups of assets as they indicate the capabilities of repayment on the part of debtors of their total liabilities in conformity with the terms and conditions of the contracts concerning the assessed assets.

Future cash flows concerning groups of financial assets assessed collectively in terms of their possible impairment are estimated on the basis of contractual cash flows and historical loss experience for assets with credit risk characteristics similar to those in the group.

Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

For the purpose of calculation of the amount to be provisioned against balance sheet exposures analysed collectively, the probability of default (PD) method has been applied. By calibration of PD values, taking into account characteristics of specific products and emerging periods for losses on those products, such PD values allow already arisen losses to be identified and cover only the period in which the losses arising at the date of establishment of impairment should crystallise.

When a loan is uncollectible, it is written off against the related provision for impairment. Before any loan is written off, it is necessary to conduct all the procedures required by the Group and sets the amount of the loss. Subsequent recoveries of amounts previously written off reduce the amount of the provision for loan impairment in the income statement.

If in a subsequent period, after the transitional period, the impairment loss amount is decreasing and the decrease can be related objectively to an event occurring after the impairment was recognised (e.g., improvement of the debtor's credit rating), then the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recorded in the income statement.

Assets measured at fair value available for sale

At the end of the reporting period the Group estimates whether there is an objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity instruments classified as assets available for sale, a significant or prolonged decline in the fair value of the security below its cost resulting from higher credit risk is considered when determining whether the assets are impaired. If such kind of evidence concerning available for sale financial assets exists, the cumulative loss – determined as the difference between the cost of acquisition and the current fair value – is removed from other comprehensive income and recognised in the income statement. The above indicated difference should be reduced by the impairment concerning the given asset which was previously recognised in the income statement. Impairment losses concerning equity instruments recorded in the income statement are not reversed through the income statement, but through other comprehensive income. If the fair value of a debt instrument classified as available for sale increases in a subsequent period, and such increase can be objectively related to an event occurring after the recording of the impairment loss in the income statement, then the respective impairment loss is reversed in the income statement.

Renegotiated agreements

The Group considers renegotiations on contractual terms of loans and advances as impairment indicator unless the renegotiation was not due to the situation of the debtor but had been carried out on normal business terms. In such a case the Group makes an assessment whether the impairment should be recognised on either individual or group basis.

2.14. Financial guarantee contracts

The financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

When a financial guarantee contract is recognised initially, it is measured at the fair value. After initial recognition, an issuer of such a contract measures it at the higher of:

- the amount determined in accordance with IAS 37 "*Provisions, Contingent Liabilities and Contingent Assets*", and
- the amount initially recognised less, when appropriate, cumulative amortization recognised in accordance with IAS 18 "*Revenue*".

2.15. Cash and cash equivalents

Cash and cash equivalents comprise items with maturities of up to three months from the date of their acquisition, including: cash in hand and cash held at the Central Bank with unlimited availability for disposal, Treasury bills and other eligible bills, loans and advances to banks, amounts due from other banks and government securities acquired for the purpose of short-term resale.

2.16. Sell-buy-back, buy-sell-back, reverse repo and repo contracts

Repo and reverse-repo transactions are defined as selling and purchasing securities for which a commitment has been made to repurchase or resell them at a contractual date and for a specified contractual price and are recognised when the money is transferred.

Securities sold with a repurchase clause (repos/sell buy back) are reclassified in the financial statements as pledged assets if the entity receiving them has the contractual or customary right to sell or pledge them as collateral security. The liability towards the counterparty is recognised as amounts due to other banks, deposits from other banks, other deposits or amounts due to customers, depending on its nature. Securities purchased together with a resale clause (reverse repos/buy sell back) are recognised as loans and advances to other banks or other customers, depending on their nature.

When concluding a repo or reverse repo transaction, mBank S.A. Group sells or buys securities with a repurchase or resale clause specifying a contractual date and price. Such transactions are presented in the statement of financial position as financial assets held for trading or as investment financial assets, and also as liabilities in the case of 'sell-buy-back' transactions and as receivables in the case of 'buy-sell-back' transactions.

Securities borrowed by the Group are not recognised in the financial statements, unless they are sold to third parties. In such case the purchase and sale transactions are recorded with a gain or a loss included in trading income. The obligation to return them is recorded at fair value as amounts due to customers.

Securities borrowed under "buy-sell-back" transactions and then lent under "sell-buy-back" transactions are not recognised as financial assets.

As a result of "sell-buy-back" transactions concluded on securities held by the Group, financial assets are transferred in such way that they do not qualify for derecognition. Thus, the Group retains substantially all risks and rewards of ownership of the financial assets.

2.17. Derivative financial instruments and hedge accounting

Derivative financial instruments are recognised at fair value from the date of transaction. Fair value is determined based on prices of instruments listed on active markets, including recent market transactions, and on the basis of valuation techniques, including models based on discounted cash flows and options pricing models, depending on which method is appropriate in the particular case. All derivative instruments with a positive fair value are recognised in the statement of financial position as assets, those with a negative value as liabilities.

The best fair value indicator for a derivative instrument at the time of its initial recognition is the price of the transaction (i.e., the fair value of the paid or received consideration). If the fair value of the particular instrument may be determined by comparison with other current market transactions concerning the same instrument (not modified) or relying on valuation techniques based exclusively on market data that are available for observation, then the Group recognises the respective gains or losses from the first day in accordance with the principles described under Note 2.18.

Embedded derivative instruments are treated as separate derivative instruments if the risks attached to them and their characteristics are not strictly linked to the risks and characteristics of the underlying contract and the underlying contract is not measured at fair value through the income statement. Embedded derivative instruments of this kind are measured at fair value and the changes in fair value are recognised in the income statement.

In accordance with IAS 39 AG 30: (i), there is no need to separate the prepayment option from the host debt instrument for the needs of consolidated financial statements, because the option's exercise price is approximately equal on each exercise date to the amortised cost of the host debt instrument. If the value of prepayment option was not to be closely related to the underlying debt instrument, the option should be separated and fair valued in the consolidated financial statements of the Group; (ii), exercise price of a prepayment option reimburses the lender for an amount up to the approximate present value of lost interest for the remaining term of the host contract. Lost interest is the product of the principal amount prepaid multiplied by the interest rate differential. The interest rate differential is the excess of the effective interest rate of the host contract over the effective interest rate the entity would receive at the prepayment date if it reinvested the principal amount prepaid in a similar contract for the remaining term of the host contract.

The assessment of whether the call or put option is closely related to the host debt contract is made before separating the equity element of a convertible debt instrument in accordance with IAS 32.

The method of recognising the resulting fair value gain or loss depends on whether the given derivative instrument is designated as a hedging instrument, and if it is, it also depends on the nature of the hedged item. The Group designates some derivative instruments either as (1) fair value hedges against a recognised asset or liability or against a binding contractual obligation (fair value hedge), or as (2) hedges against highly probable future cash flows attributable to a recognised asset or liability, or a forecasted transaction (cash flow hedge). Derivative instruments designated as hedges against positions maintained by the Group are recorded by means of hedge accounting, subject to the fulfilment of the criteria specified in IAS 39:

- At the inception of the hedge there is formal designation and documentation of the hedging relationship and the entity's risk management objective and strategy for undertaking the hedge. That documentation shall include identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instruments effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk.
- The hedge is expected to be highly effective in offsetting changes in fair value or cash flows attributable to the hedged risk, consistently with the originally documented risk management strategy for that particular hedging relationship.
- For cash flow hedges, a forecast transaction that is the subject of the hedge must be highly probable and must present an exposure to variations in cash flows that could ultimately affect profit or loss.
- The effectiveness of the hedge can be reliably measured, i.e. the fair value or cash flows of the hedged item that are attributable to the hedged risk and the fair value of the hedging instrument can be reliably measured.

- The hedge is assessed on an ongoing basis and determined actually to have been highly effective throughout the financial reporting periods for which the hedge was designated.

The Group documents the objectives of risk management and the strategy of concluding hedging transactions, as well as at the time of concluding the respective transactions, the relationship between the hedging instrument and the hedged item. The Group also documents its own assessment of the effectiveness of fair value hedging and cash flow hedging transactions, measured both prospectively and retrospectively from the time of their designation and throughout the period of duration of the hedging relationship between the hedging instrument and the hedged item.

Due to the split of derivatives classified into banking book and into trading book, the Group applies a different approach to the presentation of interest income/expense for each of these groups of derivatives that is described in Note 2.4 "Interest income and expenses". The remaining result from fair value measurement of derivatives is recognised in "Net trading income".

Fair value hedges

Changes in the fair value of derivative instruments designated and qualifying as fair value hedges are recognised in the income statement together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

In case a hedge has ceased to fulfil the criteria of hedge accounting, the adjustment to the carrying value of the hedged item for which the effective interest method is used is amortised to the income statement over the period to maturity. The adjustment to the carrying amount of the hedged equity security remains in other comprehensive income until the disposal of the equity security.

Cash flow hedges

The effective part of the fair value changes of derivative instruments designated and qualifying as cash flow hedges is recognised in other comprehensive income. The gain or loss concerning the ineffective part is recognised in the income statement of the current period.

The amounts recognised in other comprehensive income are transferred to the income statement and recognised as income or cost of the same period in which the hedged item will affect the income statement (e.g., at the time when the forecast sale that is hedged takes place).

In case the hedging instrument has expired or has been sold, or the hedge has ceased to fulfil the criteria of hedge accounting, any aggregate gains or losses recognised at such time in other comprehensive income remain in other comprehensive income until the time of recognition in the income statement of the forecast transaction. When a forecast transaction is no longer expected to occur, the aggregate gains or losses recorded in other comprehensive income are immediately transferred to the income statement.

Derivative instruments not fulfilling the criteria of hedge accounting

Changes of the fair value of derivative instruments that do not meet the criteria of hedge accounting are recognised in the income statement of the current period.

The Group holds the following derivative instruments in its portfolio:

Market risk instruments:

- Futures contracts for bonds, index futures
- Options for securities and for stock-market indices
- Options for futures contracts
- Forward transactions for securities
- Commodity swaps

Interest rate risk instruments:

- Forward Rate Agreement (FRA)
- Interest Rate Swap (IRS), Overnight Index Swap (OIS)
- Interest Rate Options

Foreign exchange risk instruments:

- Currency forwards, fx swap, fx forward
- Cross Currency Interest Rate Swap (CIRS)
- Currency options.

2.18. Gains and losses on initial recognition

The best evidence of fair value of a financial instrument at initial recognition is the transaction price (i.e., the fair value of the payment given or received), unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (without modification) or based on a valuation technique whose variables include only data from observable markets.

The transaction for which the fair value determined using a valuation model (where inputs are both observable and non-observable data) and the transaction price differ, the initial recognition is at the transaction price. The Group assumes that the transaction price is the best indicator of fair value, although the value obtained from the valuation model may differ. The difference between the transaction price and the model value, commonly referred to as 'day one profit and loss', is amortised over the period of time.

The timing of recognition of deferred day one profit and loss is determined individually. It is either amortised over the life of the transaction, deferred until the instrument's fair value can be determined using market observable date, or realised through settlement. The financial instrument is subsequently measured at fair value, adjusted for the deferred day one profit and loss. Subsequent changes in fair value are recognised immediately in the income statement without reversal of deferred day one profits and losses.

2.19. Borrowings and deposits taken

Borrowings (including deposits) are initially recognised at fair value reduced by the incurred transaction costs. After the initial recognition, borrowings are recorded at adjusted cost of acquisition (amortised cost using the effective interest method). Any differences between the amount received (reduced by transaction costs) and the redemption value are recognised in the income statement over the period of duration of the respective agreements according to the effective interest rate method.

2.20. Intangible assets

The Group measures intangible assets initially at cost. After initaial recognition, intangible assets are recognised at their cost of acquisition adjusted by the costs of improvement (rearrangement, development, reconstruction or modernisation) less any accumulated amortization and any accumulated impairment losses. Accumulated amortization is accrued by the straight line method taking into account the expected period of economic useful life of the respective intangible assets.

<u>Goodwill</u>

Goodwill as of the acquisition date is measured as the excess of the aggregate of the consideration transferred, the amount of any non-controlling interest in the acquiree and in a business combination achieved in stages, the acquisition-date fair value of the acquirer's previously held equity interest in the acquire over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

Goodwill on acquisition of subsidiaries is included in "Intangible assets". Goodwill is not amortised, but it is tested annually for impairment and if there have been any indication that it may be impaired, and it is carried in the statement of financial position at cost reduced by accumulated impairment losses. The Group assesses at the end of each reporting period whether there is any indication that cash generaing unit to which goodwill is allocated may be impaired. If any such indication exists, the Group estimates the recoverable amount of the asset. Goodwill impairment losses should not be reversed.

Gains and losses on the disposal of the activity include the carrying amount of goodwill relating to the sold activity. Goodwill is allocated to cash generating units or groups of cash generating units for the purpose of impairment testing. The allocation is made as at the date of purchase to those cash-generating units or groups of cash generating units that are expected to benefit from the business combination in which the goodwill arose, not bigger than operating segments in accordance with IFRS 8 irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

<u>Computer software</u>

Purchased computer software licences are capitalised in the amount of costs incurred for the purchase and adaptation for use of specific computer software. These costs are amortised on the basis of the expected useful life of the software (2-11 years). Expenses attached to the maintenance of computer software are expensed when incurred. Expenses directly linked to the development of identifiable and unique proprietary computer programmes controlled by the Group, which are likely to generate economic benefits in excess of such costs expected to be gained over a period exceeding one year, are recognised as intangible assets. Direct costs comprise personnel expenses directly related to the software.

Capitalised costs attached to the development of software are amortised over the period of their estimated useful life.

Computer software directly connected with the functioning of specific information technology hardware is recognised as "Tangible fixed assets".

Development costs

The Group identifies development costs as intangible asset as the asset will generate probable future economic benefits and fulfil the following requirements described in IAS 38, i.e., the Group has the intention and technical feasibility to complete and to use the intangible asset, the availability of adequate technical, financial and other resources to complete and to use the intangible asset and the ability to measure reliably the expenditure attributable to the intangible asset during its development.

"Development costs" useful lives are finite and the amortization period does not exceed 3 years. Amortization rates are adjusted to the period of economic utilisation. The Group shows separately additions from internal development and separately those acquired through business combinations.

Development expenditure comprises all expenditure that is directly attributable to research and development activities.

Intangible assets are tested in terms of possible impairment always after the occurrence of events or change of circumstances indicating that their carrying value in the statement of financial position might not be possible to be recovered.

2.21. Tangible fixed assets

Tangible fixed assets are carried at historical cost reduced by accumulated depreciation and accumulated impairment losses. Historical cost takes into account the expenses directly attached to the acquisition of the respective assets.

Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only where it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. Any other expenses incurred on repairs and maintenance are expensed to the income statement in the reporting period in which they were incurred.

Land is not depreciated. Depreciation of other fixed assets is accounted for according to the straight line method in order to spread their initial value reduced by the residual value over the period of their useful life which is estimated as follows for the particular categories of fixed assets:

Buildings and structures	25-40 years,
Equipment	2-10 years,
Vehicles	5 years,
Information technology hardware	2-5 years,
Investments in third party fixed assets	10-40 years, no longer when the period of the lease contract,
Office equipment, furniture	5-10 years.

Land and buildings consist mainly of branch outlets and offices. Residual values, estimated useful life periods and depreciation method are verified at the end of the reporting period and adjusted accordingly as the need arises prospectively.

Group assesses at the end of each reporting period whether there is any indication that tangible asset may be impaired. If any such indication exists, the Group estimates the recoverable amount of the asset. The value of a fixed asset carried in the statement of financial position is reduced to the level of its recoverable value if the carrying value in the statement of financial position exceeds the estimated recoverable amount. The recoverable value is the higher of two amounts: the fair value of the fixed asset reduced by its selling costs and the value in use.

If it is not possible to estimate the recoverable amount of the individual asset, the Group shall determine the recoverable amount of the cash-generating unit to which the asset belongs (cash-generating unit of the asset).

The carrying amount of tangible fixed assets is derecognised on disposal or when no future economic benefits are expected from its use or disposal. The gain or loss arising from from the derecognition of tangible fixed assets are included in profit or loss when the item is derecognised. Gains are not classified as revenue.

Gains and losses on account of the disposal of fixed assets are determined by comparing the proceeds from their sale against their carrying value in the statement of financial position and they are recognised in the income statement.

2.22. Inventories

Inventories are stated at the lower of: cost of purchase/cost of construction and net realisable value. Cost of construction of inventories comprises direct construction costs, the relevant portion of fixed indirect production costs incurred in the construction process and the borrowing costs, which can be directly allocated to the purchase or construction of an asset. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling costs. The amount of any inventory write-downs to the net realisable value and any inventory losses are recorded as costs of the period in which a write-down or a loss occurred and they are classified as other operating costs. Reversals of inventory write-downs resulting from increases in their net realisable value are recorded as a reduction of the inventories recognised as cost of the period in which the reversals took place. Inventory issues are valued through detailed identification of the individual purchase prices or costs of construction of the assets which relate to the realisation of the individual separate undertakings. In particular, inventories comprise land and rights to perpetual usufruct of land designated for use as part of construction projects carried out. They also comprise assets held for lease as well as assets taken over as a result of terminated lease agreements and loan agreements.

2.23. Non-current assets held for sale and discontinued operations

The Group classifies a non-current asset (or disposal group) as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. For this to be the case, the asset (or disposal group) must be available for immediate sale in its present condition subject only to terms that are usual and customary for sale of such assets (or disposal groups) and its sale must be highly probable, i.e., the appropriate level of management must be committed to a plan to sell the asset (or disposal group), and an active programme to locate a buyer and complete the plan must have been initiated. Further, the asset must be actively marketed for sale at a price that is reasonable in relation to its current fair value. In addition, the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets held for sale are priced at the lower of: carrying value and fair value less costs to sell. Assets classified in this category are not depreciated.

When criteria for classification to non-current assets held for sale are not met, the Group ceases to classify the assets as held for sale and reclassifies them into appropriate category of assets. The Group measures a non-current asset that ceases to be classified as held for sale (or ceases to be included in a disposal group classified as held for sale) at the lower of:

- its carrying amount at a date before the asset (or disposal group) was classified as held for sale, adjusted for any depreciation, amortization or revaluations that would have been recognised had the asset (or disposal group) not been classified as held for sale, and
- its recoverable amount at the date of the subsequent decision not to sell.

Discontinued operations are a component of the Group that either has been disposed of or is classified as held for sale and represents a separate major line of business or geographical area of operation or is a subsidiary acquired exclusively with a view to resale.

The classification to this category takes places at the moment of sale or when the operation meets criteria of the operation classified as held for sale, if this moment took place previously. Disposal group which is to be taken out of usage may also be classified as discontinued operation.

2.24. Deferred income tax

The Group creates a deferred income tax on the temporary difference arising between the carrying amount of an asset or liability in the statement of financial position and its tax base. A taxable net difference is recognised in liabilities as 'Provisions for deferred income tax'. A deductible net difference is recognised under "Deferred income tax assets". Any change in the balance of the deferred tax assets and liabilities in relation to the previous accounting period is recorded under the item "Income Tax". The balance sheet method is applied for the calculation of the deferred corporate income tax.

Liabilities or assets for deferred corporate income tax are recognised in their full amount according to the balance sheet method in connection with the existence of temporary differences between the tax value of assets and liabilities and their carrying value. Such liabilities or assets are determined by application of the tax rates in force by virtue of law or of actual obligations at the end of the reporting period. According to expectations such tax rates applied will be in force at the time of realisation of the assets or settlement of the liabilities for deferred corporate income tax.

The main temporary differences arise on account of impairment write-offs recognised in relation to the loss of value of credits and granted guarantees of repayment of loans, amortization of fixed assets and intangible assets, finance leases treated as operating leases for tax purposes, revaluation of certain financial assets and liabilities, including contracts concerning derivative instruments and forward transactions, provisions for retirement benefits and other benefits following the period of employment, and also deductible tax losses.

The Group reviews the carrying amount of a deferred tax assets at the end of each reporting period. The Group reduces the carrying amount of a deferred tax asset to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of that deferred tax asset to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available.

The Group presents the deferred income tax assets and liabilities netted in the statement of financial position separately for each subsidiary undergoing consolidation. Such assets and provisions may be netted against each other if the Group possesses the legal rights allowing it to simultaneously account for them when calculating the amount of the tax liability.

In the case of the Bank, the deferred income tax assets and provisions are netted against each other separately for each country where the Bank conducts its business and is obliged to settle corporate income tax.

The Group discloses separately the amount of negative temporary differences (mainly on account of unused tax losses or unutilised tax allowances) in connection with which the deferred income tax asset was not recognised in the statement of financial position, and also the amount of temporary differences attached to investments in subsidiaries and associates for which no deferred income tax provision has been formed.

Deferred income tax for the Group is provided on assets or liabilities due to temporary differences arising from investments in subsidiaries and associates, except where, on the basis of any probable evidence, the timing of the reversal of the temporary difference is controlled by the Group and it is possible that the difference will not reverse in the foreseeable future.

Deferred income tax on account of revaluation of available for sale investments and of revaluation of cash flow hedging transactions is accounted for in the same way as any revaluation, directly in other comprehensive income, and it is subsequently transferred to the income statement when the respective investment or hedged item affects the income statement.

2.25. Assets repossessed for debt

Repossessed collateral represents financial and non-financial assets acquired by the Group in settlement of overdue loans. The assets are initially recognised at fair value when acquired and included in premises and equipment, financial assets or other assets depending on their nature and the Group's intention in respect of recovery of these assets. In case the fair value of repossessed collateral exceeds the receivable from the debtor, the difference constitutes a liability toward the debtor.

Repossessed assets are subsequently measured and accounted for in accordance with the accounting policies relevant for these categories of assets.

2.26. Prepayments, accruals and deferred income

Prepayments are recorded if the respective expenses concern the months succeeding the month in which they were incurred. Prepayments are presented in the statement of financial position under 'Other assets'.

Accruals include costs of supplies delivered to the Group but not yet resulting in its payable liabilities. Deferred income includes received amounts of future benefits. Accruals and deferred income are presented in the statement of financial position under the item 'Other liabilities'.

Deferred income comprises reinsurance and co-insurance commissions, resulting from insurance agreements included in reinsurance and co-insurance agreements, which are subject to settlement over the period in the proportional part to the future reporting periods.

Acquisition costs in the part attributable to future reporting periods are subject to settlement, proportionally to the duration of the relevant insurance agreements.

2.27. Leasing

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. Title may or may not eventually be transferred. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

The Group determines whether an arrangement is, or contains, a lease based on the substance of the arrangement and assessment of whether fulfilment of the arrangement is dependent on the use of a specific asset and the arrangement conveys a right to use the asset.

mBank S.A. Group as a lessor

In the case of assets in use on the basis of a finance lease agreement, the amount equal to the net investment in the lease is recognised as receivables and presented as "Loans and advances to customers". The difference between the gross receivable amount and the present value of the receivables is recognised as unrealised financial income.

Revenue from leasing agreements is recognised as follows:

- Interests on finance lease

Revenue from finance lease is recognised on the accruals basis, based on the fixed rate of return calculated on the basis of all the cash flows related to the realisation of a given lease agreement, discounted using the lease interest rate.

- Net revenue from operating lease

Revenue from operating lease and the depreciation cost of fixed assets provided by the Group under operating lease, incurred in order to obtain this revenue are recognised in net amount as other operating income in the profit and loss account.

Revenue from operating lease is recognised as income on a straight-line basis over the lease period, unless application of a different systematic method better reflects the time allocation of benefits drawn from the leased asset.

mBank S.A. Group as a lessee

The leases entered into by the Group are primarily operating leases. The total payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

2.28. Provisions

The value of provisions for contingent liabilities such as unutilised guarantees and (import) letters of credit, as well as for unutilised irreversible unconditionally granted credit limits, is measured in compliance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets.

According to IAS 37, provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is more likely that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated.

Technical-insurance provisions for unpaid claims, benefits and premiums concern insurance activity.

Provision for unpaid claims and benefits is created in the amount of the established or expected final value of future claims and benefits paid in connection with events before the reporting period date, including related claims handling costs.

Provision for unpaid claims and benefits which were notified to the insurer and in relation to which the information held does not enable to assess the value of claims and benefits is calculated using the lump sum method.

Provision for premiums is created individually for each insurance agreement as premium written, attributed to subsequent reporting periods, proportionally to the period for which the premium was written on the daily basis. However, in case of insurance agreements whose risk is not evenly apportioned over the period of duration of insurance, provision is created proportionally to the expected risk in subsequent reporting periods.

At each reporting date, the Group tests for adequacy of technical-insurance provisions to ensure whether the provisions deducted by deferred acquisition costs are sufficient. The adequacy test is carried out using up-to-date estimates of future cash flows arising from insurance agreements, including costs of claims handling and policy-related costs.

If the assessment reveals that the technical-insurance provisions are insufficient in relation to estimated future cash flows, then the whole disparity is promptly recognised in the consolidated income statement through impairment of deferred acquisition costs or/and supplementary provisions.

2.29. Post-employment employee benefits and other employee benefits

Post-employment employee benefits

The Group forms provisions against future liabilities on account of post-employment benefits determined on the basis of an estimation of liabilities of that type, using an actuarial model. The Group uses a principle of recognition of actuarial gains or losses from the measurement of post-employment benefits related to changes in actuarial assumptions in other comprehensive income that will not be reclassified to the income statement. The Group recognizes service cost and net interest on the net defined benefit liability in the "Overhead cost" and in other interest expenses, respectively. The Group runs programmes of remuneration based on and settled in own shares as well as based on shares of the ultimate parent of the Bank and settled in cash.

Equity-settled share-based payment transactions

Equity-settled share-based payment transactions are accounted for in compliance with IFRS 2 Share-based Payment.

In case of the part of the programme settled in shares, the fair value of the service rendered by employees in return for options and shares granted increases the costs of the respective period corresponding to own equity. The total amount which needs to be expensed over the period when the outstanding rights of the employees for their options and shares to become exercisable are vested is determined on the basis of the fair value of the granted options and shares. There are no market vesting conditions that shall be taken into account when estimating the fair value of share options and shares at the measurement date. Non-market vesting conditions are not taken into account when estimating the fair value of share options and shares but they are taken into account through adjustment on the number of equity instruments. At the end of each reporting period, the Bank revises its estimates of the number of options and shares that are expected to become exercised. In accordance with IFRS 2 it is not necessary to recognise the change in fair value of the share-based payment over the term of the programmes.

Cash-settled share-based payment transactions

In case of the part of the programme based on cash-settled share-based payments based on shares of the ultimate parent of the Bank, the fair value of the service rendered by employees in return for right to options/share appreciation rights increases the costs of the respective period, corresponding to liabilities. Until the liability related to the cash-settled share-based payments transactions is settled, the Bank measures the fair value of the liability at the end of each reporting period and at the date of settlement, with any changes in fair value recognised in profit or loss for the period. In addition, starting from the second quarter of 2014, the Group operates an incentive programme, under which the management and employees of BRE Ubezpieczenia TUiR SA will be entitled to potential capital gains concerning 4.99% of the shares of this company. The programme meet the definition of cash-settled share-based payment transactions. The incentive programme functioning in mBank Hipoteczny is based on phantom shares of this bank and according to IAS 19 considered as incentive programme.

2.30. Equity

Equity consists of capital and own funds attributable to owners of the Bank, and non-controlling interest created in compliance with the respective provisions of the law, i.e., the appropriate legislative acts, the By-laws or the Company Articles of Association.

Registered share capital

Share capital is presented at its nominal value, in accordance with the By-laws and with the entry in the business register.

- Own shares

In the case of acquisition of shares or equity interests in the Bank by the Bank the amount paid reduces the value of equity as own shares until the time when they are cancelled. In the case of sale or reallocation of such shares, the payment received in return is recognised in equity.

Share premium

Share premium is formed from the share premium obtained from the issue of shares reduced by the attached direct costs incurred with that issue.

- Share issue costs

Costs directly connected with the issue of new shares or reduce the proceeds from the issue recognised in equity.

Retained earnings

Retained earnings include:

- other supplementary capital,
- other reserve capital,
- general banking risk reserve,
- undistributed profit for the previous year,
- net profit (loss) for the current year.

Other supplementary capital, other reserve capital and general banking risk reserve are formed from allocations of profit and they are assigned to purposes specified in the By-laws or other regulations of the law.

Moreover, other reserve capital comprises valuation of employee options.

Dividends for a given year, which have been approved by the General Meeting but not distributed at the end of the reporting period, are shown under the liabilities on account of dividends payable under the item 'Other liabilities'.

Other components of equity

Other components of equity result from:

- valuation of available for sale financial instruments,
- exchange differences on translation of foreign operations,
- actuarial gains and losses relating to post-employment benefits,
- valuation of derivative financial instruments held for cash flow hedging in relation to the effective portion of the hedge.

2.31. Valuation of items denominated in foreign currencies

Functional currency and presentation currency

The items contained in financial reports of particular entities of the Group, including foreign branches of the Bank, are valued in the currency of the basic economic environment in which the given entity conducts its business activities ('functional currency'). The financial statements are presented in the Polish zloty, which is the presentation currency of the Group and the functional currency of the Bank.

Transactions and balances

Transactions denominated in foreign currencies are converted to the functional currency at the exchange rate in force at the transaction date. Foreign exchange gains and losses on such transactions as well as balance sheet revaluation of monetary assets and liabilities denominated in foreign currency are recognised in the income statement.

Foreign exchange differences arising on account of such monetary items as financial assets measured at fair value through the income statement are recognised under gains or losses arising in connection with changes of fair value. Foreign exchange differences on account of such monetary assets as equity instruments classified as available for sale financial assets are recognised under other comprehensive income.

At the end of each reporting period non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction, and non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured.

When a gain or loss on a non-monetary item is recognised in other comprehensive income, any exchange component of that gain or loss is recognised in other comprehensive income. Coversely, when a gain or loss on a non-monetary item is recognised in profit or loss, any exchange component of that gain or loss is recognised in profit or loss.

Changes in fair value of monetary items available for sale cover foreign exchange differences arising from valuation at amortised cost, which are recognised in the income statement.

Items of the statement of financial position of foreign branches are converted from functional currency to the presentation currency with the application of the average exchange rate as at the end of the reporting period. Income statement items of these entities are converted to presentation currency with the application of the arithmetical mean of average exchange rates quoted by the National Bank of Poland on the last day of each month of the reporting period. Foreign exchange differences so arisen are recognised in other comprehensive income.

Companies belonging to the Group

The performance and the financial position of all the entities belonging to the Group, none of which conduct their operations under hyperinflationary conditions, the functional currencies of which differ from the presentation currency, are converted to the presentation currency as follows:

- assets and liabilities in each presented statement of financial position are converted at the average rate of exchange of the National Bank of Poland (NBP) in force at the end of this reporting period;
- revenues and expenses in each income statement are converted at the rate equal to the arithmetical mean of the average rates quoted by NBP on the last day of each of 12 months of each presented periods; whereas
- all resulting foreign exchange differences are recognised as a distinct item of other comprehensive income.

Upon consolidation, foreign exchange differences arising from the conversion of net investments in companies operating abroad are recognised in other comprehensive income. Upon the disposal of a foreign operation, such foreign exchange differences are recognised in the income statement as part of the profit or loss arising upon disposal.

Leasing business

Gains and losses on foreign exchange differences from the valuation of liabilities on account of credit financing of purchases of assets under operating leasing schemes are recognised in the income statement. In the operating leasing agreements recognised in the statement of financial position the fixed assets subject to the respective contracts are recognised at the starting date of the appropriate contract as converted to PLN, whereas the foreign currency loans with which they were financed are subject to valuation according to the respective foreign exchange rates.

In the case of finance lease agreements the foreign exchange differences arising from the valuation of leasing receivables and liabilities denominated in foreign currency are recognised through the income statement at the end of the reporting period.

2.32. Trust and fiduciary activities

mBank S.A. operates trust and fiduciary activities including domestic and foreign securities and services provided to investment and pension funds.

Dom Maklerski mBanku S.A. operates trust and fiduciary activities in connection with the handling of securities accounts of the clients.

The assets concerned are not shown in these financial statements as they do not belong to the Group. Other companies belonging to the Group do not conduct any trust or fiduciary activities.

2.33. New standards, interpretations and amendments to published standards

These financial statements comply with all the International Accounting Standards and the International Financial Reporting Standards endorsed by the European Union, and the interpretations related to them, except for those standards and interpretations listed below which await endorsement of the European Union or which have been endorsed by the European Union but entered or will enter into force after the balance sheet date.

In relation to other standards and interpretations that have been approved by the European Union, but entered or will enter into force after the balance sheet date, the Group did not use the possibility of early application.

Published Standards and Interpretations which have been issued and binding for the Group for annual periods starting on 1 January 2014:

Standards and interpretations approved by the European Union:

- Amendments to IAS 32, Financial Instruments: Presentation - *Offsetting Financial Assets and Financial Liabilities*, published by the International Accounting Standards Board on 16 December 2011, binding for annual periods beginning on or after 1 January 2014. The amendments were endorsed by the European Union on 13 December 2012.

  The amendments aim to eliminate inconsistencies identified in applying some of the offsetting financial assets and liabilities criteria.

  The amendments clarify the criteria that must be met by an entity planning to offset financial assets and financial liabilities in the balance sheet, by:

  - clarifying the meaning of 'currently has a legally enforceable right to set off', and
  - explaining when some gross settlement systems may be considered equivalent to net settlement of financial assets and liabilities.

  The Group is of the opinion that the application of the amended standard had no significant impact on the financial statements in the period of its initial application.

- Amendments to IAS 39, *Novation of Derivatives and Continuation of Hedge Accounting*, published by the International Accounting Standards Board on 27 June 2013, binding for annual periods starting on or after 1 January 2014.

  The amended IAS 39 provided relief from discontinuing the hedge accounting for a derivative that has been designated as a hedging instrument in an existing hedging relationship if the derivative is novated to a central counterparty following the introduction of a new law or regulation and it meets certain criteria.

  The Group is of the opinion that the application of the amended standard had no significant impact on the financial statements in the period of its initial application.

- Amendments to IFRS 10, IFRS 12 and IAS 27, *Investment Entities*, published by the International Accounting Standards Board on 31 October 2012, binding for annual periods starting on or after 1 January 2014. The amendments were endorsed by the European Union on 20 November 2013.

  The amendments define an investment entity and introduce an exception to consolidating particular subsidiaries for investment entities. These amendments require an investment entity to measure those subsidiaries at fair value through profit or loss in accordance with IFRS 9 Financial Instruments in its consolidated and separate financial statements. The amendments also introduce new disclosure requirements for investment entities in IFRS 12 and IAS 27.

  The Group does not meet the definition of an investment entity, therefore the use of the standard had no significant impact on the financial statements.

- Amendments to IFRS 10, IFRS 11 and IFRS 12 *Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance*, published by the International Accounting Standards Board on 31 October 2012, binding for annual periods starting on or after 1 January 2014.

  The amendments clarify the date of initial application of IFRS 10 as the beginning of the annual reporting period in which IFRS 10 is applied for the first time. They precise also there is no requirement to adjust comparative periods, if the consolidation conclusion reached at the date of initial application is the same when applying IAS 27/SIC 12. Moreover, the amendments clarify additional relief from adjustment of comparative information for periods prior to the immediately preceding period in transition to IFRS 10, IFRS 11 and IFRS 12.

  The Group is of the opinion that the application of the amended standards had no significant impact on the financial statements in the period of their initial application.

Published Standards and Interpretations which have been issued and binding for the Group for annual periods starting on 1 January 2015

Standards and interpretations approved by the European Union:

- IFRIC 21, *Levies*, published by International Financial Reporting Standard Interpretations Committee on 20 May 2013, binding for annual periods starting on 1 January 2014. In the European Union interpretation is applicable for annual periods beginning on or after 17 June 2014.

  The published interpretation is aimed at defining the moment of recognition of a liability to pay a levy if that liability is within the scope of IAS 37 or whose timing and amount is certain not addressing whether the recognition of a liability to pay a levy gives rise to an asset or an expense.

  The Group believes that the application of IFRIC 21 may have an impact on the level of costs recognised in each quarter of the financial year, but it will have no impact on the total level of recognised fees of the financial year.

- Annual Improvements to IFRSs 2011 – 2013 Cycle, published by the International Accounting Standards Board on 12 December 2013, approved by EU on 18 December 2014 and binding for annual periods starting on or after 1 July 2014, in EU effective latest for financial years beginning on or after 1 January 2015.

  The improvements to the following standards were implemented during the cycle: IFRS 1 in terms of clarification of using the IFRSs that are effective by the first-time adopter, IFRS 3 in terms of the elimination from its scope the accounting for the formation of joint arrangement defined in IFRS 11 in the financial statements of the joint arrangement itself, IFRS 13 in terms of the clarification of the exception for measuring the fair value of a group of financial assets and financial liabilities based on price that would have been achieved for sale of net long position or transfer net short position in case of exposure to a specific risk, IAS 40 in terms of the clarification the reference between IFRS 3 and IAS 40 related to classification of property as investment property or owner-occupied property.

  The Group is of the opinion that the application of the amended standards will have no significant impact on the financial statements in the period of their initial application.

Published Standards and Interpretations which have been issued but are not yet binding or have not been adopted early

Standards and interpretations approved by the European Union:

- IAS 19 (Amended), *Defined Benefit Plans: Employee Contributions*, published by the International Accounting Standards Board on 21 November 2013, approved by European Union on 17 December

2014 and binding for annual periods starting on or after 1 July 2014, in EU effective at the latest for financial years beginning on or after 1 February 2015.

The amendment relates only to contributions for defined benefit plans from employees or third parties. The amendment of the Standard is aimed at clarification and simplification the accounting requirements for contributions independent of the number of years of service, i.e. contributions that are a fixed percentage of the employee's salary, a fixed amount throughout the service period or dependent on the employee's age. In accordance with the amendment of the Standard such contributions should be recognized as a reduction in the service cost in the period in which the related service is rendered, instead of attributing the contributions to the periods of service.

The Group is of the opinion that the application of the amended standard will have no significant impact on the financial statements in the period of its initial application.

- Improvements to IFRSs 2010 – 2012 Cycle, published by the International Accounting Standards Board on 12 December 2013, approved by European Union on 17 December 2014, in majority binding for annual periods starting on or after 1 July 2014 and some effective prospectively for transactions occurring on or after 1 July 2014, in EU effective at latest for financial years beginning on or after 1 February 2015.

  The improvements to the following standards were implemented during the cycle: IFRS 2 in terms of changing definitions: 'vesting condition', 'market condition' and adding definitions: 'service condition' and 'performance condition', IFRS 3 in terms of clarification of classification a contingent consideration by an acquirer, IFRS 8 in terms of disclosure requirement of judgments made by management in applying the aggregation criteria for operating segments and disclosure of reconciliation of the total of the reportable segments' assets to the total assets, IFRS 13 in terms of clarification of doubts for the possibility of simplified measurement of short-term receivables and payables without discounting, when the effect of not discounting is immaterial, IAS 16 and IAS 38 in terms of proportionate restatement of accumulated depreciation or amortization, respectively, when an item of property, plant and equipment or intangible asset, respectively is revalued, IAS 24 in terms of identifying related party which provides key management personnel services to the reporting entity or to the parent of the reporting entity.

  The Group is of the opinion that the application of the amended standards will have no significant impact on the financial statements in the period of their initial application.

Standards and interpretations not yet approved by the European Union:

- IFRS 9, Financial Instruments, published by the International Accounting Standards Board on 24 July 2014, represents the final version of the standard, replaces earlier versions of IFRS 9 and completes the International Accounting Standards Board's project to replace IAS 39 Financial Instrument: *Recognition and Measurement*. The new standard addresses classification and measurement of financial assets and financial liabilities, impairment methodology and hedge accounting. IFRS 9 does not include macro hedge accounting, which is a separate project of International Accounting Standards Board. The Bank continues to apply IAS 39 accounting for macro hedges. The new standard is effective for annual periods beginning on or after 1 January 2018.

  The Group is of the opinion that the application of the standard will have an impact on the presentation and measurement of these instruments in the financial statements and on the impairment calculation.

- IFRS 11 (Amended), *Accounting for acquisitions of interests in joint operations*, published by the International Accounting Standards Board on 6 May 2014, binding for annual periods beginning on or after 1 January 2016.

  The amended standard requires the acquirer of an interest in a joint operation in which the activity constitutes a business, as defined in IFRS 3 Business Combination, to apply all of the principles on business combinations accounting in IFRS 3 and other IFRSs except for those principles that conflict with the guidance in this IFRS. It applies to the acquisition of both the initial interest and additional interests in a joint operation in which the activity of the joint operation constitutes a business. Moreover, the acquirer shall disclose the information required by IFRS 3 and other IFRSs for business combinations.

  The Group is of the opinion that the application of the amended standard will have no significant impact on the financial statements in the period of its initial application.

- IFRS 14, *Regulatory Deferral Accounts*, published by the International Accounting Standards Board on 30 January 2014, binding for annual periods starting on or after 1 January 2016.

The Standard permits an entity that adopts IFRS to continue to use, in its first and subsequent IFRS financial statements, its previous accounting policies for the recognition, measurement, impairment and derecognition of regulatory deferral account balances. The Standard requires to present regulatory deferral account balances as separate line items in the statement of financial position and to present movements in those account balances as separate line items in the statement of profit and loss and other comprehensive income. The disclosures to identify the nature of, and risks associated with, the rate regulation that has resulted in the recognition of regulatory deferral account balances are also required.

The Group is of the opinion that the application of the standard will have no significant impact on the financial statements in the period of its initial application.

- IFRS 15, *Revenue from Contracts with Customers*, published by the International Accounting Standards Board on 28 May 2014, binding for annual periods beginning on or after 1 January 2017.

  IFRS 15 introduces new principles of revenue recognition. The core principle is that an entity recognizes revenue to depict the transfer of promised goods and services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. According to a new IFRS 15 revenue is recognized when the customer obtains control of these goods or services. Depending on the fulfilment of certain conditions revenues are either recognized over time throughout the duration of the contract if a performance obligation is satisfied over time, or at a point in time when the customer obtains control of these goods or services.

  The Group is of the opinion that the application of the standard will have no significant impact on the financial statements in the period of its initial application.

- Amendments to IAS 16 and IAS 38, *Clarification of acceptable methods of depreciation and amortization*, published by the International Accounting Standards Board on 12 May 2014, binding for annual periods beginning on or after 1 January 2016.

  The amended IAS 16 prohibits the use of a revenue-based method for depreciating a tangible fixed asset. A depreciation method that is based on revenue that is generated by an activity of the entity is not appropriate, because the revenue generated by an activity that includes the use of an asset reflects factors other than the consumption of the economic benefits of the asset.

  The amended IAS 38 includes a rebuttable presumption that a revenue-based method for amortization of an intangible asset is inappropriate for the same reasons as in the case of tangible fixed assets presented in amended IAS 16. However, the presumption in case of amended IAS 38 could be overcome in two circumstances: when it can be demonstrated that revenue is highly correlated with the consumption of the economic benefits embodied in an intangible asset and when the right embodied by an intangible asset is expressed as a total amount of revenue to be generated.

  The Group is of the opinion that the application of the amended standards will have no significant impact on the financial statements in the period of its initial application.

- Amendments to IAS 16 and IAS 41 *Agriculture: Bearer Plants* published by the International Accounting Standards Board on 30 June 2014, binding for annual periods beginning on or after 1 January 2016.

  The amended IAS 16 and IAS 41 introduce the obligation of recognizing bearer plants in the same way as tangible assets and of using the requirements of IAS 16 measuring them either at cost or at revaluated amount. IAS 41 still applies to the produce on those bearer plants, which should be measured at fair value less costs to sell. Bearer animals are not covered by the amendments.

  The Group is of the opinion that the application of the amended standards will have no significant impact on the financial statements in the period of its initial application.

- Amendments to IAS 27, *Equity method in separate financial statements*, published by the International Accounting Standards Board on 12 August 2014, binding for annual periods beginning on or after 1 January 2016.

  The amended IAS 27 re-establish the possibility of equity method application for investments in subsidiaries, joint ventures and associates in separate financial statements. The entity preparing separate financial statements should account for investments in subsidiaries, joint ventures and associates at cost or according to IFRS 9 or using the equity method as described in IAS 28. The dividend from a subsidiary, a joint venture or an associate is recognized in profit and loss or as a reduction from the carrying amount of the investment if the equity method is used.

  The Group is of the opinion that the application of the amended standard will have no significant impact on the financial statements in the period of its initial application.

- Amendments to IFRS 10 and IAS 28, *Sale or contribution of assets between an investor and its associate or joint venture*, published by the International Accounting Standards Board on 11 September 2014, binding for annual periods beginning on or after 1 January 2016, but the effective date was tentatively postponed by International Accounting Standards Board.

  The amendments to IFRS 10 and IAS 28 eliminate inconsistency between these standards and clarify the accounting approach in a situation when a parent loses control of a subsidiary as a result of transaction between a parent and its associate or joint venture. The accounting approach depends on whether contribution of assets to an associate or a joint venture constitute a business as defined in IFRS 3 Business Combinations. If assets constitute a business, the amendments introduce a requirement of full recognition gain or loss resulting from the transaction. If assets do not constitute a business, a gain or loss resulting from the transaction is recognized only to the extent of the unrelated investors' interests in that associate or joint venture.

  The Group is of the opinion that the application of the amended standards will have no significant impact on the financial statements in the period of its initial application.

- Annual Improvements to IFRSs 2012-2014 Cycle, changing 4 standards, published by the International Accounting Standards Board on 25 September 2014, binding for annual periods beginning on or after 1 January 2016.

  The improvements to the following standards were implemented during the cycle: IFRS 5 in the situation when an asset is reclassified from being held for sale to being held for distribution to owners or from being held for distribution to owners to being held for sale, then the change in classification is considered a continuation of the original plan of disposal. Additionally, when assets no longer meet the criteria for held for distribution to owners (without meeting the held-for-sale criteria), the entity should cease to apply held-for-distribution accounting in the same way as it ceases to apply the held-for-sale accounting when they no longer meet the held-for-sale criteria; IFRS 7 when an entity transfers a financial asset retaining the right to service that financial asset for a fee that is included in a servicing contract, whether the entity has a continuing involvement as a result of the servicing contract for the purpose of disclosure requirements. Additionally, IFRS 7 clarifies that disclosures regarding offsetting financial assets and financial liabilities are not specifically required for all interim periods, unless it is required by IAS 34; IAS 19 in terms of clarification that high quality corporate bonds used to determine a discount rate of post-employment benefit obligations shall be in the same currency as the currency of the post-employment benefit obligations. Assessment whether there is a deep market in such high quality corporate bonds should be made for the currency, not for a country; IAS 34 in terms of clarifying the meaning of disclosure of information' elsewhere in the interim financial report' and additionally it introduces a requirement to incorporate disclosure in interim financial statement by cross-reference to information in another statement.

  The Group is of the opinion that the application of the amended standards will have no significant impact on the financial statements in the period of their initial application.

- Amendments to IAS 1, Disclosure initiative, published by the International Accounting Standards Board on 18 December 2014, binding for annual periods starting on or after 1 January 2016.

  The amendments to IAS 1 include the clarification of the material information with particular regard to the reduction of immaterial information in financial statements. Moreover, specific items in financial statements may be the subject to both aggregation and disaggregation depending on its materiality. IAS 1 was also completed with the requirements regarding the presentation of subtotals in financial statements. Additionally, the information presented in the notes of financial statements may be presented in a systematic manner, however in determining a systematic manner, the entity shall consider the effect on the understandability and comparability of its financial statements. The guidelines regarding the identification of significant accounting policies were deleted in the amendments to IAS 1.

  The Group is of the opinion that the application of the amended standard will have no significant impact on the financial statements in the period of its initial application.

- Amendments to IFRS 10, IFRS 12 and IAS 28, Investment entities: applying the consolidation exception, published by the International Accounting Standards Board on 18 December 2014, binding for annual periods starting on or after 1 January 2016.

  The amendments to IFRS 10, IFRS 12 and IAS 28 exempt to the requirement of presenting consolidated financial statements by an entity that is a parent if its ultimate or any intermediate parent produces financial statements that are available for public use and comply with IFRSs, in which subsidiaries are consolidated or are measured at fair value through profit or loss. Additionally, the requirement to consolidation was limited to the situation when an investment entity has a subsidiary that is not itself an investment entity and whose main purpose and activities are providing services that relate to the investment entity's investment activities. Moreover, when applying the equity method in an associate or joint venture that is an investment entity, an investor retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries.

IFRS Consolidated Financial Statements 2014 PLN (000's)

The Group is of the opinion that the application of the amended standards will have no significant impact on the financial statements in the period of their initial application.

2.34. Comparative data

The data for the year 2013 presented in these consolidated financial statements are fully comparable with the data at the end of year 2014 and were not adjusted.

3. Risk management

The mBank Group manages risks on the basis of regulatory requirements and best market practice, by developing risk management strategies, policies and guidelines. The risk management functions and roles are released on all of the levels of the organizational structure, starting at the level of the Supervisory Board down to each business unit of the Group. Risk management is streamlined in unified process run by specialized organizational units.

3.1. General information

Location of risk management disclosures

mBank Group's risk management disclosures for 2014 are included in the Annual Report of the Group and in the Disclosures regarding capital adequacy. The table below presents reference to disclosures regarding various aspects of risk management within the abovementioned documents.

Disclosures regarding capital adequacy of mBank S.A. Group as at 31 December 2014 and Management Board Report are not the part of mBank S.A. Group Consolidated Financial Statements.

Type of risk	Information	Location of information for 2014		
		Annual Report of mBank Group		Disclosures regarding capital adequacy
		Management Board Report	Consolidated Financial Statements	
General information	Location of risk management disclosures	-	p. 36	p. 3
	Glossary of terms	-	p. 37	-
Risk management in mBank Group in 2014 – external environment	Key risk measures in 2014	-	-	p. 25
	Key external determinants	-	p. 38	-
	New regulatory standards	-	p. 39	p. 23
Principles of risk management	Division of responsibilities in the risk management process	-	p. 40	-
	Risk management culture	-	p. 44	-
	Documentation of risk management process	-	p. 45	-
	ICAAP/Risk profile	-	p. 47	p. 24
	Risk appetite	-	p. 48	-
	Stress tests	-	p. 49	p. 24
	Capital planning	-	p. 49	p. 6
Credit risk	Credit risk strategy	p. 111	-	-
	Credit risk management tools	p. 110	-	-
	Collaterals accepted	-	p. 54	p. 36
	Rating system	-	p. 56	-
	Monitoring and validation of models	-	p. 57	-
	Quality of the portfolio	p. 113	-	p. 43
	Forbearance policy	-	p. 61	-
	Counterparty risk that arises from derivative transactions	-	p. 64	-
	Concentration risk	-	p. 65	p. 40
Market risk	Market risk strategy	-	p. 67	-
	Tools and measures	p. 114	p. 68	-
	Measurement and limiting market risk	p. 117	p. 68	-
	Interest rate risk in the banking book	p. 117	p. 71	-
	Currency risk	-	p. 70	p. 26

IFRS Consolidated Financial Statements 2014 PLN (000's)

Liquidity risk and funding	Liquidity risk management	-	p. 73	-
	Tools and measures	p. 118	p. 73	-
	Measurement of liquidity risk	p. 118	p. 73	-
	Funding sources	-	p. 75	-
Operational risk	Tools and measures	P. 119	p. 77	p. 49
	Operational losses	-	p. 77	p. 50
Other risks	Business risk	-	p. 78	-
	Model risk	-	p. 78	-
	Reputational risk	-	p. 79	-
	Capital risk	-	p. 79	-
	Insurance risk	-	p. 80	-
Capital adequacy		p. 120	p. 152	p. 6

Glossary of terms

Add-on - estimated future potential exposure

Collateral - asset that is to be paid or received depending on the current valuation of the derivatives portfolio to mitigate potential credit risk in the future. Currently the main collateral asset is cash.

CCF (Credit Conversion Factor) – level of off-balance sheet items converted to balance sheet items at the date of default.

Common Equity Tier 1 Capital Ratio (CET1 ratio) – shall mean the Common Equity Tier 1 Capital expressed as a percentage of the Total Risk Exposure Amount (TREA).

Coverage ratio of non-liquid assets and limited liquidity assets with own funds and stable external funds (measure M4) - the ratio defined in KNF Resolution No. 386/2008 of 17 December 2008 on establishing liquidity measures binding on banks, calculated as a ratio of own funds diminished by sum of capital requirement on market risk, sum of capital requirement on delivery settlement, counterparty risk and stable external funds to sum of limited liquidity assets and non-liquidity assets.

CRD IV - Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC (Capital Requirements Directive IV).

CRR - Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 (Capital Requirements Regulation).

EAD (Exposure at Default) – value of exposure in case of default.

Earnings at risk (EaR) - a potential decrease in the annual interest income within 12 months assuming defined change of market interest rates scenarios, fixed volume and structure of balance and off-balance portfolio and unchanged interest rate structure of particular position, therein interest margin.

Economic capital (EC) – shall mean the amount of capital required to cover all the components, specified in the Bank's internal regulations, estimated by the Bank at the assumed confidence level over a one-year time horizon. The economic capital consists of:

- economic capital to cover credit risk,
- economic capital to cover market risk,
- economic capital to cover operational risk,
- economic capital to cover business risk.

EL – **Expected Loss** in case of default.

ICAAP – Internal Capital Adequacy Assessment Process.

Internal capital (IC) – shall mean the amount of capital estimated by the Bank required to cover all material risks identified in the Group's activity within the risk inventory process. Internal capital is the sum of economic capital and capital necessary to cover other risks (including hard to quantify risks).

LCR (Liquidity Coverage Ratio) - a relation of liquid assets of the liquidity buffer to the expected net outflows within 30 calendar days.

Leverage ratio – shall mean the relation of Tier 1 Capital to the institution's total exposure measure, understood as the sum of the exposure values of all assets and off-balance sheet items not deducted, when determining the Tier 1 capital.

LGD (Loss Given Default) – loss resulting from the default.

LtV (Loan to Value) – the ratio of the loan value to the property market value.

NSFR (Net Stable Funding Ratio) – a relation of own funds and stable liabilities ensuring stable financing to illiquid assets and receivables requiring stable financing.

PD – Probability of Default.

Ratio of coverage of non-liquidity assets with own funds (measure M3) - the ratio defined in KNF Resolution No. 386/2008 of 17 December 2008 on establishing liquidity measures binding on banks, calculated as a ratio of own funds diminished by sum of capital requirement on market risk to sum of non-liquidity assets.

RBC (**Risk Bearing Capacity)** – shall mean the relations of Risk Coverage Potential (RCP) to the internal capital – internal measure.

RCP (Risk Coverage Potential) - shall mean the amount of own funds adjusted by specific correcting items, in accordance with respective internal regulations in mBank – internal measure.

Short-term liquidity factor (measure M2) - the ratio defined in KNF Resolution No. 386/2008 of 17 December 2008 on establishing liquidity measures binding on banks, calculated as a ratio of primary and supplementary liquidity reserves to unstable external funds.

Short-term liquidity gap (measure M1) – the ratio defined in KNF Resolution No. 386/2008 of 17 December 2008 on establishing liquidity measures binding on banks, calculated as a sum of primary and supplementary liquidity reserves diminished by unstable external funds.

Tier 1 Capital Ratio (T1 ratio) – shall mean the Tier 1 Capital expressed as a percentage of the Total Risk Exposure Amount (TREA).

Total Capital Ratio (TCR) – shall mean the own funds expressed as a percentage of the Total Risk Exposure Amount (TREA).

Total Risk Exposure Amount (TREA) – shall mean the sum of risk-weighted exposure amount for credit and counterparty credit risk as well as the sum of own funds requirements for other risks multiplied by 12.5, where other own funds requirements cover:

- Market risk,
- Operational risk,
- Other risks, eg. credit valuation adjustment risk, large exposures in the trading book, etc.

Value at risk (VaR) – a measure of potential loss of market value (of financial instrument, portfolio, institution) to which the financial instrument, portfolio, institution is exposed over defined period of time at a given confidence level under normal market conditions.

3.2. Risk management in mBank Group in 2014 – external environment

Key external determinants

Russia/Ukraine Crisis

The increase of tensions between Russia and Ukraine in 2014 resulted in a number of challenges for Polish companies, including mBank's customers, especially in the eastern Poland. Russia is the fifth largest export market (with a 5% share in the total export) for Polish companies. Food, being a significant proportion of these exports, was covered by Russian ban on import. Despite strong domestic demand, those restrictions resulted in the decline in the profitability of food production in Polish companies. Negative effects of Russian restrictions have been partially minimised by sending exports to Russia through countries not covered by restrictions (Belarus, Kazakhstan).

In addition, the EU sanctions on exports of dual use parts and equipment to Russia had a negative impact on orders associated with these exports and placed in Poland by German companies. A reduction in orders was observed mainly in western Poland while the region of Mazowsze did not experience the negative impact of sanctions. Germany estimated that the decline in exports of parts and equipment was about 10%.

Polish export to Russia was also negatively affected by falling oil prices resulting in a nearly 50% devaluation of the Russian ruble against the US dollar, which has severely reduced the purchasing power of Russian households. The Polish export to Ukraine was negatively influenced by nearly 50% devaluation of the Ukrainian hryvnia against the US dollar and the loss of opportunity to cooperate with the Ukraine's eastern regions involved in the conflict with Russia (the share of those regions in the Ukraine's GDP was more than 16%).

mBank has exposures to Russian energy importers of strategic importance for Poland. These exposures are related to the risk of limiting by Russia the sale of energy to Poland. However, the abovementioned risk is assessed as low.

mBank does not have a direct, unsecured exposures to Russian or Ukrainian companies.

The abovementioned risks did not result in a significant decline in the financial standing of mBank's customers due to a stable macroeconomic environment in Poland based on a growing domestic demand

The Asset Quality Review and stress test concerning mBank S.A. Group

On 26 October 2014 the Polish Financial Supervision Authority announced the results of the Asset Quality Review and stress test concerning mBank S.A. Group. Under the stress test, mBank Group's Common Equity Tier 1 ratio according to the methodology applied by the European Central Bank amounted to 11.08% compared to a minimum EU requirement of 5.5% in an adverse stress scenario and 12.41% compared to a minimum of 8.0% under the baseline scenario.

The Asset Quality Review, conducted in 2014 by the European regulators, involved an in-depth and comprehensive analysis of important segments of banking balance sheets. The review aimed at ensuring that the values of assets under investigation are represented in the banks' financial statements and have adequate levels of provisioning coverage. Moreover, the stress tests examined the resilience of banks' capital buffers to a crisis scenario over a period of three years (2014-2016).

Results of the Asset Quality Review and stress tests did not have a material impact on the mBank S.A. Group result in 2014.

Basel III regulatory standards

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

- stricter capital requirements including a universal definition and components of the bank's capital as well as implementation of capital ratio specified in relation to the funds of the highest quality,
- introduction of own funds requirement associated with credit valuation adjustment,
- implementation of financial leverage ratio,
- introduction of additional capital buffers, including a capital conservation buffer, a countercyclical buffer, a global systemically important financial institutions buffer and systemic risk buffer,
- liquidity requirements, measured by the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR).

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

The new provisions of CRD IV must be implemented in a national legislation, while CRR takes effect as of January 1, 2014 without harmonisation with national laws.

New regulatory standards

Capital ratios

In 2014, the Bank continued adaptation works in order to meet the requirements set out in the CRR with respect to capital ratios and own funds. Bank was gradually implementing the provisions of the European Commission's delegated act supplementing or detailing the CRR.

Leverage ratio

In October 2014, the European Parliament approved the delegated act, in force since 2015, introducing modifications in calculating leverage ratio. At present, the Bank continues harmonization in the calculation of the leverage ratio and in terms of prudential reporting with regard to leverage ratio.

Liquidity measures

In 2014, the Bank continued harmonisation with the requirements of CRR to the extent of the liquidity measures LCR/NSFR. Implementation efforts, which took into account additional EBA guidelines published in March 2014, were finished with the LCR/NSFR calculation methodology approved in June 2014 by the Financial Markets Risk Committee. LCR is calculated according to rules defined in CRR since 31 March 2014. Furthermore, since Q2 2014, banks are required to report information necessary to calculate LCR to NBP. The first report as at the end of March, April and May 2014 under the new calculation methodology was completed by the Bank in June 2014.

3.3. Principles of risk management

3.3.1 Division of responsibilities in the risk management process

1. **Supervisory Board**, through its **Risk Committee**, exercises constant supervision of the Bank's operations in the risk taking area, which includes approving the Risk Management Strategy and supervising its execution.
2. **Management Board** of the Bank develops the Risk Management Strategy and is responsible for establishing and implementing the principles of managing individual risk types and for their coherence with the Risk Management Strategy. Moreover, the Management Board defines the organisational structure of the Bank, ensuring the separation of roles, and allocates the tasks and responsibility to individual units.

   The Management Board undertakes activities aiming at assuring that the Bank conducts a policy enabling a management of all types of risks essential for the Bank's operations and has procedures to this extent, in particular including responsibility for preparing and introducing written strategies and procedures to the extent of: internal control system, risk management system, assessment process of internal capital, capital management and capital planning.
3. **Chief Risk Officer** is responsible for integrated management of the risk and capital of the Bank and mBank Group in the scope of: defining strategies and policies, measuring, controlling and independent reporting on all risk types (in particular credit risk, market risk, liquidity risk, non-financial risk including operational risk), approving risks models and various limits (according to internal regulations), and for processes of managing the risk of the retail credit portfolio and corporate portfolio.
4. **Committees:**

   a/ **Business and Risk Forum of mBank Group** is a formal decision and communication platform for the risk management area and business lines of the Group.

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

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

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

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

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

b/ **Assets and Liabilities Committee** of the mBank Group (ALCO) is responsible, in particular, for developing the strategy on the structure of assets and liabilities, obligations and off-balance sheet items, with the aim of optimizing funds allocation.

c/ **Capital Management Committee** is responsible, in particular, for managing capital, which includes also issuing recommendations for the Management Board of the Bank on measures in respect of capital management, capital level and structure, and on increasing the effectiveness of capital utilization, and recommendations on the internal procedures related to capital management and capital planning.

d/ **Credit Committee of the Bank's Management Board** (till 02 November 2014) was responsible, in particular, for:

- making credit decisions concerning companies in accordance with the decision-making matrix, depending on the rating and amount of exposure,
- making decisions on the debt conversion into shares, stocks, etc.,
- making decisions on taking over properties in return for debts,
- making any other decisions going beyond the jurisdiction of the lower-level decision-making authorities.

e/ **Credit Committee of the mBank Group** (since 3 November 2014) is responsible, in particular, for:

- the supervision of concentration risk and large exposures at mBank Group level,
- credit recommendations concerning large exposures at mBank Group level, regarding common clients of the mBank Group and clients of mBank Hipoteczny, mLeasing and mFaktoring, depending on the amount of exposure,
- making credit decisions concerning mBank's clients in accordance with the decision-making matrix, depending on the rating and amount of exposure,
- making decisions on debt conversion into shares, stocks, etc. (applies to the bank),
- making decisions on taking over properties in return for debts (applies to the bank),
- making any other decisions going beyond the jurisdiction of the lower-level decision-making authorities (applies to the bank).

f/ **Credit Committee of the Retail Banking** is responsible, in particular, for:

- making individual credit decisions concerning retail clients in the case when the total exposure to such a client, the value of the transaction or the values of AIRB risk parameters (PD/LGD/EL) set for the client/transaction achieve a specified threshold set for this decision-making level,
- making decisions on granting decision-making powers to individual employees of the Bank, or on changing or revoking those powers.

g/ **Data Quality and IT Systems Development Committee** is responsible for the tasks and decision making process in scope of principles and structure of operation of the data quality management system, approving operational standards of data management, assessing the effectiveness of the data quality management system, initiating actions aimed at improving data quality at the Bank, in particular, taking into account the needs related with calculating the regulatory capital requirements of the Bank under the AIRB approach.

h/ **Foreign Branch Supervision Committee of mBank S.A.** is responsible, among others, for issuing recommendations for the Management Board of the Bank on approval of the operational strategy and the rules for stable and prudent management of a particular foreign branch of the Bank, especially with reference to credit risk.

Other units:

1. Organisational units of the Risk Area

The function of management at the strategic level and the function of control of credit, market, liquidity and operational risks and risk of models used to quantify the aforesaid risk types are performed in the Risk Area supervised by the Chief Risk Officer. The chart below presents the organisational structure of this area:

**organisational unit/position for developing integral structures of foreign branches at mBank S.A.*

The roles played by particular units in the process of identifying, measuring, monitoring and controlling risk, which also includes assessing individual credit risk posed by clients and establishing the client selection rules, have been strictly defined. Within the scope of their powers, the units develop methodologies and systems supporting the aforesaid areas. Furthermore, the risk control units also report the risk and support the major authorities of the Bank.

Retail Risk Department:

- development of risk management principles and processes,
- acceptance of retail banking products, including the impact on the different types of risk and capital requirements,
- development of reports for monitoring of risk management policies,
- development and management of systems supporting the risk assessment and decision-making process,
- setting up decision-making rules,
- making credit decisions (for private individuals and micro-business clients),
- administration of the loan portfolio,
- collection, restructuring and development of policies for these processes,
- credit fraud prevention and operational risk control in the credit process.

Corporate Risk Assessment Department:

- implementation of the Bank's credit policy regarding corporate customers, countries and financial institutions,
- credit risk management in the Bank and the Group subsidiaries in the abovementioned areas.

Corporate Risk Processes Department:

- organising corporate credit process and supervision over its realisation by the Bank,

- developing corporate credit risk management strategy of mBank Group,
- creating Bank's credit policy and mBank's sector policies in the scope of Industry-based Risk Appetite,
- analysing and reporting within active management of corporate credit risk,
- creating the methodology - and monitoring the quality – of rating models for corporate, financial and retail clients (credit risk modelling),
- accounting of structured finance and mezzanine transactions and restructuring and collection operations.

Financial Markets Risk Department:

- identifying, measuring and controlling market risk, liquidity risk, and interest rate risk of the banking book, in particular preparing of limits proposal for above mentioned risk types,
- developing methods for measuring particular risk types, and integrating the control of market risk, liquidity risk, and interest rate risk of the banking book at the Bank and mBank Group,
- measuring and controlling counterparty risk due to transactions assigned to financial markets area and derivatives transactions with bank customers, as well as preparing and developing the methods for determining credit exposure due to derivatives transactions,
- ensuring methodological adequacy of the techniques of valuing financial instruments included in the portfolios of the Financial Markets Department, the Treasury Department, the Brokerage Bureau, the Financial Markets Sales Department and the mezzanine finance transactions of the Structured and Mezzanine Finance Department,
- organising the following processes:
    - process of admitting to trading the financial instruments concluded by organisational units of the financial markets area,
    - process of assessing the adequacy of internal capital (ICAAP) with respect to market risk, liquidity risk, and interest rate risk of the banking book,
    - process of measuring economic capital for market risk,

  and supervising their execution,
- calculating and monitoring of P&L of business units from financial markets area,
- independent operational control of the risk generated by the Financial Markets Department, the Treasury Department and the Financial Markets Sales Department in the scope of trading in financial instruments in particular control of:
- stop-loss limits utilisation,
- market conformity of the transactions concluded by business units of financial markets area,

  and reporting in this respect to the Management Board of the Bank and to collegial bodies of the Bank.

Integrated Risk and Capital Management Department:

- integration of risk and capital within the ICAAP,
- control of capital adequacy as well as planning and limiting risk capital,
- integration of risk valuation (economic capital, reserves, stress tests),
- integration of non-financial risks, including operational risk,
- formulation of risk appetite and coordination of the process of determining strategic risk limits,
- validation of quantitative models,
- Internal Control System Self-assessment (ICS),
- SREP - Supervisory Review and Evaluation Process.

Projects and Risk Architecture Management Department:

- Risk Projects Portfolio Management,
- competence centre in the area of process management,

- development and optimization of the architecture of Risk processes,
- management of the IT applications of Risk (maintenance and development),
- risk data management and cooperation with the Finance Division within the scope of centralized management information system.

Foreign Branches Risk Department:

- credit risk managing in the retail banking, supporting the credit risk assessment process and taking part in the decision making process regarding credits for the foreign branches,
- credits managing/settling in the foreign branches,
- handling the vindication process and performing the control in scope of the operational risk in the credit process for the credit products in foreign branches.

2. Organizational units outside the Risk Area are in charge of the management and control of other risks identified in mBank Group's activity (business risk, capital risk, reputational risk, insurance risk, legal risk, IT system risk, personnel and organisational risk, security risk and compliance risk).

3. Business units take part in managing particular risk types by means of taking risk into account in business decisions, in preparing the product offer and in the client acquisition process. The units assume the ultimate responsibility for taking risk within the set limits and for developing the Bank's results.

4. Control units:

- **Internal Audit Department (DAW)** carries out independent review of the process of identifying, taking, measuring, monitoring and controlling risk as part of its internal control and audit function.
- **Compliance Department (DC)** is responsible for establishing standards of managing the risk of non-compliance of internal regulations and standards of the Bank's operation with applicable law.

3.3.2 Risk culture

Lines of defence

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

1. The first line of defence consists of **Business** Lines whose task is to take risk aspects into consideration when making business decisions.
2. The second line of defence, **Risk**, provides the methodological framework and is responsible for making risk decisions at the request of the Business and for measuring, limiting, monitoring and reporting of risks taken by the Group. Risk provides an independent oversight of the first line of defence.
3. The third line of defence is **Internal Audit**, ensuring independent assessment of Business and Risk.

Pillars of risk management

Risk management framework in mBank Group rests on **three pillars concept**:

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

Vision of Risk

Risk Area is a **key partner** of Business and the Management Board in creating sustainable value of the Bank by providing, over the long period, a **balance** between expected rate of return for shareholders and the Group's stability.

Mission of Risk

Responsibility of Risk is realized by:

- relevant strategy and policy of risk and capital management,
- challenging proposals and decisions of Business,
- independent control and risk reporting.

Implementation of Customer Focus Integrated Risk initiative

The risk control and management process in the mBank Group is subject to continuous improvement with emphasis on the improvement of customer-oriented integrated risk management. As a result, the Customer Focus Integrated Risk initiative has been introduced within the One Bank Strategy.

The initiative is realized in the following five key streams:

1. Strengthening the Business-Risk Dialogue.
2. Risk appetite.
3. Improvement of the credit process.
4. Improvement of Risk employees competences.
5. Simplification and integration of the Risk IT architecture.

Selected project examples are described below:

- **Business-Risk Dialogue Platform Project** established a set of three Business-Risk Committees dedicated to business lines (Retail, Corpo & Investment, Financial Markets) smoothing decision-making process, preceded by a thorough discussion between Risk and Business.
- **Corpo Credit Process 2.0 Project** introduced credit process paths differentiating credit process based on complexity of cases. The project implemented a customer assessment process based on a tool with embedded risk assessment criteria and a simple path within centralized risk assessment unit, as well as reorganized full path of credit process for large corporate clients by introducing amendments ensuring to shorten the waiting time for a decision to 15 days for complex cases.
- **Internal Control System Self-assessment (ICS)**

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

  - identification of material operational risks,

  - inventory of control mechanisms dedicated to mitigate those risks,

  - assessment of adequacy and effectiveness of control mechanisms,

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

ICS was divided into two stages. Results for the first stage were accepted by the Management Board in September 2014. The second stage is planned to be finalised till the end of June 2015.

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

3.3.3 The risk management process documentation

The risk management process implemented in mBank and mBank Group is documented. The key documents are presented below.

Strategies and policies for managing particular risk types:

1. Risk Management Strategy of the mBank S.A. Group

The document is designed in connection with the One Bank Strategy and the Muliti-year Plan of the mBank Group and defines the risk appetite within mBank Group, including key quantitative and qualitative risk guidelines, as well as existential threats lying beyond its scope.

2. Corporate Credit Risk Management Strategy in mBank S.A. Group

The document describes issues connected with corporate credit risk in mBank Group: defines quantitative and qualitative aspect of the risk appetite within mBank Group, general principles of credit risk management and organization of the risk management area.

3. Retail Credit Risk Management Strategy in mBank S.A. Group

The document defines the general, directional guidelines regarding credit risk management in the retail area of Group's operations, including issues such as: formal organization and responsibility for credit risk management, determination of the risk appetite, general guidelines for the functioning credit processes, decision-making models and reporting systems in place.

4. Operational Risk Management Strategy in mBank S.A. Group

The document describes the principles and components of operational risk management at the Bank, including, in particular, the following issues: operational risk profile of the Bank, the Bank's appetite for operational risk and operational risk management policies.

5. Market Risk Management Strategy of mBank S.A. Group

The document describes key issues concerning market risk management in the Group: specifies conditions influencing market risk profile, defines market risk appetite and provides framework of market risk management in the Group by identifying organisation, roles and responsibilities, defining market risk management process as well as attitude to the market risk management in the Group subsidiaries.

6. Liquidity Risk Management Strategy of mBank S.A. Group

The document describes key issues concerning liquidity risk management in the Group: specifies conditions influencing liquidity risk profile, defines liquidity risk appetite in the Group and provides framework of liquidity risk management in the Group by identifying organization, roles and responsibilities, defining liquidity risk management process as well as attitude to the liquidity risk management in the Group subsidiaries.

7. Compliance Policy in mBank SA

The document describes the process of organising compliance risk management, including the role of the Bank's authorities in the process, the role of the Compliance Department, and obligations of the Bank's employees in implementing the policy.

8. Capital Management Policy of mBank S.A. Group

The Policy contains the code of conduct that clearly specifies arrangements concerning capital management, including basic aims, principles, and methods of capital management process as well as mBank Group strategic objectives in the capital area.

9. Model Management Policy

The document specifies the participants and general rules of model management process, including issues concerning development of models in mBank Group, their approval, implementation, verification/validation, monitoring, implementation of changes and reporting.

10. Reputational Risk Management Strategy in mBank S.A. Group

The document specifies the principles and components of reputational risk management, including, in particular, the issues of reputational risk profile as well as organization and methods of reputational risk management.

Limit system:

1. Limit Book. Rules for limitation of risk in mBank Group

The document contains a description of standardized framework both for the process and system of limits, which are widely used in managing and controlling risk all over the mBank Group and ensures fine application of the risk appetite to the certain risk limiting in the particular areas, and guarantees fulfilling the regulatory requirements.

ICAAP documentation:

1. Internal Capital Adequacy Assessment Process (ICAAP) in the mBank S.A. Group – Governing Principles

The document describes the internal capital adequacy assessment process in the Group (including the Risk Bearing Capacity concept) and the course of the individual process components.

2. Document describing the rules for estimating capital for hard to quantify risks

3. The concept of Risk Coverage Potential

3.3.4 Internal capital adequacy assessment process (ICAAP)

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

Internal capital is the amount of capital estimated by mBank and required to cover all material risks identified in the 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, the mBank calculated the economic capital at the 99.91% confidence level over a one-year time horizon, for all risk types. Diversification between different risks was not included while calculating total economic capital.

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

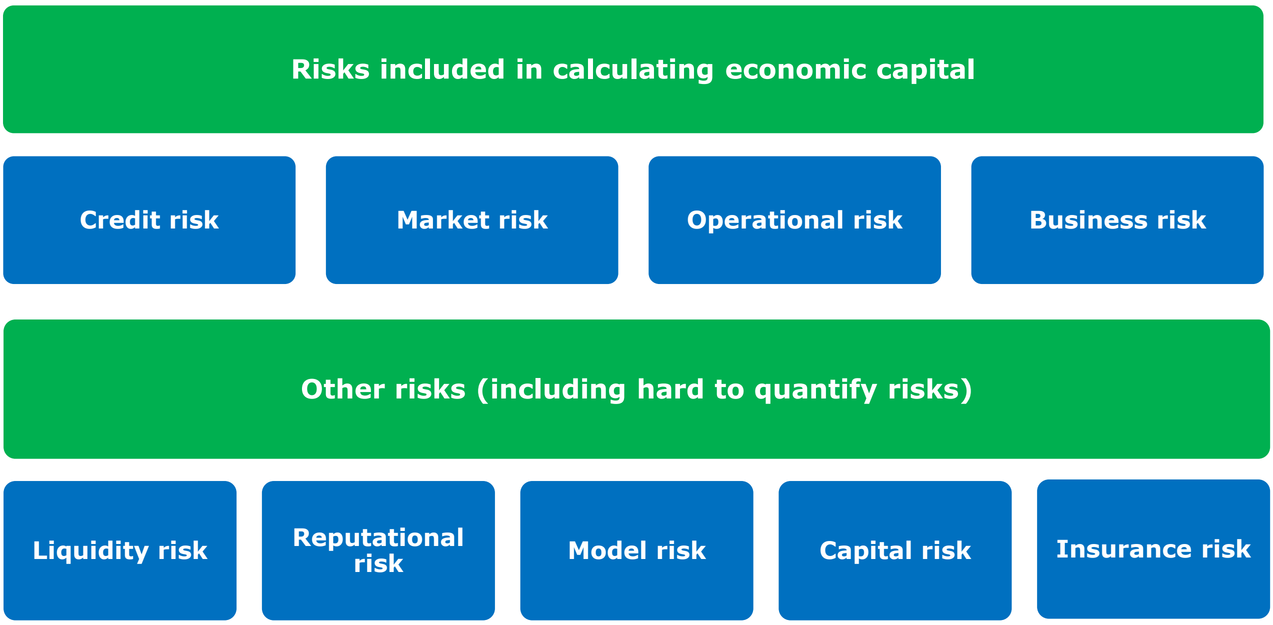
- risk inventory in the Group,
- calculation of internal capital for coverage of risk,
- capital aggregation,
- stress tests,
- planning and allocation of economic capital to business lines and the Group subsidiaries,
- monitoring consisting in a permanent identification of risk involved in the business of the mBank Group and the analysis of the level of capital for risk coverage.

The internal capital adequacy assessment process is accepted by the Supervisory Board of the 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.

Material risks in mBank Group's operations

The Management Board is taking activities for ensuring that the Group manages all material risks arising from the implementation of adopted business strategy.

As a result of risk inventory process in the Group realized on the basis of the rules specified within ICAAP, the following risk types were recognized as material for the Group in 2014:

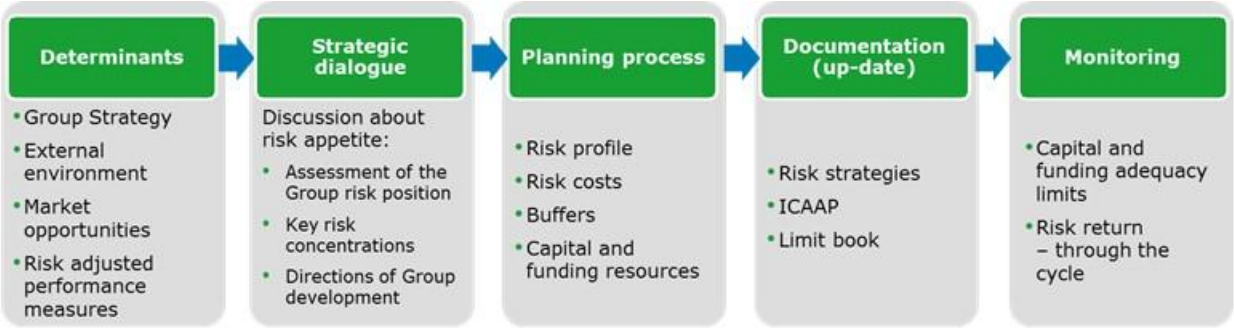


3.3.5 Risk appetite

Risk appetite is defined within the mBank Group as the maximum risk, in terms of both amount and structure, which the Bank is willing and able to incur in pursuing its business objectives under going concern scenario. Risk appetite resulting from the available capital and funding base is the starting point in the Bank's risk management, and thus impacts the budgeting process and the capital allocation process.

Risk appetite management framework

The risk appetite management process in mBank Group is presented in the chart below.



Risk appetite is based on assessment of the Group's risk profile and risk capacity in the perspective of:

- capital,
- funding,
- non-financial risks,
- Risk Adjusted Performance Measures.

Risk appetite is aimed to provide a forward looking process that establishes expectations about the Bank's overall risk profile in a variety of circumstances.

Risk appetite is aimed to secure a practical approach for initiating and sustaining the dialogue within the organization. During the strategic discussions, the Management Board outlines directions for the development of the Group and particular business lines. Risk appetite statements are decomposed into key metrics and targets via the integrated strategic planning process and cascaded down into the organization in operational phase of planning. Documentation of risk appetite and it's monitoring activates control mechanism for protecting Bank's goals.

Capital buffers

Risk appetite is determined below the risk capacity determined by the minimum standards on capital adequacy and liquidity set in European and Polish regulations in order to ensure that the Group survives in the case of negative changes in the Group or in its environment thereby providing the ability to assure risk bearing capacity. Level of funding sources and capital position of the Group, both regulatory and internal (internal capital) is applied while defining the risk capacity and risk appetite. The Bank maintains capital and liquid assets on the levels, which ensure meeting regulatory requirements under normal and stress conditions.

In mBank, risk appetite covers all identified risks and key risk concentrations embedded in its business strategy by setting capital buffers for risk resulting from potential materialization of selected risk factors related to existing portfolios and planned business as well as addresses expected new regulatory requirements and potential negative macroeconomic changes.

Risk Bearing Capacity

Risk Bearing Capacity is expressed in terms of capital and funding resources available for allocation so as to ensure safety in normal and risk scenario. The maximum risk that mBank Group is willing and able to incur, while accepting existential threats resulting from mBank Group business strategy, is subject to the following conditions:

- adequate economic risk-bearing capacity must be ensured (limits must be ensured in normal conditions),
- the internal floor set for regulatory capital ratios must be observed,
- it must be ensured that the Group remains financially solvent and has adequate structural liquidity at all times.

The approach of mBank Group to the assessment and control of mBank Group risk bearing capacity covers internal and regulatory requirements.

Risk limit system

To ensure effective allocation of the risk appetite the mBank Group applies a risk limit system. The structure of limits translates the risk appetite into specific constraints on risks incurred in the Group's activity. The concept of limit structure and limit management process is described in the document "Limit book. Rules for limitation of risk in mBank S.A. Group" accepted by the Supervisory Board. Accepted limit values are presented in the Limit Book - limit register.

3.3.6 Stress tests within ICAAP

Stress tests are an essential component of the ICAAP used for managing the Bank and the Group and for capital planning. Stress tests allow an assessment of the Group's resistance in the context of extreme, yet plausible scenarios of external events.

The **integrated stress tests** are conducted assuming scenario of unfavourable economic conditions that may adversely affect the Bank's financial situation in at least a full two-year time horizon (for liquidity risk in one-year horizon). The risk scenario, ie. the most plausible (in at least a full two-year time horizon) scenario of negative deviations from the base scenario, expressed in terms of macroeconomic and financial ratios is common for all risk types and is aligned with the scenario accepted at the group level of the parent entity of the Bank.

The integrated macroeconomic scenario allows for a comprehensive analysis of all the risk types covered by internal capital and analysis of its impact on the capital adequacy and liquidity of the Bank and the Group.

The stress test results include the following measures:

1/ stressed economic capital (includes capital for credit risk, market risk, operational risk and business risk),

2/ stressed potential risk coverage (RCP),

3/ the liquidity norms under stress conditions.

The internal capital under stress scenario is defined as a product of calculation performed in line with the current methodology of internal capital calculation but on the basis of input parameters typical for stress conditions.

Macroeconomic stress scenarios are updated on quarterly basis or ad hoc, if needed. Based on the stress scenarios the resulting internal capital demand as well as negative financial effects of the adverse economic scenario are simulated.

Additionally, once a year, the Bank carries out **supplementary stress tests** using much more severe risk scenarios and/or events. The Group and the Bank carries out so called **reverse stress tests**, the goal of which is to identify events potentially leading to unviability of the Group and the Bank.

The Group and the Bank take part in **regulatory stress tests** conducted annually by the Polish Financial Supervisory Authority (KNF), in order to determine the impact of assumed macroeconomic stress scenarios on the Group's balance sheet and P&L as well as on external supervisory norms.

3.3.7 Capital planning

Required capital planning – strategic phase

The strategic phase of capital planning takes the form of the strategic dialogue between the Management Board, Risk, Finance and Business, resulting in the determination of the desired directions of business development to support the realization of the business goals of the mBank SA Group.

The Group plans business activities and related risk appetite within its risk bearing capacity and constraints imposed by regulatory requirements which have to be satisfied under both normal and stress conditions.

In view of the above, the planned changes in the size and structure of the Group's business activities, as well as anticipated regulatory changes are taken into account in estimating the required capital during the planning process. The required capital is estimated using risk parameters reflecting macroeconomic expectations assumed in planning process and taking into consideration intended changes in the methodology.

Should the capital required to achieve business goals of the Group be greater than the capital available for allocation, then the said business goals need to be revised.

Following the establishment of strategic directions, the key risk concentrations arising from the current and planned risk profile are examined with the Management Board setting an acceptable level of the associated risk factors. Key risk concentrations are identified based on the reverse stress test analysis. Capital targets are set taking into account the capital needs arising from the potential materialization of key risk factors recognized in reverse stress test procedure and fixed at the levels accepted as corresponding with targeted risk tolerance. Impact of the risk factors on capital is determined through stress test calculations.

The process of setting strategic financial targets is accompanied by strategic allocation of capital resources to individual business areas taking into account longer-term return on capital.

Required capital planning – operational stage

Based on the strategic directions, general balance sheets targets are elaborated upon during operational phase of capital planning (bottom-up). At this stage the capital available is compared with the capital needed (resulting from business growth and stress test results) in order to determine an efficient capital allocation at lower levels.

Business units work out their partial plans based on accepted macroeconomic assumptions, financial targets and the assessment of business growth potential.

In order to determine an acceptable risk profile from the capital consumption perspective, the forecasted volumes (partial plans) and resulting demand for regulatory and economic capital are compared, in an iterative process, with available resources and strategic guidelines.

Limits supporting capital plan

To ensure adequate use of available resources in order to achieve its business targets limits are established which are subject to yearly update. Multilevel limit structure aims to ensure that risk appetite is translated into specific constraints put on risks of the Group's activities in different business areas.

Available capital base

The final effect of the planning process is determination of target level of regulatory (own funds) and economic (RCP) capital base needed to cover risk concentrations of the current and planned activities, expressed by total regulatory capital requirement and total internal capital.

3.3.8 Managing particular risk types

Credit risk management

The mBank Group actively manages credit risk in order to optimise the level of profit in terms of return on risk. Analysis of the risk in the Group operations is continuous. For this purpose, uniform credit risk management rules are applied across the Bank's structure and its subsidiaries; they are based, among others, on separation of the credit risk rating function and the sales function at all levels up to the Management Board. A similar approach is applied to administration of credit risk exposures as this function is performed in the risk area and the operating area and is independent from sales functions. The model of Group-wide risk management assumes participation in the process of Bank's Risk Area organizational units (including, in particular, functions of the Credit Committee of the mBank Group). The segregation of responsibilities in the process is as follows:

- **The Retail Risk Department (DRY)** is responsible for management of credit risk and other risk types in mBank's retail banking. The main operational responsibilities of DRY (in the domestic market) include: credit risk rating and credit decision-making for individual exposures and transactions, mitigation of operational risk (credit frauds), supervision over the automated credit process, administration of credit agreements concluded with retail clients and their monitoring, collection of credit receivables via telephone and legal collection of credit receivables. Furthermore, DRY develops rules of credit risk rating, calculating creditworthiness of retail clients and other components of credit policy submitted for the approval by the Retail Banking Risk Committee. Solutions applied on the Polish market are also adapted in foreign branches (in the Czech Republic and Slovakia) – in this respect DRY cooperates closely with the Foreign Branches Risk Department. Moreover, the Department is responsible for implementing the assessment principles in the tools supporting the credit decision-making process, reports on the quality of the credit portfolio, and monitors the quality of data used in the risk rating process. To the extent permitted by external regulations DRY participates in the risk management process of the subsidiaries having credit risk bearing retail products in the offer.

- **The Corporate Risk Assessment Department (DOR)** is responsible for management of the quality of the corporate loans portfolio of the Bank and subsidiaries of mBank Group including restructured exposures and subject to a restructuring. DOR's key functions include: developing credit policy concerning corporate clients, countries and financial institutions as well as guidelines for credit risk strategy in the abovementioned areas; decision-making or participation in decision-making concerning performing and non-performing loans, including their impact on operational risk, reputational risk, liquidity risk and for capital requirements and return on invested capital; analysis, evaluation and control of credit risk of countries, banks, international financial institutions and non-financial clients of the Bank and the Group subsidiaries in the corporate banking area; implementation of the process of an early warning about the loss of creditworthiness of corporate clients (EW Process), including the management of the Watch List (WL) and credit risk provisions in the Bank's corporate banking area; monitoring the structure of exposures in the risk portfolio, in particular by sector, and the related concentration risk. The more extensive scope of credit risk controlling functions at Group level is performed by a dedicated organizational unit: the mBank Group Credit Risk Division at the Corporate Risk Assessment Department. The main functions of the Division include: analysis of credit risk of new exposures of subsidiaries, monitoring credit risk of the largest exposures; participation in the projects of development and modification of the risk management strategy, policies and rules in subsidiaries.
- **Corporate Risk Processes Department (DPR)** responsible for: compiling the corporate credit risk strategy, shaping the credit policy within the corporate banking area, creating through portfolio analyses, including industry-based division, products and concentration; compiling reports and statements for financial supervision bodies, the Bank's governing bodies and the Bank's organisational units, from the scope of credit-warranty portfolio of Bank and mBank Group entities. DPR compiles and introduces rules governing corporate risk process, monitors its efficiency, manages applications supporting credit process and provides support for their users. Within the area of the Department's responsibilities lies development and quality control of the rating models for corporate, financial and individual clients of mBank and mBank Group entities. Additionally, DPR manages the reserves for credit risk in the area of corporate banking, conducts settlement and accounting service of credits and guarantees issued by Structured and Mezzanine Finance Department (DFS) and collected debts from Restructuring and Debt Collection Department portfolio.
- **Integrated Risk & Capital Management Department (DKR)** – is responsible for the portfolio provision for loans and advances to corporates and retail, integration of risk valuation (economic capital, stress tests, total risk exposure amount (TREA)) and validation of models.

Decision-making for credit exposures in the corporate area. Credit decisions are consistent with the accepted rules set in the Corporate Risk Policy. Levels of decision-making competences are determined by a decision-making matrix. The determination of level of decision-making authority for credit decision is based on EL rating and total exposure on client/group of affiliated entities. The total exposure includes also exposures of the client/group of affiliated entities in the mBank Group's subsidiaries.

Decision-making for credit exposures in the retail banking area. Due to a profile of retail banking clients, the accepted amount of exposure per client and standardisation of products offered to those clients, the credit decision-making process differs from that applied to corporate clients. The decision-making process is automated to a large extent, both in terms of acquiring data on the borrower from internal and external data sources, and in terms of risk assessment by means of scoring techniques and standardised decision-making criteria. The tasks, which are not automated concern mainly the verification of credit documentation and potential derogations when a decision is made with the escalation to the decision-making level in accordance with the applicable rules. In addition, in case of mortgage loans, the present value of the collateral is established and its compliance with the binding credit policy including acceptable LtV (Loan to Value) is assessed. These functions are performed by operating units located within the Retail Risk Department, in complete separation from sales functions.

In mBank Group, mortgage loans to retail customers are also granted by mBank Hipoteczny. The credit process and the principles of risk assessment are consistent with the solutions used in mBank - the main difference is another method of property valuation, i.e. the use of the mortgage lending value instead of market value.

Market risk management

Market risk management is performed in a single process by the Financial Markets Risk Department (DRR).

- **The Financial Markets Risk Department (DRR)** is responsible for measurement of exposures to market risk of the Bank's front-office units portfolios by the use of market risk measures: Value at Risk (VaR) and stress tests. DRR is responsible for control of utilisation of the limits for these risk measures established by the Management Board and the Financial Markets Risk Committee and provides daily and periodical reporting on the market risk exposure to managers of the Bank's front-office units, to the Financial Markets Risk Committee, and directly to the Vice-president of the Management Board - Chief Risk Officer. Moreover, DRR develops market risk measurement methodologies, pre-settlement counterparty risk of derivative transactions, and establishes valuation models for financial instruments.

  Moreover the Financial Markets Risk Department is responsible for calculation and reconciliation of financial results on transactions carried out by the front-office units and provides daily valuation of financial instruments to the Finance Area. The valuation of derivative transactions with the Bank's clients is also delivered to the business units responsible for managing clients (investment and corporate area). Valuations prepared by DRR are the basis for managing collaterals for concluded transactions on derivative instruments. DRR is responsible for the administration of the front-office IT systems, i.e. administration of users' access rights to the systems, parameterization in the systems of financial instruments, as well as counterparties and issuers and is responsible for market data input to the systems. DRR monitors utilization of counterparty limits (pre-settlement, settlement, issuer and country risk limits) and escalates if limits are exceeded. Moreover, DRR verifies the market conformity of the transactions concluded by the front-office units and supervises the process of modification and deletion of deals in the front-office systems.

Liquidity risk management

Liquidity risk management aims at ensuring and maintaining the Bank's and the Group's ability to fulfil both current and future liabilities taking into account the cost of liquidity. The liquidity management process consists of procedures that aim at identification, measurement, controlling, monitoring, reducing and defining the acceptable level of exposure to risks. This process can be divided into two main elements in the operational sense: the part involving all forms of liquidity management and the part of controlling and monitoring liquidity risk. The mBank Group Assets and Liabilities Management Committee, the Financial Markets Risk Committee and the Management Board of the Bank are responsible for liquidity management on the strategic level. Below mentioned organisational units are responsible for liquidity management and control.

- **The Financial Markets Settlement and Services Department (DOF)** – is responsible for operational supervision over cash flows in accounts.
- **The Treasury Department (DS)** is responsible for providing necessary funds for settlements in the Bank's accounts, implementing strategic recommendations made by the mBank Group Assets and Liabilities Management Committee, calibrating the structure of the future cash flows within the limits imposed by the Management Board and the Financial Markets Risk Committee, maintaining defined securities portfolios kept to secure liquidity within the limits imposed by the Management Board, the Financial Markets Risk Committee and the mBank Group Assets and Liabilities Management Committee. The Treasury Department is supported in these functions by the Financial Institutions Department, in relation to funding from domestic and foreign banks and international financial institutions, and the Financial Markets Department, in relation to issues of the Bank's debt securities.
- **The Financial Markets Risk Department (DRR)** is in charge of controlling and monitoring liquidity risk of the Bank on the strategic level and reporting to the Vice-president of the Management Board - Chief Risk Officer, the Financial Markets Risk Committee and the mBank Group Assets and Liabilities Management Committee. The Department monitors financial liquidity on a daily basis using methods based on cash flow analysis. Liquidity risk measurement is based on the regulatory model and an internal model, which has been established taking into consideration the specific character of the Bank, the volatility of the deposit base, the level of funding concentration, and the projected development of particular portfolios.

Operational risk management

Operational risk management is performed in mBank and, at the consolidated level, in mBank Group.

- **The Integrated Risk and Capital Management Department (DKR)** is responsible for operational risk controlling and monitoring in the Bank and in mBank Group. The key functions of DKR within operational risk control cover: measurement and assessment of operational risk level, including organization of the process of collecting, monitoring and reporting data concerning operational risk events and effects, organization of the process of creating and reporting of operational risk scenarios, organization of the process of creating, monitoring and reporting of KRI (Key Risk Indicators), organization of the process and supervision over the integration and usage of information on risk from external operational risk databases, organization of the process of operational risk assessment for new products implemented to the Bank's offer, financial instruments introduced to the trade turnover and outsourcing processes, organization of Internal Control System Self-assessment (ICS); as well as calculation of capital requirements for operational risk at the Group level and delivering data for capital planning, supervising operational risk management process and internal control system assessment in mBank Group subsidiaries in particular through setting standards of operational risk management, issuing recommendations and monitoring the level of risk, organization of reporting on the level of operational risk and assessment of internal control system in mBank and mBank Group for the purposes of internal customers (organizational units of the Bank, mBank Group subsidiaries and the parent entity) and external customers (the Polish Financial Supervision Authority, rating agencies).

Within the scope of its operational risk control function, the Integrated Risk and Capital Management Department closely co-operates with other units and projects within the Bank involved in operational risk. In particular with the Compliance Department, the Legal Department, the Internal Audit Department and the Security Department. The results of operational risk controlling and monitoring are reported to the Risk Committee of the Supervisory Board, the Management Board of the Bank, the Business and Risk Forum of mBank Group, and the Chief Risk Officer.

Business risk management

Business risk management is performed in mBank and, at the consolidated level, in mBank Group.

- **Controlling and Management Information Department** is responsible for ongoing monitoring of financial results of business units and preparing forecasts of the Group's results; development of methodology and measurement of economic capital for business risk and preparing information on the changes of its level, as well as for the stress testing of business risk.

Reputational risk management

The Bank's business units, foreign branches, and subsidiaries are directly responsible for any reputational risk arising from their own business activities. The key role in reputational risk management is played by the Communication and Marketing Strategy Department, which is in charge of shaping the image and brand of the Bank and mBank Group.

- **Communication and Marketing Strategy Department** is responsible for: development of external communication strategy of mBank and mBank Group and realisation of mBank external communication strategy; planning and realisation of marketing activities for business lines, with exclusion of retail banking (where the responsibility rests with the **Retail Banking Marketing Department**); planning and coordination of activities of mBank and mBank Group in regards to marketing research relating to brand positioning as well as realization of activities in the area of marketing research; development and realization of strategy relating to corporate responsibility; monitoring of activities related to the Bank's image, reputation and identification in accordance with the Bank's strategic positioning; management of crisis situations which bear the reputational risk for the Bank and the mBank Group.

Substantial functions in the reputational risk management process are performed by other organizational units of the Bank, that is: Compliance Department, Employee and Organization Culture Development Department, Corporate Banking Management Department, Business Support Department, Retail Banking Business Development Department, and **Integrated Risk and Capital Management Department**, which is responsible for: development of reputational risk management strategy in cooperation with other organizational units and supervision over the Internal Control System Self-assessment (ICS), including also aspects of reputational risk.

Model risk management

Model risk management is coordinated by the Integrated Risk and Capital Management Department through its Validation Unit.

- **Integrated Risk and Capital Management Department (Validation Unit)** performs the following tasks: develops policies and organizes the process of managing models used for the purposes of the management and measurement of credit risk, market risk, interest rate risk in the banking book, liquidity risk as well as other risks deemed material in the process of calculating regulatory and economic capital, in particular through setting standards, issuing recommendations and monitoring of the process in mBank Group, and maintains the Model Register; conducts validation of models applied in mBank for the purposes of assessment of capital adequacy and economic capital, validation of the process of application of ratings and validation of implementation of changes of models in IT systems; develops model validation methodology; performs validation services for mBank Group subsidiaries and agrees with the subsidiaries on the results of validations carried out in subsidiaries with regard to models covered by AIRB method and other models deemed material from the point of view of the Group's operations in accordance with model management policies; organizes and monitors the process of model risk assessment in the Bank's organizational units and the Group subsidiaries responsible for model development and ensures consistency of model risk assessment within the Group; is responsible for communication and reporting to internal and external stakeholders and the parent entity of the Bank of required information concerning changes in models.

Capital risk management

Capital risk management is performed in mBank and, at a consolidated level, in mBank Group.

- **Controlling and Management Information Department** is responsible for: development of the capital management policy of mBank Group; measurement of efficiency of the capital utilization and monitoring ratios of return on capital in the Bank's organizational units and the Group subsidiaries, and updating the respective methodology; preparation of forecast of changes of own funds and TREA, as well as capital adequacy ratios for the Bank and mBank Group.
- **Integrated Risk and Capital Management Department** is responsible for: monitoring of capital adequacy, risk bearing capacity and risk profile of the Group; organization of the processes of planning, forecasting and monitoring regulatory and internal capital; development of the risk bearing capacity concept and the methodology of limiting regulatory and internal capital; monitoring regulatory requirements regarding the application of AIRB method in calculating capital requirements, sensitivity analyses, stress tests and analyses of influence of new products and new calculation methods for the level of capital requirements and regulatory capital ratios; preparation of reports and information for the statutory bodies of the mBank and for the purposes of consolidated supervision in regards to capital adequacy, risk bearing capacity and risk profile of the Bank and mBank Group.

Insurance risk management is performed in the mBank Group subsidiary – BRE Ubezpieczenia TUiR S.A., where insurance risk was deemed material in 2014.

3.4. Credit risk

3.4.1 Credit Policy

mBank Group manages credit risk based on supervisory requirements and market best practices. Credit policy, established separately for retail banking and corporate banking, plays the key role in the credit risk management process. It includes i.a.:

- target customer groups,
- minimum acceptable ratings' levels defined by the expected loss value,
- criteria for acceptance of financed subjects and collaterals,
- rules for mitigating concentration risk,
- rules for selected industries and customers segments.

3.4.2 Collateral accepted

Collateral accepted for granted credit products. The collateral policy is an important part of the credit policy. It provides that, in making a decision about granting a credit risk bearing product, the Bank strives to obtain collateral that would be adequate to the accepted risk. The quality of the proposed tangible collateral is assessed according to its liquidity and market value (or the mortgage lending value – in case of mBank Hipoteczny), and the quality of personal collateral is assessed according to the financial situation of the guarantor. Moreover, the impact of collateral on limitation of the impairment of the loan portfolio is a significant factor in the assessment of the collateral's quality. The quality of accepted collateral is correlated to the amount of the product bearing credit risk and the level of risk related to granting such a product. The collateral most frequently accepted by the Bank includes:

- mortgage on real estate,
- cession of receivables (cession of rights),
- registered pledge,
- transfer of ownership to collateral (partial or conditional),
- monetary deposit,
- guarantee deposit or cash blocked,
- bill of exchange,
- guarantees and warranties,
- a letter of comfort issued by a company whose reliability and fairness is known on the international financial markets.

In the case of personal collateral (e.g. warranty, guarantee), the situation and reliability of the entity issuing such collateral is evaluated against the same standards as those applicable to the assessment of borrowers.

Tangible collaterals are evaluated in accordance with the internal rules of the Group. The value of fixed assets taken as collateral is determined on the basis of an estimate prepared by a certified expert. These estimates submitted to the Bank is verified by a team of specialists situated in the Risk Area, who verify the correctness of the market value assumptions and assess the liquidity of the collateral from the Bank's point of view. The following factors are taken, among others, into account in the verification process:

a) for collateral on real estate:

- type of real estate,
- legal status,
- designation in the local land development plan,
- technical description of buildings and structures,
- description of land,
- situation on the local market,
- other price-making factors,

b) for collateral on plant and machinery:

- general application and function in the technological process/possibilities of alternative use,
- technical description and parameters,
- exploitation and maintenance conditions,
- compliance with applicable standards,
- availability of similar devices and machinery,
- current market situation,
- forecasts of demand for specific machinery in connection with the situation in the industrial sectors applying such machinery.

c) for collateral on inventories:

- formal and legal requirements related to specific products (e.g., a security certificate 'CE' for electrical equipment, certificates issued by National Institute of Public Health),
- saleability,
- warehousing conditions required (e.g., for paper materials sensitive to humidity, precise materials sensitive to pollution, etc.),
- security and insurance of both the warehouse and the goods stored therein.

Collateral accepted for transactions in derivative instruments. The Bank manages the risk of derivative instruments. Credit exposures arising from concluded derivative transactions are managed as a part of clients' general credit limits, taking into account potential impact of changes in market parameters on the value of the exposure. Existing master agreements with contractors obligate the Bank to monitor the value of exposure to the client on a daily basis and provide for additional collateral against the exposure to be contributed by the client if the exposure value increases or the limit is exceeded. In case of default, the master agreements provide for early settlement of the transaction with the client. mBank applies an Early Warning Process in order to monitor the usage of limits on derivatives and enables the Bank's quick reaction if client's open transaction nears the maximum limit.

Collateral on securities resulting from buy-sell-back transactions. The Bank accepts collateral in the form of securities in connection with the buy-sell-back transactions concluded. Depending on the agreement such collateral may be sold or repledged.

Collaterals accepted by the mBank Group subsidiaries. The mBank Group subsidiaries accept various forms of legal collateral of credit risk-bearing products. Their list depends on the specific nature of activities, type of offered products and transaction risk.

mBank Hipoteczny applies mortgage on the financed real estate as the basic collateral. Additional collateral may include bills of exchange or civil surety by the borrowing company's owners, as well as pledge on shares in the borrower's company. Loan insurance in an insurance company approved by the Bank may be accepted for a period necessary to effectively set up collateral.

mLeasing applies types of collateral that are most similar to those of mBank. It accepts both standard personal collateral – bill of exchange and civil surety, letters of comfort, guarantees and tangible collateral – ordinary and capped mortgage, registered liens, transfer of ownership of collateral, transfer of receivables and cession of receivables and rights to an insurance policy, and deposits. mLeasing also accepts declarations of voluntary submission for enforcement.

mFaktoring accepts only highly liquid collateral. Apart from own blank bills of exchange, these are mainly bill of exchange surety of the owners of the customer's company, cession of receivables from bank accounts (mainly those maintained by mBank), insurance of receivables, cession of rights from insurance policies in respect of receivables, concluded by customers. In the case of providing services to several companies belonging to one group, a customary form of collateral is a power of attorney to perform cross-settlement of agreements concluded with the particular companies.

Insurance companies, which secured their activities against credit risk, by implementing a policy of safe allocation of all resources and using comprehensive reinsurance, did not have any additional collateral for assets exposed to credit risk.

3.4.3 Rating system

The rating system is a key element of the credit risk management process in the corporate area. It consists of two main elements:

- customer rating (PD-rating) – describes the probability of default (PD),
- credit rating (EL-rating) – describes expected loss (EL) and takes into consideration both customer risk (PD) and transaction risk (LGD, Loss Given Default – loss resulting from default). EL can be described as PD*LGD. EL indicator is used mainly at the credit decision-making stage.

The rating produces relative credit risk measures, both as percentages (PD%, EL%) and on a conventional scale from 1.0 to 6.5 (PD-rating, EL-rating) for corporations (sales over PLN 30 million) and SMEs (sales below PLN 30 million). PD rating calculation is a strictly defined process, which comprises seven steps including: financial analysis of annual reports, financial analysis of interim figures, assessment of timeliness of presenting financial statements, analysis of qualitative risks, warning indicators, level of integration of the debtor's group, and additional discretionary criteria. Credit rating based on expected loss (EL) is created by combining customer risk rating and transaction risk rating, which results from the value of exposure (EAD, Exposure at Default) and the character and coverage with collateral for transactions concluded with the client (LGD). LGD, described as % of EAD, is a function of possibly executed value of tangible and financial collateral and depends on the type and the value of the collateral, the type of transaction and the ratio of recovery from sources other than collateral.

The rating system generates the borrower's probability of default directly in the form of a PD ratio, expressed as a percentage on a continuous scale. Rating classes are calculated on the basis of procedures of dividing percentage PD into groups based on geometric stepladder. In external reporting, the Bank maps the internal PD rating scale onto external ratings. The table below presents the mapping system.

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Sub-portfolio	1				2			3		4			5			6	7		8	
PD-rating	1.0 - 1.2	1.4	1.6	1.8	2	2.2	2.4 - 2.6	2.8	3	3.2 - 3.4	3.6	3.8	4	4.2 - 4.6	4.8	5	5.2 - 5.4	5.6 - 5.8	No rating	6.1 - 6.5
S&P	AAA	AA+	AA, AA-	A+, A	A-	BBB+	BBB	BBB-	BB+	BB	BB-	B+	B+	B	B-	B-	CCC+	CCC down to CC-	n/a	C, D-I, D-II
	Investment Grade								**Non-Investment Grade**											**Default**

The following models comprised by the rating system are used in the retail banking area:

- Loss Given Default (LGD) model, which covers the entire retail portfolio. In the model, loss is defined as a function dependent on the level of recovery from clients' own payments and possible value of collateral using real estate collected in enforcement procedures.
- Credit Conversion Factor (CCF) model, which covers the entire retail banking portfolio. The model is based on historical data. The Credit Conversion Factor is an integral part of.
- PD model with a modular structure, which integrates application and behavioural models in the retail banking area as well as models which use Credit Information Bureau (BIK) data.

All mBank Group subsidiaries, whose operations are burdened with credit risk, before concluding an agreement and upon its performance, apply a monitoring process to estimate the risk using rating systems applied by the mBank Group. Rating systems that are used by the Group subsidiaries are due to the nature of their business; at the same time the factoring and leasing companies use the PD-rating of the customer, and the leasing company applies additionally credit rating (EL-rating). A rating based on supervisory measures (slotting approach) is applied in the case of mortgage loans and real estate leasing.

3.4.4 Monitoring and validation of models

All models of risk parameters applied in mBank and in the mBank Group subsidiaries, including, i.a., scoring models, PD models, LGD models and CCF models are subject to detailed and annual monitoring by modelling units and are validated by the mBank's independent validation unit.

The monitoring includes tests to check discriminatory power of individual models or their components, stability over time, the materiality of individual deviations of empirical values from theoretical values and the impact on portfolio parameters. In case of identification of some mismatches, the modelling unit recalibrates the respective models.

Reports on the performed monitoring/backtests are presented to the model users and the independent validation unit.

Validation

Validation is an internal, complex process of independent and objective assessment of model operation, which, in case of the AIRB method, meets the supervisory guidelines set out in the CRR. The validation rules are set out in general in the "Model Management Policy" and described in details in other mBank's internal regulations. The validation covers models directly and indirectly used in the assessment of capital adequacy under the AIRB approach and other models indicated in the Model Register maintained in mBank.

In case of AIRB models there is required an independence of validation unit in the organizational structures of the Bank or the Group's Subsidiary (a separate department or subsidiary) in relation to the units involved in the model's construction/maintenance, ie. the Model Owner and Users. The Validation Division of the Integrated Risk and Capital Management Department (Validation Unit) is responsible for the validation in mBank.

The scope of validation performed by the Validation Unit covers the assessment of:

- models,
- model implementation,
- their application process.

Depending on the materiality and complexity of the model, the validation may be advanced (covers both quantitative and qualitative elements) or basic (mainly focused on the qualitative elements and possible quantitative analyses). The validation results are documented in the validation report containing, in particular, an assessment used for the purpose of approving the model, and recommendations, if any, about the irregularities found. The validation reports as well as post-validation recommendations are subject to approval by the Chief Risk Officer.

Validation tasks are performed in accordance with the annual validation plan, approved by the Chief Risk Officer.

All the models used for the purpose of calculating capital requirements for credit risk under the AIRB method were validated.

IRB Method Change Policy

The Bank implemented the IRB Method Change Policy approved by the Management Board. The Policy contains internal rules for the change management within the IRB approach, based on the supervisory guidelines and taking into account the organizational specifics of the Bank. The Policy specifies the stages of the change management process, defines roles and responsibilities, describes in details the rules of classification of changes as well as the rules and responsibilities related to the need to meet documentary requirements connected with the maintenance of statistical method change register.

3.4.5 Method of calculating the portfolio provision (IBNI – Incurred But Not Identified Losses) for loans and advances to corporates and retail, based on the rating systems

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 the Bank at the provisions calculation date.

The Bank applies uniform default definition in all areas of the credit risk management, i.a. for the purpose of calculating impairment charges, provisions (after necessary adjustments aimed at elimination of differences between IAS 39 and CRR) and capital requirement. The definition of unsatisfied credit obligation (default) is based on the definition of unsatisfied credit obligation included in the CRR.

3.4.5.1 Corporate portfolio

The probability of disclosure of a loss is modelled by logistic regression based on financial indicators and qualitative data. The model is calibrated on the Bank's internal data, comprising a several years' period of observation of the corporate portfolio. On the basis of the monitoring period existing in the Bank, it was estimated that 6-8 months (depending on the size of the company) is the average period between the loss event occurrence and the possibility of its identification by the Bank (loss identification period 'LIP'). Therefore, the Bank performs calculations on the basis of 6-8-month horizon for probability of default obtained via scaling the original 12-month PD-rating coming from the corporate PD model. The value of incurred loss is assumed at the level of the expected value of exposure in case of default (EAD) multiplied by LGD, calculated by corporate LGD/EAD model and multiplied by PD.

In the opinion of the Management Board, the profile of the corporate rating system as a model sensitive to changes in economic cycle (Point-in-Time) as well as recognition of interim financial data and warning indicators as rating assessment drivers should ensure adequate reflection of the amounts of the calculated portfolio provision to the changing market environment.

3.4.5.2 Retail portfolio

For the purpose of measuring the impairment in the retail area, the Bank applies credit risk parameters corresponding with those derived from the AIRB methodology (advanced internal ratings based approach for calculating capital requirement for credit risk), after necessary adjustments aimed at elimination of differences between AIRB and IAS 39.

The recognition of default status is based on all credit data of the individual person and includes all the customer's amounts due to the Bank.

In case of LGD model the Bank applies conditional approach to recognition of collateral effects, i.e. defined by probability (dependent on specifics of work out process) of collateral realization. In addition, recognized partial recoveries as well as broader range of recoveries coming from natural cures are included.

12-month loss identification period (LIP) based on retail current internal data concerning bank's processes and abilities to detect the loss situations is applied in the retail area.

3.4.5.3 Measurement of impairment of corporate portfolio

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:

a) identifying impairment indicator on individual basis (loss events) and if they exist, classifying a customer to a default category;

b) assessing estimated future cash flows (repayments) both from collateral and from repayments by a customer;

c) calculating impairment losses taking into account the future amount of estimated discounted cash flows using the effective interest rate;

d) booking of impairment losses.

Loss events were divided into definite ('hard') loss events of which occurrence requires the client to be classified into the default category, and indefinite ('soft') loss events of which occurrence may imply that there is a need to classify the client into the default category. In the case of indefinite loss events, credit analyst assesses additionally whether the event impacted adversely the obligor's creditworthiness. Indefinite loss events have been introduced in order to signal situations that may potentially increase the credit risk of the debtor, which may result in the loss of the debtor's ability to repay loan the Bank.

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

1. The number of days from which any exposure being the obligor's credit obligation becomes overdue is above 90 days and the overdue amount exceeds PLN 3,000.

2. The Bank has sold exposures with a significant economic loss related to the change of the debtor creditworthiness.

3. The Bank performed enforced restructuring of the exposure, which resulted in the change of the loan/transaction service schedule due to the lack of possibility of the obligor to meet his obligations under loan/transaction agreement, as initially stipulated, which resulted in:

a) reduction of financial obligations by remitting part of these obligations, or

b) postponing the repayment of the substantial part of the principal, interest or (if it refers to) commission; provided that the lack of approval for restructuring would cause more than 90 calendar days delay in repayment of substantial part of the obligation.

4. Filing by the Bank, the parent or subsidiary entity of the Bank a bankruptcy motion against debtor or filing similar motion in respect of credit obligations of the debtor towards the Bank, the parent or subsidiary entity of the Bank.

5. Bankruptcy of debtor or acquiring by him a similar legal protection resulting in his evasion of or delay in repayment of credit obligations towards the Bank, the parent or subsidiary entity of the Bank.

6. Termination of part or whole credit agreement by the Bank and the beginning of restructuring/collection procedures.

7. Client's fraud.

<u>The list of required conditions for indefinite loss events is prepared separately for each following entity type:</u>

a) governments and central banks,
b) banks,
c) corporations, including specialised lending,
d) local government units,
e) insurers,
f) pension fund managing companies, investment fund managing companies.

Defining separately the conditions for indefinite loss events for particular types of entities aimed at reflecting specificity of particular types of entities in identification of loss events.

In order to assess if the impairment loss has occurred, identification of credit exposures with premises for impairment is carried out. Subsequently the comparison of the gross balance sheet credit exposure with the value of estimated future cash flows discounted at the original effective interest rate is carried out, which leads to the conclusion whether the impairment loss has occurred. If the discounted value of future cash flow is higher than the gross balance sheet value, the impairment charge is not recognised.

In case of specific situation, when the future cash flows are clearly dependent on individual events with binary character of occurrence, the Bank estimates the probability of such events as the basis for calculating the impairment charge.

3.4.5.4 Measurement of impairment of retail portfolio

In the Bank'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 (after necessary adjustments aimed at elimination of differences between AIRB and IAS 39), i.e.:

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a) the total sum of overdue exposures for all products exceeds PLN 500 and the eldest delay is more than 90 days,
b) one of the contracts has been identified as fraudulent,
c) one of the contracts is restructured,
d) the Bank applies for instigating enforcement proceedings, bankruptcy proceedings or reorganisation proceedings (resulting in a potential discontinuation of or delay in payments) against the debtor,
e) 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.

The table below shows the percentage of the Group's balance sheet and off-balance sheet items relating to loans and advances, guarantees and other financial facilities to individuals, corporate entities an public sector and the coverage of the exposure with impairment provision for each of the Bank's internal rating categories (the description of rating model is included in Note 3.4.3).

Sub-portfolio	31.12.2014		31.12.2013	
	Exposure (%)	Provision coverage (%)	Exposure (%)	Provision coverage (%)
1	4.52	-	7.47	-
2	31.53	0.04	29.93	0.09
3	17.34	0.13	23.26	0.09
4	25.49	0.33	21.09	0.22
5	5.83	1.04	5.45	0.89
6	0.51	1.69	0.53	1.60
7	2.23	3.81	2.28	0.98
8	4.80	0.01	4.52	1.47
other *)	2.39	-	0.31	-
Default category	5.36	49.03	5.16	35.53
Total	**100.00**	**2.90**	**100.00**	**2.07**

*) "Other" applies to subsidiaries which do not use similar systems as mBank S.A.

33.52% of the loans and advances portfolio for balance sheet and off-balance sheet exposures is categorized in the top two grades of the internal rating system (37.40% as of 31 December 2013).

The nominal increase in the exposure by 14% at the end of 2014 compared to the end of 2013 had a significant impact on the sub-portfolios 3 and 4 and resulted in the change of distribution of share of exposures for these categories. The share of provision coverage for sub-portfolios 7 and 8 was accumulated in sub-portfolio 7 at the end of 2014.

3.4.5.5 Repossessed collateral

The Group classifies repossessed collaterals as assets repossessed for debt and measures them in accordance with the adopted accounting policies described in paragraph 2.25. Repossessed collaterals classified as assets held for sale will be put up for sale on an appropriate market and sold at the soonest possible date. The process of selling collaterals repossessed by the Bank is arranged in line with the policies and procedures specified by the units managing the collection process for individual types of repossessed collaterals.

The policy of the companies of the Group is to sell repossessed assets or - in the case of leases - lease them out again to another customer. Cases in which the repossessed collateral is used for own needs are rare – such a step must be economically justified and reflect the Group companies' urgent need, and must at each time be approved by their Management Boards. In 2014 and 2013, the Group did not have any repossessed collaterals that were difficult to sell. As at 31 December 2014, value of repossessed collaterals was PLN 8 192 thousand (31 December 2013: PLN 8 192 thousand) included mainly real estate which constitute collaterals for mortgage loans and leasing assets. The value of repossessed collaterals was included in the item '*inventories*' under Note 27.

3.4.6. mBank Group Forbearance Policy

- **Definition**

The mBank Group's forbearance policy is a set of activities relating to negotiation and restructuration of terms of loan agreements which is defined by internal regulations.

The Group offers forbearance to assist customers, who are temporarily in financial distress and are unable to meet their original contractual repayment terms, through agreements with less restrictive terms of repayment, without which financial difficulties would prevent satisfactory repayment under the original terms and conditions of the contract. These agreements may be initiated by the customer or the Group entities and include debt restructuring, new repayments schedule, capital repayments deferrals with interest repayments kept.

The type of concession offered should be appropriate to the nature and the expected duration of the customer's financial distress. Clear demonstration from the customer of both willingness and ability to repay is necessary to conclude agreement. Before any concession is granted, an assessment of customer's ability to repay is undertaken to ensure suitability of the offer.

The Group renegotiates loan agreements with customers in financial difficulties to maximise possibility of receivables repayment and minimise the risk of default (situation when client fails to fulfil his contractual obligation).

Exposures with modified terms and conditions under forbearance policy (hereinafter - forborne exposures) are subject to regulatory and internal reporting.

- **Instruments used**

The Group maintains open communication with clients in order to detect any financial difficulties as early as possible and to know the reasons of such difficulties. In case of retail customers with temporary financial difficulties forbearance solutions focus on temporary reductions of contractual payments in form of capital repayments suspension with only interest repayments kept.

For customers under long term financial distress extension of contractual repayment schedule may be offered which can include instalments reduction. In case of debt refinancing, as a rule, client is reclassified into the default category.

For the corporate clients in financial distress, as part of the business support process, the Group offers concessions, starting from participating in debt standstills and finishing on debt restructuring agreements. Debt restructuring agreements may improve Group's security by replacing open financing (overdraft) with factoring or invoice discount and they can waive or ease covenants (additional conditions included in the primary agreement), if it represents optimal strategy for client's business continuity.

The following list does not exhaust all possible actions that are subject to forbearance, but it includes the most common which are:

- Loan increase,
- Deferral of scheduled repayments,
- Maturity extension/ extension of loan duration,
- Restructuring (medium or long term refinancing),
- Capitalization of interest,
- Interest deferrals,
- Principal deferrals,
- Covenant waiver,
- Standstills.

- **Risk management**

Forbearance activities have been an integral part of Group's risk management for many years. Forbearance portfolios are subject to regular review and reporting to Risk Area Management. The effectiveness of undertaken actions, regularity of restructured products' service in respect of types of products and clients' segment are subject to assessment. The risk analysis of retail forbearance portfolio is based on portfolio approach and corporate portfolio analysis is focused on individual approach.

In corporate banking, the concession granting process is accompanied by impairment test. Recognition of impairment results in client being taken over by the specialised unit dedicated to restructuring. All loans granted to clients being served by restructuring unit have the forbearance status. Clients without impairment, who received the concession, are subject to close monitoring by all units involved in the loan granting process. Those clients are placed on the Watch List (WL) and therefore their financial situation is subject to close monitoring and they are under constant review to establish whether any of impairment indicators had materialised.

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The Group does not use dedicated models to determine level of IBNI provision and impairment provision for forbearance portfolio.

Forbearance exit conditions

The Group ceases to recognise the product as forborne if all of the following conditions are met:

- The agreement is recognised as performing,
- Debtor financial situation's analysis showed improvement,
- Two years after recognising exposure as performing have passed,
- At least from the middle of the probation period regular capital or interest payments have been made according to the schedule set at the moment of concession granting,
- None of the debtor exposures is overdue more than 31 days in the amount of more than PLN 500.

Portfolio characteristic

Due to the adaptation of the reporting requirements of the EBA in 2014 (ITS on Supervisory reporting on forbearance and non-performing exposures under article 99(4) of Regulation (EU) No. 575/2013), the recognition of forbearance was changed. Group's IT systems were adapted to clearly mark assets being subject to concession. Therefore, data currently available in the Group's systems and used for reporting purposes are not comparable with previous years' data.

Changes in the carrying value of the forborne exposure

	Gross carrying amount	Of which defaulted	Provisions created	Net value
As at 31.12.2013	**1 995 592**	**1 526 073**	**588 260**	**1 407 332**
Outputs	(148 406)	(124 487)	(51 335)	(97 071)
New forbearance	605 363	261 236	92 086	513 278
Changes on existing loans	(170 831)	86 182	116 796	(287 627)
As at 31.12.2014	**2 281 718**	**1 749 003**	**745 806**	**1 535 912**

Forbearance portfolio as at 31 December 2014

	Gross carrying amount	Of which defaulted	Provisions created	Net value
Loans and advances to banks	1	-	-	1
Loans and advances to customers, including:	2 281 717	1 749 003	745 806	1 535 911
Loans to individuals:	469 240	186 590	70 746	398 494
− Current accounts	22 222	17 119	6 888	15 334
− Term loans, including:	447 018	169 470	63 858	383 160
housing and mortgage loans	379 103	124 180	51 564	327 539
Loans to corporate clients:	1 812 477	1 562 414	675 060	1 137 417
corporate & institutional enterprises	765 447	693 510	369 616	395 831
medium & small enterprises	1 047 030	868 904	305 444	741 586
Loans and advances to public sector	-	-	-	-
Total balance sheet data	**2 281 718**	**1 749 003**	**745 806**	**1 535 912**

Forborne exposures by type of concession as at 31 December 2014

Type of concession	Gross carrying amount	Of which defaulted	Provisions created	Net value
Refinancing	87 616	75 919	30 938	56 678
Modification of terms and conditions	2 194 101	1 673 084	714 867	1 479 234
Total	**2 281 718**	**1 749 003**	**745 806**	**1 535 912**

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Forborne exposures by geographical breakdown as at 31 December 2014

	Gross carrying amount	Of which defaulted	Provisions created	Net value
Poland	1 677 732	1 145 017	535 519	1 142 212
Other countries	603 986	603 986	210 286	393 700
Total	**2 281 718**	**1 749 003**	**745 806**	**1 535 912**

Forborne, not impaired exposures by period of overdue as 31 December 2014

Overdue period	Gross carrying amount	Of which defaulted	Provisions created	Net value
Not past due	337 904	81 317	1 495	336 392
Past due less than 30 days	35 576	12 393	217	35 359
Past due 31 - 90 days	1 881	1 093	-	1 881
Past due over 90 days	125 117	125 117	88	125 029
Total	**500 478**	**219 920**	**1 800**	**498 662**

Forborne, impaired exposures by period of overdue as at 31 December 2014

Overdue period	Gross carrying amount	Of which defaulted	Provisions created	Net value
Not past due	551 997	363 797	184 529	367 468
Past due less than 30 days	108 621	55 558	20 253	88 369
Past due 31 - 90 days	72 579	61 669	32 984	39 595
Past due over 90 days	1 048 059	1 048 059	506 240	541 819
Total	**1 781 240**	**1 529 083**	**744 006**	**1 037 233**

Forborne exposures by the industry as at 31 December 2014

Sectors	Gross carrying amount	Of which defaulted	Provisions created	Net value
Forestry	240 825	220 775	112 399	128 426
Financial activities	964	964	1	963
Food sector	56 040	51 225	22 004	34 036
Construction	154 328	144 880	19 774	134 554
Scientific and technical activities	41 047	2 535	1 535	39 512
Education	20 001	20 001	4 936	15 065
Electronics and household equipment	88 767	82 441	66 739	22 028
Power, power and heating distribution	109 109	109 109	17 619	91 490
Mining	91 303	91 303	45 742	45 561
Retail trade	91 098	82 096	36 920	54 179
Wholesale trade	75 536	44 814	34 603	40 933
Hotels and restaurants	40 543	40 543	13	40 531
Information and communication	41 529	32 723	25 147	16 383
Arts, entertainment	46 424	46 424	11 668	34 756
Construction materials	13 753	13 753	13 753	-
Metals	217 634	208 372	139 783	77 851
Health care	6 174	6 174	819	5 355
Fuels and chemicals	10 968	2 043	627	10 341
Other manufactoring	6 068	6 068	2 982	3 087
Real estate management	393 359	290 378	77 534	315 825
Agriculture	11 269	11 269	10 976	293
Textiles and clothing	10 925	10 925	4 709	6 216
Transport and logistics	23 611	19 717	13 811	9 800
Services	53 392	53 389	12 539	40 853
Municipal services	178	178	178	-
Other	436 873	156 905	68 998	367 875
Total	**2 281 718**	**1 749 003**	**745 806**	**1 535 912**

3.4.7 Counterparty risk that arises from derivatives transactions

The credit exposure from derivatives transactions is calculated as the sum of the replacement cost for each transaction (which is its current net present value - NPV) and its estimated future potential exposure (Add-on). Moreover bank uses credit mitigation techniques such as netting and collateralization. Therefore netting is taken into account if there are close-out netting agreements in place, whereas CSA agreements are required to collateralize the exposure. CSAs allow for variation margin to be called if current valuation of the portfolio exceeds the predefined level (threshold). Therefore credit exposure of the derivatives portfolio is adjusted appropriately based on whether the collateral is paid or received and in accordance with the binding agreements.

Credit exposure control is performed through an integrated system and in real time. In particular the level of the allocated credit exposure limit usage is monitored and checked intraday. Credit exposure limits are subject to limit decomposition into different products and maturities.

The decomposition of the credit exposure of the derivatives portfolio based on the counterparty type is as follows:

- 66% banks,
- 20% corporates,
- 13% financial institutions,
- 1% others.

The decomposition of the credit exposure of the derivatives portfolio based on the internal rating (PDR) as at 31 December 2014 is as follows:

PDR	1	1.2	1.4	1.6	1.8	2	2.2	2.4	2.6	2.8	3	3.2	3.4
Credit exposure (PLN m)	0.0	209.3	567.5	304.4	262.3	246.5	444.5	430.5	136.5	189.9	45.5	51.2	273.1

PDR	3.6	3.8	4	4.2	4.4	4.6	4.8	5	5.2	5.4	5.6	5.8	>5.8
Credit exposure (PLN m)	22.6	22.6	3.1	3.5	0.6	0.2	2.1	0.6	0.0	0.0	0.0	0.1	0.0

Total credit exposure with counterparties without PDR equals to PLN 107.34 million, whereas total credit exposure of the counterparties with PDR at the level of 3 or better accounts for 85% of the total credit exposure of the derivatives portfolio.

The PD rating scale compliant with scale presented in chapter 3.4.3 Rating system.

Total counterparty risk exposures of the derivatives portfolio decomposed into current NPV and add-on has been depicted below:

(PLN m)	Banks		Corporates	
	2014	2013	2014	2013
NPV	153	86	456	139
add-on	2 051	1 756	701	472
collateral	(342)	(167)	37	25

Collateral already included in total NPV according to CSA approach in table above.

In order to reflect the credit risk embedded in derivative instruments the Group uses correction to fair value that takes into account the element of credit risk of the counterparty. Write off due to credit risk of contractor is based on expected loss until maturity of the contract and is calculated on customer level. The value of this correction is included in income statement in net trading income.

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The table below presents the percentage of derivatives and correction to fair value of credit risk of the counterparty which constitute the component of financial assets in the total carrying value for each of the Group's internal rating categories (the description of the rating model has been described under Note 3.4.3).

Sub-portfolio	31.12.2014		31.12.2013	
	Fair value %	Provision coverage (%)	Fair value %	Provision coverage (%)
1	38.88	0.11	34.23	0.02
2	47.69	0.05	29.59	0.07
3	7.74	0.67	33.72	0.42
4	5.38	0.72	0.82	7.68
5	0.26	3.46	1.16	3.56
6	0.01	0.72	0.03	0.14
7	0.00	3.61	0.00	7.69
8	0.03	-	0.45	-
Default category	0.01	-	-	-
Total	**100.00**	**0.17**	**100.00**	**0.27**

3.5. Debt Instruments: treasury bonds and other eligible debt securities

31 December 2014	Trading securities			Investment debt securities	Total
Rating	Government bonds	Treasury bills	Other debt securities		
AAA	-	-	-	46 964	46 964
AA- to AA+	-	-	-	809 850	809 850
A- to A+	617 906	-	73 418	26 297 387	26 988 711
BBB+ to BBB-	-	-	316 363	129 393	445 756
BB+ to BB-	-	-	136 335	133 404	269 739
B+ to B-	-	-	1 975	-	1 975
Lower than B-	-	-	-	-	-
Unrated	-	-	-	-	-
Total	**617 906**	**-**	**528 091**	**27 416 998**	**28 562 995**

31 December 2013	Trading securities			Investment debt securities	Total
Rating	Government bonds	Treasury bills	Other debt securities		
AAA	-	-	-	47 525	47 525
AA- to AA+	-	-	-	797 207	797 207
A- to A+	388 259	-	28 641	24 139 009	24 555 909
BBB+ to BBB-	-	-	181 457	25 222	206 679
BB+ to BB-	-	-	112 784	60 294	173 078
B+ to B-	-	-	23 480	-	23 480
Lower than B-	-	-	-	-	-
Unrated	-	-	-	-	-
Total	**388 259**	**-**	**346 362**	**25 069 257**	**25 803 878**

97.49% of the investments in debt securities is rated at least on A- credit rating (31 December 2013: 98.44%).

Information about impairment allowance for investment equity securities occurs under Note 23.

3.6. Concentration of assets, liabilities and off-balance sheet items

Geographic concentration risk

In order to actively manage the risk of concentration by country, the Group:

- complies with the formal procedures aimed at identifying, measurement and monitoring this risk,

- complies with the formal limits mitigating the risk by country and the procedures to be followed when the limits are exceeded,
- uses a management reporting system, which enables monitoring the risk level by country and supports the decision-making process related to management,
- maintains contacts with a selected group of the largest banks with good ratings, which are active in handling foreign transactions. On some markets, where the risk is difficult to estimate, the Group avails itself of the services of its foreign correspondent banks, e.g. Commerzbank, and insurance in the Export Credit Insurance Corporation ('KUKE'), which covers the economic and political risk.

Sector concentration risk

Monitoring exposures in sectors is carried out in individual subsidiaries of the Group, in accordance with internal regulations. At the end of each quarter, subsidiaries shall draw up a report on the involvement in various sectors. This report is then passed to the organizational unit in the mBank.

mBank, as a parent company of the Group, analyses the sector concentration risk in order to build mBank's corporate portfolio in a safe and effective way. The analysis covers the standing of each customer of the Group vs. the rest of the sector. For this purpose, the Group uses a statistical database, in which each financial parameter of each of the Bank's customers is mapped onto a decile grid of the parameter for the whole industry. This enables the Bank to monitor its industry-related risk to its portfolio when the standing of the whole industry undergoes rapid changes under the influence of external factors.

Sector limits are set for sectors defined by the Bank in accordance with the internal Bank's regulations, in quarterly reporting periods. Monitoring and analysis covers all the sectors in which the Bank's exposure exceeds 5% of the total amount of exposures at the end of a given reporting period, and sectors additionally indicated by the Chief Risk Officer. Unless the Corporate and Investment Banking Risk Committee (KRK) decides otherwise, an exposure limit is set for the mBank in any sector on a level not higher than:

- 12% of the gross loan portfolio in the prior reporting period for low risk sectors;
- 10% of the gross loan portfolio in the prior reporting period for medium risk sectors;
- 5% of the gross loan portfolio in the prior reporting period for high risk sectors.

In the case of exceeding any sector limit or an expectation that such a limit may be exceeded in the next reporting period, activities preventing the exceeding of limits are implemented and any decision in this regard shall be taken by the KRK.

The table below presents the structure of concentration of mBank S.A. Group's exposures in particular sectors.

The structure of concentration of carrying amounts of exposure of mBank S.A. Group

No.	Sectors	Principal exposure (in PLN million)	%	Principal exposure (in PLN million)	%
		31.12.2014		31.12.2013	
1.	Household customers	41 560 477	53.71	38 307 915	54.27
2.	Real estate management	4 901 307	6.33	4 671 081	6.62
3.	Wholesale trade	2 977 441	3.85	2 380 927	3.37
4.	Construction	2 884 365	3.73	2 443 150	3.46
5.	Retail trade	2 430 956	3.14	1 738 372	2.46
6.	Transport and logistics	1 819 827	2.35	2 077 249	2.94
7.	Food sector	1 705 944	2.20	1 726 721	2.45
8.	Fuels and chemicals	1 628 617	2.10	1 601 544	2.27
9.	Public administration	1 574 513	2.03	1 781 251	2.52
10.	Power, power and heating distribution	1 422 625	1.84	1 520 261	2.15
11.	Forestry	1 286 566	1.66	1 057 731	1.50
12.	Metals	1 266 991	1.64	1 139 522	1.61
13.	Information and communication	1 197 133	1.55	965 072	1.37
14.	Scientific and technical activities	586 923	0.76	329 015	0.47
15.	Hotels and restaurants	455 059	0.59	433 275	0.61
16.	Services	453 169	0.59	112 793	0.16
17.	Motorization	452 873	0.59	379 357	0.54
18.	Arts, entertainment	439 693	0.57	438 596	0.62
19.	Financial activities	427 299	0.55	427 727	0.61
20.	Electronics and household equipment	408 000	0.53	463 705	0.66
21.	Industry	307 850	0.40	235 055	0.33
22.	Municipal services	299 883	0.39	220 436	0.31

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In 2014, the total exposure of the Group in the above sectors (excluding household customers) amounts to 37.39% of the credit portfolio (2013: 37.03%). The risk of investing in these sectors (in a 3-point scale, i.e., low, medium, high) as at the end of 2014 was estimated by the Group's sector analysts. Due to changes in the structure of concentration of exposures in particular sector performed in the Bank, information presented in the consolidated financial statements for the year 2013 is not fully comparable with the data presented below and therefore has not been included.

No.	Sectors	31.12.2014
1.	Real estate management	medium
2.	Wholesale trade	medium
3.	Construction	high
4.	Retail trade	medium
5.	Transport and logistics	medium
6.	Food sector	medium
7.	Fuels and chemicals	medium
8.	Public administration	low
9.	Power, power and heating distribution	medium
10.	Forestry	medium
11.	Metals	high
12.	Information and communication	medium
13.	Scientific and technical activities	medium
14.	Hotels and restaurants	medium
15.	Services	medium
16.	Motorization	medium
17.	Arts, entertainment	high
18.	Financial activities	medium
19.	Electronics and household equipment	medium
20.	Industry	medium
21.	Municipal services	low

Large exposures concentration risk

The purpose of management of the large exposures concentration risk is an ongoing monitoring of the level of legal limits set by the external supervisors. In order to ensure safety against the risk of exceeding the regulatory limits in mBank:

- internal limits are set, which are lower than those specified in the Banking Law and in the Regulation (EU) No. 575/2013 of the European Parliament and of the Council,
- daily monitoring of large exposures is carried out and the participants of the lending and investment processes are immediately informed in the case of internal limits exceeding.

These activities have a direct impact on the Bank's decisions concerning new exposures and the increase of existing exposures to customers/groups of affiliated customers.

mBank pays particular attention to the correct identification of the scale of risk of significant high-risk credit exposures defined in the Bank's internal regulations. In the case of exceeding specified amount of exposure/limit to a customer/group of affiliated customers identified as bulk risk, the financing requires additional decision of the Bank's Management Board irrespective of the PD-rating and the decision-making level.

The Credit Committee of mBank Group, first started in November 2014, is responsible for the supervision over risk concentration and large exposures at the Group level.

3.7. Market risk

In the process of organisation of the market risk management, the Bank follows rules and requirements set forth in Polish Financial Supervision Authority (KNF) regulations and recommendations, in particular in Recommendations A and I.

The fundamental principle applied in the organisation of the market risk management in the Bank is the separation of risk control and monitoring functions from structures undertaking and operationally managing Bank's risk positions. Monitoring and controlling of the market risk is performed by the Financial Markets Risk Department in the Risk Area of the Bank under supervision of the Chief Risk Officer, while the market risk positions are operationally managed by Financial Markets Department, Brokerage Bureau and Treasury Department reporting to the Management Board member in charge of financial markets. The Brokerage Bureau is an organisational unit of the Bank separated from the Financial Markets Department focusing its activity on financial instruments subject to trading on the Warsaw Stock Exchange (WSE). In 2014 Debt Securities Issue Department (DCM) was separated from the structure of DFM and is responsible for debt issuance and managing of non-government debt securities in banking book. Moreover, the investment positions sensitive to market risk factors (e.g. prices of shares listed on the WSE) are managed in the Structured and Mezzanine Finance Department. DCM and DFS are operating in the Corporate & Investment Banking area.

In the course of Bank's operations, the Bank is exposed to market risk, which is defined as a risk resulting from unfavourable change of the current valuation of the Bank's open positions in interest rate, foreign currency and equity instruments due to changes of the appropriate market risk factors, in particular interest rates, foreign exchange rates, stock share prices and indices, implied volatilities of relevant options and credit spreads. The Bank identifies market risk primarily on the trading book positions valuated at fair value (either directly to market prices or via models) and as such may lead to losses reported in Bank's financial results. Furthermore, the Bank assigns market risk to its banking positions independently of the accounting rules of calculating financial results on these positions. In particular, in order to reflect the interest rate risk of the retail and corporate banking products with unspecified interest revaluation dates or rates administered by the Bank, the Bank uses the so-called replicating portfolio models. In 2014 the VaR methodology was amended by taking into account additional risk factor (credit spreads for government and corporate bonds – in case of government bond the credit spread is calculated as difference between zero-coupon interest rate on bond and on swap curve) and change of the valuation of floating rate government bonds for the purpose of market risk measurement to address in valuation the effect of basis risk between rates on bond and on swap curves. As a consequence of these changes, since March 2014 part of risk (presented so far as interest rate risk) concerning variability of credit spread between curves is presented in CS VaR (credit spread risk) category. The expected increase of risk measure VaR was included in market risk limits, approved for 2014 for mBank Group and for particular units within market risk limitation system. In approved values of limits, there was reflected the expected increase of market risk measure due to increase of the investment horizon for the mBank capital model from 3 to 5 years (which was approved by Financial Markets Risk Committee in April 2014). Market risk measures applicable to interest rate banking book positions are based on net present value (NPV) models. Exposure to market risk is quantified by measurement of the value at risk (VaR) and by stress tests scenario analyses.

Market risk, in particular interest rate risk of the banking book is also quantified by calculation of the earnings at risk (EaR) measure for the banking portfolio.

In order to mitigate market risk exposure, by decision of Management Board (with respect to mBank portfolio) and mBank the Financial Markets Risk Committee (with respect to business lines portfolios) VaR limits and stress tests limits (management action triggers) are established.

Value at Risk

In 2014, Bank's market risk exposure, as measured by the value at risk (VaR, for one day holding period, at 97.5% confidence level), was in relation to the established limits on moderate level. The average utilisation of VaR limit for Financial Markets Department, whose positions consist primarily of trading book portfolios, amounted to 33% (PLN 2.0 million), for the Brokerage Bureau (BM) 15% (PLN 0.3 million), while for the Treasury Department, whose positions are classified solely to the banking book, it was 59% (PLN 26.1 million) for the positions without capital modelling and 55% (PLN 23.9 million) for the positions with capital modelling. Value at risk for Debt Securities Issue Department (DCM) is limited since March 2014. The average utilization of this limit is 9% (PLN 0.3 million). The average utilisation of the VaR limit for the position of the Structured and Mezzanine Finance Department (DFS) in shares listed in the Warsaw Stock Exchange accounted for 72% (PLN 6.4 million). In 2014, the VaR figures for mBank's portfolio were driven mainly by portfolios of instruments sensitive to interest rates and separated credit spread – the banking book T-bonds portfolios managed by Treasury Department and the trading book portfolios and interest rate exchange positions managed by Financial Markets Department. Second most significant portfolio having impact on the Bank's risk profile were positions of DFS, where crucial risk factor remains the rate of PZU shares, due to holding significant investment position in shares of the company. The DFM portfolios of instruments sensitive to changes in exchange rates like FX spots, currency options, as well as the exposure of BM to equity price risk and risk of implied volatility of options traded on the Warsaw Stock, had a relatively low impact on the Bank's risk profile.

mBank VaR

The tables below present VaR statistics for the Bank's portfolio:

PLN 000's	2014				2013			
	31.12.2014	Mean	Maximum	Minimum	31.12.2013	Mean	Maximum	Minimum
VaR IR	16 457	14 693	19 081	8 122	15 155	16 034	22 806	6 774
VaR FX	937	348	1 162	95	212	348	1 196	73
VaR EQ	6 243	6 507	7 647	5 836	7 268	5 659	7 451	4 551
VaR CS	25 142	27 245	31 279	25 049				
VaR	**33 393**	**29 448**	**36 453**	**15 968**	**16 910**	**17 622**	**23 556**	**10 840**

VaR IR – interest rate risk
VaR FX – currency risk
VaR EQ – equity risk
VaR CS – credit spread risk

Stress testing

Stress tests are additional measures of market risk, supplementing the measurement of the value at risk, which show the hypothetical changes in the current valuation of the Bank's portfolios, which would take place as a result of realisation of the so-called stress scenarios – i.e. market situations at which the risk factors would reach specified extreme values, assuming taking static portfolio.

Stress tests consist of two parts: standard stress tests designated for standard risk factors: currency exchange rates, interest rates, stock prices and their volatility, as well as a stress test, which involves changes in credit spreads. In this way, there was addressed among others, the need for covering in stress tests analysis the independent effect of basis risk (the spread between interest rates on government bonds and IRS), which the Bank is exposed to, due to maintaining a portfolio of Treasury bonds.

Average utilisation of stress test limits in mBank in 2014 amounted to 50% (PLN 783.9 million). The average utilisation of the limits in 2014 for the Treasury Department portfolio without capital modelling was 65% (PLN 618.9 million) and 59% (PLN 616.7 million) including capital modelling. For the Financial Markets Department portfolio the average utilisation was 30% (PLN 121.7 million), for BM portfolio 7% (PLN 0.8 million), for DCM portfolio 25% (PLN 15.5 million) and for DFS portfolio 65% (PLN 32.7 million). The most significant part of presented stress test values constitutes credit spread stress test for government bonds portfolio because stress test scenarios include scenario in which interest rates increase on average by 100 bps.

Market risk of mBank Group

The main sources of market risk of the mBank Group are the Bank's positions. The table below shows VaR statistics (at 97.5% confidence level for a one-day holding period) for mBank Group (i.e. mBank, mBank Hipoteczny, mLeasing, Dom Maklerski mBanku) in 2014 for individual members of the Group in which market risk positions were identified and their decomposition to the VaRs corresponding to the main risk factor types – interest rate risk (VaR IR), foreign exchange risk (VaR FX), and equity prices risk (VaR EQ). The table below presents VaR for mBank as of the end of 2014:

PLN 000's	mBank Group	mBank	mBH	mLeasing	DM mBanku
VaR IR	15 119	14 693	75	436	8
VaR FX	357	348	26	108	20
VaR EQ	6 540	6 507	0	0	137
VaR CS	27 245	27 245	0	0	0
VaR Mean	29 678	29 448	86	418	134
VaR Maximum	36 718	36 453	251	627	171
VaR Minimum	16 183	15 968	45	308	71
VaR	**33 513**	**33 393**	**53**	**424**	**112**

For comparison, at the end of 2013 VaR for the mBank Group was PLN 17 152 thousand, including VaR for mBank at PLN 16 910 thousand, mBank Hipoteczny – PLN 64 thousand, mLeasing – PLN 615 thousands and Dom Maklerski mBanku – PLN 108 thousand.

PLN 000's	mBank Group	mBank	mBH	mLeasing	DM mBanku
VaR IR	16 334	16 034	76	478	11
VaR FX	362	348	73	190	14
VaR EQ	5 680	5 659	0	0	66
VaR Mean	17 776	17 622	108	532	64
VaR Maximum	23 844	23 556	984	780	146
VaR Minimum	10 668	10 840	59	214	45
VaR	**17 152**	**16 910**	**64**	**615**	**108**

3.8. Currency risk

The Group is exposed to changes in currency exchange rates. The following tables present the exposure of the Group to currency risk as at 31 December 2014 and 31 December 2013. The tables present assets and liabilities of the Group at balance sheet carrying amount, for each currency:

31.12.2014	PLN	EUR	USD	CHF	CZK	Other	Total
ASSETS							
Cash and balances with the Central Bank	2 928 696	71 888	13 590	1 881	26 591	11 903	**3 054 549**
Loans and advances to banks	2 097 640	795 082	493 600	5 292	249 455	110 346	**3 751 415**
Trading securities	1 163 944	-	-	-	-	-	**1 163 944**
Derivative financial instruments	4 490 735	316 206	32 713	19 807	4 883	1 173	**4 865 517**
Loans and advances to customers	38 523 638	13 315 492	1 331 869	18 949 649	2 268 520	193 182	**74 582 350**
Hedge accounting adjustments related to fair value of hedged items	-	-	-	-	461	-	**461**
Investment securities	26 188 304	676 526	-	-	813 784	-	**27 678 614**
Non-current assets held for sale	285 009	185 903	1 724	-	99 965	4 237	**576 838**
Intangible assets	464 899	293	-	-	434	-	**465 626**
Tangible fixed assets	706 883	3 650	-	-	6 844	-	**717 377**
Other assets, including tax assets	1 019 280	63 441	11 253	-	13 253	21 904	**1 129 131**
Total assets	**77 869 028**	**15 428 481**	**1 884 749**	**18 976 629**	**3 484 190**	**342 745**	**117 985 822**
LIABILITIES							
Amounts due to the Central Bank	-	-	-	-	-	-	**-**
Amounts due to other banks	1 922 740	251 510	3 516	11 189 925	16 138	-	**13 383 829**
Derivative financial instruments	4 516 135	162 691	40 157	-	-	73	**4 719 056**
Amounts due to customers	55 753 910	10 420 148	1 400 101	480 565	3 794 164	573 591	**72 422 479**
Debt securities in issue	2 243 632	7 310 874	-	710 272	76 964	-	**10 341 742**
Hedge accounting adjustments related to fair value of hedged items - debt securities in issue	-	87 587	-	14 380	1 415	-	**103 382**
Liabilities held for sale	178 778	46 812	1 805	2 810	45 837	299	**276 341**
Other liabilities including tax liabilities	1 164 181	99 483	47 275	2 629	39 822	8 018	**1 361 408**
Provisions	170 405	4 306	282	11	1 867	10	**176 881**
Subordinated liabilities	1 251 846	-	-	2 875 878	-	-	**4 127 724**
Total liabilities	**67 201 627**	**18 383 411**	**1 493 136**	**15 276 470**	**3 976 207**	**581 991**	**106 912 842**
Net on-balance sheet position	**10 667 401**	**(2 954 930)**	**391 613**	**3 700 159**	**(492 017)**	**(239 246)**	**11 072 980**
Loan commitments and other commitments	**17 713 880**	**1 450 929**	**384 434**	**-**	**333 067**	**1 092**	**19 883 402**
Guarantees, banker's acceptances, documentary and commercial letters of credit	**2 744 417**	**768 976**	**72 579**	**-**	**2 482**	**21 923**	**3 610 377**

31.12.2013	PLN	EUR	USD	CHF	CZK	Other	Total
ASSETS							
Cash and balances with the Central Bank	1 520 978	59 639	6 767	596	57 492	4 995	**1 650 467**
Loans and advances to banks	1 669 403	734 107	863 453	2 397	109 436	92 445	**3 471 241**
Trading securities	763 064	-	-	-	-	-	**763 064**
Derivative financial instruments	2 221 073	84 843	39 207	(5 331)	8 538	1 255	**2 349 585**
Loans and advances to customers	33 453 008	12 162 402	1 212 258	19 356 235	1 842 279	184 203	**68 210 385**
Hedge accounting adjustments related to fair value of hedged items	-	-	-	-	970	-	**970**
Investment securities	24 317 545	223 830	-	-	800 388	-	**25 341 763**
Intangible assets	451 387	336	-	-	3 622	-	**455 345**
Tangible fixed assets	698 584	3 734	-	-	7 234	-	**709 552**
Other assets, including tax assets	1 216 235	46 135	44 920	273	22 809	17	**1 330 389**
Total assets	**66 311 277**	**13 315 026**	**2 166 605**	**19 354 170**	**2 852 768**	**282 915**	**104 282 761**

LIABILITIES							
Amounts due to the Central Bank	-	-	-	-	-	-	-
Amounts due to other banks	4 318 863	367 930	415 758	13 791 309	330 150	172	**19 224 182**
Derivative financial instruments	2 360 598	77 921	26 756	12 669	(18 436)	207	**2 459 715**
Amounts due to customers	46 964 090	9 237 764	1 765 668	426 830	3 093 800	185 375	**61 673 527**
Debt securities in issue	2 194 093	2 456 011	-	676 225	75 727	-	**5 402 056**
Hedge accounting adjustments related to fair value of hedged items - debt securities in issue	-	(4 256)	-	156	(249)	-	**(4 349)**
Other liabilities including tax liabilities	1 085 930	97 764	43 367	2 712	41 939	8 495	**1 280 207**
Provisions	216 143	9 695	805	783	789	13	**228 228**
Subordinated liabilities	501 879	-	-	3 260 878	-	-	**3 762 757**
Total liabilities	**57 641 596**	**12 242 829**	**2 252 354**	**18 171 562**	**3 523 720**	**194 262**	**94 026 323**

Net on-balance sheet position	**8 669 681**	**1 072 197**	**(85 749)**	**1 182 608**	**(670 952)**	**88 653**	**10 256 438**
Loan commitments and other commitments	**15 951 486**	**2 080 225**	**184 922**	**-**	**200 621**	**-**	**18 417 254**
Guarantees, banker's acceptances, documentary and commercial letters of credit	**2 327 007**	**716 831**	**98 193**	**930**	**35 608**	**9 678**	**3 188 247**

3.9. Interest rate risk

mBank S.A.

In the process of managing interest rate risk of the banking book, the risk monitoring and control functions are performed by the Financial Markets Risk Department supervised by the Vice-president of the Board - Chief Risk Officer, whereas operational management of risk positions takes place in the Treasury Department supervised by the Vice-president of the Board, Head of Financial Markets. This way the Bank ensures independence of risk measurement, monitoring and control functions from operational activity, which gives rise to the positions taken by the bank.

Interest rate risk of the banking book results from the exposure of the bank's interest income and capital to adverse change in the levels of interest rates. Guided by the KNF recommendations, in particular Recommendation G, the Bank monitors the banking book structure in terms of repricing gap as well as basis risk, yield curve risk and customer option risk.

The basic measures used to control interest rate risk in the banking book are the repricing gap and the net interest earnings exposed to risk (EaR - Earnings at Risk). Moreover, the Bank performs also stress test analyses aimed to estimate the impact of adverse interest rate fluctuations on net interest earnings and the economic value of the banking portfolio. Interest rate risk of the banking book is also quantified using market risk measures: Value at Risk and stress tests.

Exposure to interest rate risk is limited for the banking portfolio by means of repricing gap limits (management action triggers) and market risk limits imposed on the value at risk (VaR) and stress tests. The utilisation of all those limits is monitored and controlled on a daily basis.

Interest income subject to risk

As of 31 December 2014 and 31 December 2013, a sudden, permanent and unfavourable shift of market interest rates by 100 basis points for all maturities would result in decrease in the interest within 12 months after the year-end date by the following amounts:

(PLN mln)	2014				2013			
	31.12.2014	Mean	Maximum	Minimum	31.12.2013	Mean	Maximum	Minimum
PLN	32.8	28.4	69.8	4.2	70.9	50.6	116.9	6.7
USD	1.0	1.4	4.0	0.2	1.0	1.2	2.3	0.1
EUR	4.5	6.6	12.6	1.4	7.2	6.5	10.0	1.8
CHF	13.3	0.8	15.7	0.0	0.5	0.4	0.6	0.2
CZK	2.3	4.2	8.5	2.2	4.6	5.6	7.4	3.0

To calculate these values, the Bank assumed that the structure of financial assets and liabilities disclosed in the financial statements as of above indicated dates would be fixed during the year and the Bank would not take any measures to change related exposure to interest rate change risk. In calculation there were included positions resulted from modelling of repricing period according to replicating portfolio method.

Stress tests

The Bank runs also other analyses of the changes of the economic value of the banking book under stress test scenarios. Under the stress test, which assumes unfavourable shift of the interest rates for respective currencies by 200 bps, the economic value of the banking book at the end of 2014 would change by PLN 377.5 million (at the end of 2013: PLN 273 million). During the calculation of these values no correlation between currencies was taken into account and it was assumed that taking into account small interest rate values after the negative shift cannot become less than or equal to zero.

Important position in banking portfolio, in respect of fair value calculations, is debt securities portfolio in PLN (NBP bills, Polish Treasury bonds and bills). Interest rate risk of this portfolio is calculated additionally using stress test methodology (described above in p. 3.7). The methodology includes changes of market interest rates scenarios as well as credit spread, which in case of treasury debt securities may reflect basis risk (spread changes between government and swap curve). As of the end of 2014, calculated change in fair value of potential stress test realization in respect of above-mentioned debt securities amounted to PLN 784 million (comp. to nominal value of the portfolio – PLN 24 976 million).

mBank Hipoteczny S.A.

Repricing date misfit gap and interest earnings at risk (EaR) based on the former are the key interest rate risk measures at mBank Hipoteczny S.A.

As at 31 December 2014 and 31 December 2013 a sudden, lasting and disadvantageous change of market interest rates by 100 basis points for all maturities would result in decrease in the annual interest income by the following amounts:

31.12.2014		31.12.2013	
in PLN million	currency	in PLN million	currency
4.59	PLN	5.22	PLN
0.00	EUR	0.05	EUR
0.03	USD	0.01	USD

To calculate these values, the Bank assumed that the structure of financial assets and liabilities disclosed in the financial statements as of above indicated dates would be fixed during the year and the mBank Hipoteczny would not take any measures to change related exposure to interest rate change risk.

mLeasing Sp. z o.o.

mLeasing Sp. z o.o. performs risk analysis based on the following risk factors:

- interest rates;
- fx rates.

The sensitivity of individual transactions to the risk factors is calculated by adding the shock rate and analysing its impact on the present value of the portfolio (MTM).

As at 31 December 2014 and 31 December 2013 a sudden, lasting and disadvantageous change of market interest rates by 100 basis points for all maturities would result in decrease in the annual interest income by the following amounts:

31.12.2014		31.12.2013	
in PLN million	currency	in PLN million	currency
5.00	PLN	3.70	PLN
1.00	EUR	1.40	EUR
0.00	USD	0.00	USD
0.00	CHF	0.00	CHF
0.00	JPY	0.00	JPY

mBank S.A. Group interest rate risk

The following tables present the Group's exposure to interest rate risk. The tables present the Group's financial instruments at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

IFRS Consolidated Financial Statements 2014 PLN (000's)

31.12.2014	Up to 1 month	1-3 months	3-12 months	1-5 years	More than 5 years	Non-interest bearing	Total
ASSETS							
Cash and balances with the Central Bank	2 124 756	-	-	-	-	929 793	**3 054 549**
Loans and advances to banks	3 088 814	74 917	164 886	380	-	422 418	**3 751 415**
Trading and investment securities	10 385 364	210 285	4 985 791	12 826 940	173 210	260 968	**28 842 558**
Loans and advances to customers	58 298 128	9 212 909	3 293 937	2 613 027	25 505	1 138 844	**74 582 350**
Other assets and derivative financial instruments	778 870	863 502	2 047 725	992 435	94 510	883 439	**5 660 481**
T o t a l a s s e t s	**74 675 932**	**10 361 613**	**10 492 339**	**16 432 782**	**293 225**	**3 635 462**	**115 891 353**
LIABILITIES							
Amounts due to the Central Bank	-	-	-	-	-	-	**-**
Amounts due to other banks	7 512 690	5 858 317	10 083	-	-	2 739	**13 383 829**
Amounts due to customers	58 714 053	9 319 680	3 955 680	284 873	-	148 193	**72 422 479**
Debt securities in issue	1 013 216	543 244	3 704 809	2 656 217	2 424 256	-	**10 341 742**
Subordinated liabilities	605 518	2 270 219	1 251 987	-	-	-	**4 127 724**
Other liabilities and derivative financial instruments	617 056	868 643	2 088 779	922 384	79 951	1 491 897	**6 068 710**
Total liabilities	**68 462 533**	**18 860 103**	**11 011 338**	**3 863 474**	**2 504 207**	**1 642 829**	**106 344 484**
Total interest repricing gap	**6 213 399**	**(8 498 490)**	**(518 999)**	**12 569 308**	**(2 210 982)**		

31.12.2013	Up to 1 month	1-3 months	3-12 months	1-5 years	More than 5 years	Non-interest bearing	Total
ASSETS							
Cash and balances with the Central Bank	1 650 452	-	-	-	-	15	**1 650 467**
Loans and advances to banks	2 936 051	329 977	3 493	-	-	201 720	**3 471 241**
Trading and investment securities	13 096 527	166 332	1 110 870	11 279 441	274 046	177 611	**26 104 827**
Loans and advances to customers	56 908 185	5 699 191	2 617 423	2 218 925	8 612	758 049	**68 210 385**
Other assets and derivative financial instruments	532 223	383 471	1 006 721	531 654	26 840	820 912	**3 301 821**
T o t a l a s s e t s	**75 123 438**	**6 578 971**	**4 738 507**	**14 030 020**	**309 498**	**1 958 307**	**102 738 741**
LIABILITIES							
Amounts due to the Central Bank	-	-	-	-	-	-	**-**
Amounts due to other banks	11 171 188	8 050 078	-	-	-	2 916	**19 224 182**
Amounts due to customers	52 473 616	4 999 356	3 335 951	-	374 527	490 077	**61 673 527**
Debt securities in issue	885 337	204 040	1 356 421	2 832 725	123 533	-	**5 402 056**
Subordinated liabilities	621 287	2 639 591	501 879	-	-	-	**3 762 757**
Other liabilities and derivative financial instruments	358 282	410 486	1 194 623	558 553	29 138	1 176 305	**3 727 387**
Total liabilities	**65 509 710**	**16 303 551**	**6 388 874**	**3 391 278**	**527 198**	**1 669 298**	**93 789 909**
Total interest repricing gap	**9 613 728**	**(9 724 580)**	**(1 650 367)**	**10 638 742**	**(217 700)**		

3.10. Liquidity risk

mBank S.A.

The objective of liquidity risk management is to ensure and maintain the Bank's ability to fulfil both current and future commitments. The Bank achieves this objective by diversifying stable funding sources in terms of client group (from whom acquires deposits), product and currency groups, and at the same time, optimizes its balance sheet in terms of profitability. Long-term activities of mBank in this scope are carried out taking into account conditions on funding capacity and business profitability.

In 2014, the liquidity situation was monitored and kept at a level adequate to the Bank's needs by adjusting the deposit base and securing additional funding sources depending on the development of lending activity and other funding needs.

In order to ensure that the liquidity risk management process is effective, the Management Board of the Bank lies down an adequate organizational structure and delegates powers to dedicated units and Committees. The existing process covers the liquidity risk management area at both the strategic and operational level, and the liquidity risk measurement and control area.

As part of liquidity risk management, a range of risk measures are being analysed. The basic measure reflecting the Bank's liquidity situation is the mismatch account of future cash flows, and the mismatch gap related with it. It covers all the assets, liabilities and off-balance sheet items of the Bank in all the currencies and time-bands set by the Bank. In 2014, the Bank held liquidity surplus, adequate to Bank's business activity and current market situation, in the form of a portfolio of liquid treasury and money market securities that may be pledged or sold at any time without any considerable loss in value. In accordance with KNF Resolution No. 386/2008 on establishing liquidity measures binding on banks, the Bank calculates the supervisory liquidity measures. In 2014, the supervisory limits on short-term and long-term liquidity measures were not exceeded. Moreover, in line with the Resolution, the Bank conducts an in-depth analysis of long-term liquidity and sets internal limits (management action triggers) on involvement in long-term assets. Relevant analysis of the stability and structure of the funding sources, including the core and concentration level of term deposits and current accounts are performed. Additionally, the Bank analyses the variability of the balance sheet and off-balance sheet items, in particular the open credit line facilities and current account and overdrafts limits utilisation.

The ongoing analysis covers not only liquidity under normal conditions, but also on the assumption of a potential liquidity loss. In order to determine the Bank's resistance to major unfavourable events, the Bank conducts scenario analyses covering extreme assumptions on the operation of financial markets and behavioural events relative to the Bank's clients. The Bank has also adequate procedures in case mBank is threatened with financial liquidity loss.

For the purpose of current monitoring of liquidity, the Bank establishes values of realistic, cumulated gap of cash flows misfit. The gap is calculated on the basis of contractual cash flows (Note 3.10.1). Cash flows in portfolios of non-banking customers' deposits, overdrafts and term loans are mainly amended. In the calculation of the liquidity measures the Bank takes into account the possibilities of raising the funds by selling or pledging the debt securities from Bank's Liquidity Reserves.

Value of realistic, cumulative gap of cash flows misfit (in PLN million)		
Time range	**31.12.2014**	**31.12.2013**
up to 3 working days	6 837	7 073
up to 7 calendar days	6 837	7 073
up to 15 calendar days	7 424	6 973
up to 1 month	11 169	7 426
up to 2 months	12 697	7 935
up to 3 months	13 320	7 113
up to 4 months	13 731	7 203
up to 5 months	13 897	7 320
up to 6 months	14 247	7 166
up to 7 months	13 860	6 655
up to 8 months	14 080	6 804
up to 9 months	13 962	6 784
up to 10 months	11 083	6 873
up to 11 months	10 938	6 885
up to 12 months	11 180	6 964

The above values should be interpreted as liquidity surplus in relevant time buckets. Noticed increase of values as of the end of 2014 resulted mainly from dynamics of non-banking term deposits and current accounts increases (PLN 11.1bn – with fixed exchange rate as of 31 December 2014 used in calculations) exceeding dynamics of loans portfolio development (PLN 7.2bn – with fixed exchange rate as of 31 December 2014 used in calculations).

Additional factor, that positively influenced liquidity was own bonds issue in the amount of EUR 1bn (PLN 4.26bn) and subordinated bonds issue in amount of PLN 750m accompanied by reduction of debts towards main shareholder, Commerzbank A.G., in amount of CHF 850m and simultaneously taking into account, in cash flow mismatch cumulated gap, debt from Commerzbank, remained to be repaid in 2015 in amount of CHF 850m.

In 2014 Bank's liquidity remained at a safe level which was reflected in surplus of liquid assets over short-term liabilities according to ANL terms and supervisory liquidity measures. Recorded minimum ANL gap level was mainly associated with a sudden outflow of funds deposited by financial customer.

ANL gap mismatch in terms up to 1 month and up to 1 year within 2014 and supervisory liquidity measures M1, M2 and LCR presented in the following table:

Measures*	2014			
	31.12.2014	Mean	Maksimum	Minimum
ANL 1M	11 169	7 104	13 052	1 142
ANL 1Y	11 180	8 183	13 389	3 939
M1	12 302	9 039	15 006	4 993
M2	1.52	1.36	1.7	1.16
LCR**	149%	134%	149%	114%

(*) - ANL measures and M1 are in PLN m, whereas M2 is relative measure expressed as decimal fraction,

(**) – LCR statistics concerning period since 31 March 2014 (as a result of change of calculation methodology since end of March 2014).

The long-term coverage ratios (M3, M4) are characterized by high stability on safe level, above minimum established by regulatory authority equals 1. In particular, M3 oscillated between 4.61 and 6.05 in 2014, whereas M4 between 1.19 and 1.33. The LCR measure remained on safe level, significantly exceeds 100%.

Funding sources

The strategic assumptions concerning the diversification of funding sources and profitable structure of the balance sheet are reflected in the financial plan of mBank Group defined by selected measures, e.g. L/D ratio (Loans to Deposits). The Bank measures a specific relation of loans to deposits in order to maintain a stable structure of its balance sheet. In 2014, L/D ratio improved from 110.6% to 103%. The Stable Funding Position Ratio (SFPR) is calculated from 2014. As of end of 2014 this ratio was equal 103.8%. The Bank aims at building a stable deposit base by offering to clients deposit and investment products, regular and specific-purpose savings offerings, as well as operating deposits of the subsidiaries. Means acquired from the Bank's clients constitute the major funding source for the business activity. The second largest funding source is the portfolio of long-term loans from banks (with maturities over 1 year), in particular from Commerzbank (Note 28). The loans together with subordinated loans (Note 31) are the core funding source for the portfolio of mortgage loans in CHF. According to the suspension of granting new mortgage loans in CHF, Bank's receivables in this currency have been decreasing successively along with credit repayments. The funds obtained from the repayment of the said loans are used to reduce the Bank's debt in CHF owed mBank's main shareholder. In 2014, the debt to Commerzbank A.G. was reduced by CHF 850 million.

Moreover, in order to acquire funding (also in foreign currencies) the Bank uses mid-term and long-term instruments, including credit line facilities within Commerzbank Group and on the international market (debts from EBI) as well as FX swap and CIRS transactions. In 2014, under the Euro Medium Term Note Program (EMTN), the Bank acquired new funds amounted to PLN 1 billion.

When making funding-related decisions, in order to match the term structure of its funding sources with the structure of long-term assets, the Bank takes into consideration the supervisory liquidity measures and limits, as well as the internal liquidity risk limits.

mBank Group

Liquidity risk in mBank Group is generated mainly by mBank's items. Nevertheless, liquidity risk level in mBank Group subsidiaries, where liquidity risk was deemed significant, is also a subject to monitoring. In subsidiaries generating the greatest liquidity risk (mHipoteczny, mLeasing and mDom Maklerski) the Bank monitors the level of liquidity risk on a daily basis. The data provided by these companies allow for reporting contractual cash-flow mismatch as well as calculation of a realistic cash-flows mismatch based of ANL model and modelling assumptions for selected products according to risk profiles, funding possibilities and products specificity of the subsidiary. The levels of realistic, cumulative cash-flow mismatch in mBank Group presented in the following table:

Value of realistic, cumulative gap of cash flows misfit (in PLN million)		
Time range	**31.12.2014**	**31.12.2013**
up to 3 working days	8 329	7 296
up to 7 calendar days	8 329	7 722
up to 15 calendar days	8 893	7 348
up to 1 month	12 589	7 754
up to 2 months	14 125	8 050
up to 3 months	14 969	7 109
up to 4 months	15 336	7 148
up to 5 months	15 539	7 235
up to 6 months	15 901	7 004
up to 7 months	15 520	6 034
up to 8 months	15 819	6 167
up to 9 months	15 684	6 114
up to 10 months	12 505	6 134
up to 11 months	12 424	6 040
up to 12 months	12 717	6 110

In other subsidiaries, due to lower total assets and simpler amounts products, the process is carried out on a monthly basis and is based on aggregated information about mismatch of cash-flows in contractual terms, delivered by these subsidiaries to Financial Markets Risk Department.

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3.10.1 Cash flows from transactions in non-derivative financial instruments

The table below shows cash flows the Group is required to settle, resulting from financial liabilities. The cash flows have been presented as at the year-end date, categorised by the remaining contractual maturities. The amounts denominated in foreign currencies were converted to Polish zloty at the average rate of exchange announced by the National Bank of Poland at the year-end date. The amounts disclosed in maturity dates analysis are undiscounted contractual cash flows.

Liabilities (by contractual maturity dates) as at 31.12.2014

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Amounts due to the Central Bank	-	-	-	-	-	**-**
Amounts due to other banks	2 157 014	20 941	3 028 226	8 467 080	12 423	**13 685 684**
Amounts due to customers	57 838 987	7 595 466	3 475 053	2 444 201	2 401 412	**73 755 119**
Debt securities in issue	397 577	69 873	2 756 909	4 897 972	3 046 975	**11 169 306**
Subordinated liabilities	896 043	7 675	62 494	2 247 576	1 507 545	**4 721 333**
Technical-insurance provisions	17 074	38 865	60 647	12 752	5 749	**135 087**
Other liabilities	934 160	37 438	188 628	6 961	5 749	**1 172 936**
Total liabilities	**62 240 855**	**7 770 258**	**9 571 957**	**18 076 542**	**6 979 853**	**104 639 465**
Assets (by remaining contractual maturity dates)						
Total assets	**16 277 193**	**5 301 846**	**17 202 800**	**47 581 194**	**41 644 406**	**128 007 439**
Net liquidity gap	**(45 963 662)**	**(2 468 412)**	**7 630 843**	**29 504 652**	**34 664 553**	**23 367 974**

Liabilities (by contractual maturity dates) as at 31.12.2013

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Amounts due to the Central Bank	-	-	-	-	-	**-**
Amounts due to other banks	4 931 691	2 266 838	1 455 441	11 199 914	17 175	**19 871 059**
Amounts due to customers	52 817 585	4 155 216	3 726 858	1 078 814	2 127 598	**63 906 071**
Debt securities in issue	92 576	87 594	550 798	4 706 992	212 733	**5 650 693**
Subordinated liabilities	28 676	33 369	50 624	2 251 561	1 773 562	**4 137 792**
Technical-insurance provisions	20 219	21 340	34 098	8 833	2 678	**87 168**
Other liabilities	810 702	21 666	182 192	6 542	10 155	**1 031 257**
Total liabilities	**58 701 449**	**6 586 023**	**6 000 011**	**19 252 656**	**4 143 901**	**94 684 040**
Assets (by remaining contractual maturity dates)						
Total assets	**15 389 793**	**4 015 967**	**13 149 705**	**43 696 476**	**41 309 574**	**117 561 515**
Net liquidity gap	**(43 311 656)**	**(2 570 056)**	**7 149 694**	**24 443 820**	**37 165 673**	**22 877 475**

The assets which ensure the payment of all the liabilities and lending commitments comprise cash in hand, cash at the Central Bank, cash in transit and treasury bonds and other eligible bonds; amounts due from banks; loans and advances to customers.

In the normal course of business, some of the loans granted to customers with the contractual repayment date falling due within the year, will be prolonged. Moreover, a part of debt securities, were pledged as collateral for liabilities. The Group could ensure cash for unexpected net outflows by selling securities and availing itself of other sources of financing, such as the market of securities secured with assets.

3.10.2 Cash flows from derivatives

<u>Derivative financial instruments settled in net amounts</u>

Derivative financial instruments settled in net amounts by the Group comprise:

- Futures,
- Forward Rate Agreements (FRA),
- Options,
- Warrants,
- Interest rate swaps (IRS),
- Cross currency interest rate swaps (CIRS),
- Security forwards.

The table below shows derivative financial liabilities of the Group, which valuation as of end of 2014 was negative, grouped by appropriate remaining maturities as at the balance sheet date and are presented as contractual maturities apart from Other up to 1 month and Futures contracts which are presented as net present value (NPV). The amounts denominated in foreign currencies were converted to Polish zloty at the average rate of exchange announced by the National Bank of Poland at the balance sheet date.

The amounts disclosed in the table are discounted contractual outflows for transactions with negative valuations as at the end of 2014.

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31.12.2014

Derivatives settled on a net basis	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Forward Rate Agreements (FRA)	20 938	29 491	66 344	13 027	-	**129 800**
Overnight Index Swaps (OIS)	1 605	347	7 587	-	-	**9 539**
Interest Rate Swaps (IRS)	111 390	430 978	911 220	2 676 074	549 025	**4 678 687**
Cross Currency Interest Rate Swaps (CIRS)	11 028	884	(4 969)	4 757	-	**11 700**
Options	2 806	(1 014)	(10 521)	(14 553)	128	**(23 154)**
Futures contracts	-	11	-	-	-	**11**
Other	147	-	5 944	-	-	**6 091**
Total derivatives settled on a net basis	**147 914**	**460 697**	**975 605**	**2 679 305**	**549 153**	**4 812 674**

31.12.2013

Derivatives settled on a net basis	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Forward Rate Agreements (FRA)	24 579	42 585	36 516	10 367	-	**114 047**
Overnight Index Swaps (OIS)	1 486	6 502	2 031	-	-	**10 019**
Interest Rate Swaps (IRS)	118 711	238 008	485 753	1 056 215	229 328	**2 128 015**
Cross Currency Interest Rate Swaps (CIRS)	638	-	-	18 122	-	**18 760**
Options	4 575	11 625	37 252	7 836	1 023	**62 311**
Futures contracts	-	96	-	-	-	**96**
Other	67	21	-	-	-	**88**
Total derivatives settled on a net basis	**150 056**	**298 837**	**561 552**	**1 092 540**	**230 351**	**2 333 336**

Derivative financial instruments settled in gross amounts

Derivative financial instruments settled in gross amounts by the Group comprise foreign exchange derivatives: currency forwards and currency swaps.

The table below shows derivative financial liabilities/assets of the Group, which will be settled on a gross basis, grouped by appropriate remaining maturities as at the Balance Sheet date. The amounts denominated in foreign currencies were converted to Polish zloty at the average rate of exchange announced by the National Bank of Poland at the balance sheet date.

31.12.2014

Derivatives settled on a gross basis	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Currency derivatives:						
-outflows	13 082 812	5 126 921	3 776 553	416 470	-	**22 402 756**
-inflows	13 094 178	5 133 165	3 769 438	412 353	-	**22 409 134**

31.12.2013

Derivatives settled on a gross basis	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Currency derivatives:						
-outflows	9 009 623	1 826 470	2 830 234	165 784	-	**13 832 111**
-inflows	9 022 689	1 813 370	2 852 658	156 595	-	**13 845 312**

The amounts disclosed in the table are undiscounted contractual outflows/inflows.

The amounts presented in the table above are nominal cash flows of currency derivatives, which have not been settled, while the Note 20 shows nominal values of all open derivative transactions.

Detailed data concerning liquidity risk related to off-balance sheet items are presented in the Note 36.

3.11. Operational risk

Operational risk is understood as the risk of loss resulting from a mismatch or unreliability of internal processes, people or systems or external events. In accordance with the Risk Catalogue of mBank S.A. Group, operational risk includes in particular the following sub-categories:

- legal risk,
- IT systems risk,
- personnel and organizational risk,
- security risk,
- compliance risk.

Operational risk does not include reputational risk, however materialization of operational risk may increase reputational risk.

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. The tools applied by the Bank intend to cause-oriented operational risk management and focus on bottom-up approach to identify risk.

Qualitative tools are aimed at establishing (within the Bank and the mBank Group) consistent qualitative assessment of internal and external factors affecting the operational risk management process.

The basic qualitative tool is the self-assessment of internal control system carried out by the Bank's organizational units. It presents an assessment of the level of operational risk for the Bank, as well as for individual processes and organizational units. Since 2014, the Bank started to replace the existing Business Environment Assessment Surveys with the Internal Control System Self-assessment process, which will enable to identify and assess the most important operational risks and control mechanisms in the Bank, and then to develop and implement necessary corrective action plans. For the purposes of the Self-assessment, the Bank identified a list of key processes, which cover all its operations. In 2014, the first stage of the Self-assessment implementation was completed and the second stage for other key processes was started. Its completion is planned in the middle of 2015. Implementation of the Self-assessment in the Group subsidiaries will be considered after the full process rollout at the Bank. Until then, the subsidiaries will continue to use the Business Environment Assessment Surveys.

In addition, in order to control operational risk, mBank collects data about operational risk events and losses of the Group, collects and monitors key risk indicators, and develops and performs operational scenario analyses in order to identify exposure to potential high-severity events. At the same time, the communication with all areas of the Bank (business and support areas) is maintained for the purpose of monitoring and taking preventive actions once the risk of critical events has been signalled in any area.

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

In terms of losses on risk categories, 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.

3.12. Other risks

Business risk

Business risk is understood as the risk of potential loss resulting from the deviations (calculated separately for revenues and costs) of actual net operating profit from the planned one. In particular it includes strategic risk connected with the possibility of occurrence of negative financial consequences as a result of wrong or disadvantageous decisions or their wrong implementations. It is assumed, that the results of the strategic decisions are reflected in deviations of operating profit in one-year horizon.

One of the tools used by the Bank in order to manage and effectively reduce business risk is an ongoing monitoring of financial results of all business units and preparation of forecasts of the Group's future financial results. In case of high fluctuations, the Controlling and Management Information Department is responsible for the analysis of their causes. The results of the analysis are included in the form of notes to the financial results of the Bank and the Group provided to the Management Board.

Business risk is included in the calculation of economic capital of mBank and mBank Group.

Model risk

Model risk is understood as the risk of negative consequences connected with the decisions made on the basis of the output data of models which have been improperly constructed or are improperly administered. Model risk may result in financial losses or in the loss of potential profits, improper business or strategic decisions or negatively influence the bank's reputation.

The following specific subcategories can be distinguished in particular in model risk:

- **Data risk** understood as the risk arising from necessity to use data of unsatisfactory quality, completeness and reliability in the models construction and validation.
- **Assumptions/methodology risk** understood as the risk arising from incorrect assumptions or over-simplification made in the model construction or resulting from the usage of inappropriate

mathematical, statistical techniques, improper expert solutions or incorrect usage of them while developing the model.

- **Models administration risk** understood as the risk of incorrect usage of models or their improper operation because of inadequate documentation, monitoring, validation and updates of these models, including assessing the adequacy of the model for current conditions.

Model risk is managed on a systemic basis by a proper internal regulations concerning monitoring and validation of models.

The Model Management Policy determines the participants and the framework for model management process, including issues related to the development of models in the Group, their approval, implementation, verification/validation, monitoring, implementation of changes and the associated reporting process.

The Policy and the resulting organizational solutions are designed to provide high-quality models throughout the whole period of their operation. Due to the implementation of the Policy, the Management Board of the Bank is confident about the adequacy and reliability of model results, which are used in business processes. Simultaneously, the Policy implementation meets the requirements of the Polish Financial Supervision Authority regarding the use of models for internal purposes of the Bank, as well as for the calculation of the capital requirement in accordance with the internal ratings based approach in case of credit risk.

Reputational risk

In today's competitive environment, the reputation of a company is increasingly gaining in importance. Banks, as public trust companies, not only are expected to be profitable and offer shareholders an adequate return, but also to be ethical, environmentally friendly, and socially responsible.

The aim of management of reputational risk, defined as a risk resulting from a negative perception of the image of the Bank or other member in the Group among its stakeholders, is to identify, assess and address reputational risk in specific processes in order to safeguard and enhance the good name of mBank and mBank Group.

The following tools and methods are used in mBank to monitor and manage reputational risk:

- mBank's values (client-centric organization, simplicity, professionalism, engagement and forward looking), which are the mBank's code used while building either business relations or internal inside of the Group;
- Engagement culture survey – perception of mBank by its employees;
- Corporate Social Responsibility, which makes the Bank noticeable to the public through participation in projects of the mBank Foundation and volunteer works;
- Monitoring of press publications, comments in the Internet, social media or internet forums;
- Customer satisfaction analysis in retail and corporate banking;
- New product process - reputational risk is one of the topics analyzed within new products' implementation process;
- Analysis of customers' complaints.

In 2014, the Bank developed Reputational Risk Management Strategy of mBank Group, which describes rules and components of reputational risk management, and emphasizes, in particular, such issues as: reputational risk profile and organization and methods of reputational risk management.

Capital risk

In order to prevent materialization of capital risk, understood as risk resulting from the lack of sufficient capital assurance to absorb unexpected losses, the Bank applies a capital management process.

The capital management in mBank Group is organised as a process including planning, steering and controlling within the frames of economic capital, regulatory capital and internal capital. Within the framework of capital management process, regular monitoring of capital adequacy and effectiveness is conducted, aimed at assurance that adequate and optimum level of capital is maintained in mBank Group. This is supported by analysis and stress testing procedures, designed to provide in depth view on current capital position, as well as possible development in the future.

The capital management in mBank Group is a multi-level process including all subsidiaries and organisational units whose activity influences the level of own funds requirements as well as the value of internal capital.

The capital management process in mBank Group is documented. The Capital Management Policy constitutes the core documentation in this respect. It is directly linked to the General Business Strategy and Risk Management Strategy as well as the Multi-year Financial Plan of mBank Group and with the ICAAP documentation.

The underlying assumption of the Capital Management Policy is to ensure effective planning and deployment of the capital base within the mBank and mBank Group. The goal of the Policy is to set up the effective decision-making process for capital management. This is provided mainly by applying risk appetite guidelines and developing guidelines to assure sufficient capital to cover risks identified in business activity, as well as defining the organisational framework for the efficient functioning of capital management system.

The Capital Management Policy is based on two fundamental pillars:

- maintenance of optimal level and structure of own funds, assuring capital adequacy above the statutory minimum requirement (including risk appetite defined by the Management Board) as well as ensuring coverage against all material risks identified in mBank Group's activity,
- effective use of the capital base, guaranteeing achievement of expected returns, including return on regulatory capital and risk adjusted capital.

In addition, the document focuses on capital management in an environment of capital shortage.

3.13. Insurance risk

The risk connected with insurance contracts is the possibility of occurrence of the insurance event and the uncertainty of the amount of the resulting claim the insurer is to pay by virtue of this event. By the very nature of an insurance contract, this risk is random and therefore unpredictable.

For the portfolio of insurance contracts where for creating new products, calculating premiums as well as producing financial plans for subsequent periods the theory of probability is applied, the basic risk is the risk of discrepancy between actual claims and their expected values.

As loss ratio-based estimates are usually based on historic values, there is the risk that their actual realisation will differ from their expected realisation with regard to factors changing over the period such as:

- demographic structure of insured persons upon collective health insurance,
- regulations of the law concerning the insurance market,
- other regulations of the law affecting the insurance market.

Too small insurance portfolio, which does not enable the Law of Great Numbers to function but also does not provide sufficient statistical information for proper risk management is also a factor increasing the risk of discrepancy between loss ratio-based estimates and their actual realisation.

In order to decrease this risk, the Group concentrates primarily on increasing given insurance risk portfolios while limiting the risk as well as the amount of individual risks insured on the Group's share by application of profound reinsurance.

Another source of insurance risk is insurance fraud, which occurs in a higher or lesser degree in most of insurance products. This phenomenon consists in fraudulent claims for compensations or benefits, which are not due actually.

Methods limiting the results of occurrence of the above indicated phenomenon include among others: preventive actions taken up by insurance companies (registers etc.) as well as procedures preventing acceptance of such risk for insurance and relevant procedures of claims handling.

In 2014, the Group offered short-term property and personal insurance contracts both in individual and collective models. However, the collective model is applied to the sale of insurance portfolio known as bancassurance.

The Group also offers individual agreements in co-insurance with other insurers.

Individual agreements are usually concluded for one year with the possibility of renewal with the exception of tourist insurance agreements which are concluded for the duration of the trip, i.e., from 1 to 90 days. Once a year the Group has the right to propose new conditions while renewing the agreement or may not propose such renewal at all.

Collective agreements are concluded in perpetuity. However, the Group has the right to propose new conditions at any time with a three-month notice with the exception of financial agreements where the agreement conditions can be changed by mutual agreement or with a twelve-month notice.

The Group reinsures insurance contracts upon reinsurance agreements.

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Concentration of insurance risk is presented in accordance with the breakdown by the groups and the scope of risks defined by the Polish Financial Supervision Authority as well as according to the individual and collective sale model.

The concentration of insurance risk stated in provisions for compensations and benefits

Gross risk	31.12.2014	share %	31.12.2013	share %
casualty	20 789	15%	16 808	14%
disease	10 506	8%	11 221	10%
casco of land vehicles	3 533	3%	3 413	3%
damages caused by elements	8 277	6%	6 557	6%
other material damages	5 854	4%	5 317	5%
civil liability due to owing and usage of land vehicles	64 520	47%	53 065	46%
civil liability	1 280	1%	1 016	1%
loan	12 579	9%	10 353	9%
guarantee	523	1%	494	0%
different financial risks	68	0%	215	0%
protection by law	146	0%	161	0%
providing help	8 314	6%	7 245	6%
Gross provision for compensations and benefits	**136 389**	**100%**	**115 865**	**100%**

Risk on own share	31.12.2014	share %	31.12.2013	share %
casualty	20 789	31%	16 276	29%
disease	10 506	16%	11 221	20%
casco of land vehicles	724	1%	714	1%
damages caused by elements	4 149	6%	3 717	7%
other material damages	4 482	7%	4 076	7%
civil liability due to owing and usage of land vehicles	12 945	19%	10 657	19%
civil liability	979	1%	758	1%
loan	9 643	15%	6 653	12%
guarantee	523	1%	494	1%
different financial risks	68	0%	215	0%
protection by law	146	0%	161	0%
providing help	1 669	3%	1 712	3%
Provisions for compensations and benefits on own share	**66 623**	**100%**	**56 654**	**100%**
Gross risk	**31.12.2014**	**share %**	**31.12.2013**	**share %**
individual	82 676	61%	70 482	61%
group	53 713	39%	45 383	39%
Provisions for compensations and benefits	**136 389**	**100%**	**115 865**	**100%**
Risk on own share	**31.12.2014**	**share %**	**31.12.2013**	**share %**
individual	23 448	35%	20 523	36%
group	43 175	65%	36 131	64%
Provisions for compensations and benefits on own share	**66 623**	**100%**	**56 654**	**100%**

Sensitivity analysis of provisions for damages

With regard to the accepted methodology of calculation of the IBNR provision ('Naive Loss Ratio' and 'Bornhuetter-Ferguson'), total provisions for compensations and benefits together with costs of claims handling are generally linearly dependent on the assumed loss-based ratio, ULR ('Ultimate Loss Ratio'), accepted for calculation of the IBNR provision with the exception of situations when the ratio calculated only on the basis of damages claimed in a given group of insurance exceeds the accepted value of ULR.

However, the IBNR provision alone is sensitive to changes of assumed loss-based ratios.

Sensitivity analysis was carried out simultaneously for all insured risks of the portfolio, through a change of predicted IBNR ratios with other parameters of the model being unchanged.

The following table presents changes of the IBNR provision depending on changes of parameters of predicted ULR ratios.

Change of ULR ratio (%)		Change of IBNR provision (%)		IBNR provision (PLN '000)		Change of the value of IBNR provision (PLN '000)		The impact on profit after reinsurance (PLN '000)	
31.12.2014	31.12.2013	31.12.2014	31.12.2013	31.12.2014	31.12.2013	31.12.2014	31.12.2013	31.12.2014	31.12.2013
-	(20)	-	(25)	77 998	70 010	(27 630)	(23 634)	14 171	12 510
-	(10)	-	(13)	91 679	81 705	(13 949)	(11 939)	7 130	6 359
-	-	-	-	105 628	93 082	-	-	-	-
-	10	-	13	119 852	104 481	14 224	12 057	(7 156)	(6 416)
-	20	-	26	134 187	116 446	28 559	24 157	(14 388)	(12 865)

Provisions adequacy analysis

The Group carried out a provisions adequacy analysis, which showed that technical-insurance provisions (reduced by deferred acquisition costs) as at 31 December 2014 were created at a level sufficient to cover commitments arising from insurance agreements till 31 December 2014.

Capital management

Since the start of business of BRE Ubezpieczenia TUiR SA, i.e., 15 January 2007, capital management in insurance companies is connected with the aspiration for maintenance of regular adequacy. The purpose of the Group within the scope of capital management is the maintenance of the capacity of insurance companies of the Group for continuance of business and maintenance of an optimal structure of capital in order to reduce costs of capital.

For this purpose, the Group constantly monitors the value of its own resources in relation to the margin of solvency and guarantee capital in accordance with capital requirements imposed by regulations binding in Poland (Insurance Activity Act and Accounting Act with relevant decrees).

In accordance with these regulations, the company BRE Ubezpieczenia TUiR SA is obliged to hold own resources in the value not lower than the margin of solvency and not lower than the guarantee capital. The guarantee capital equals the bigger of: one-third of the margin of solvency or minimum value of the guarantee capital.

The Decree of Minister of Finance, which takes into account the necessity of ensuring solvency of companies conducting insurance activities, determines the manner of calculation of the solvency margin and minimum value of the guarantee capital.

Own resources of the company are the assets of the insurance company, excluding:

- assets assigned for coverage of all expected commitments,
- intangible assets other than DAC (Deferred Acquisition Cost),
- own shares held by the insurance company,
- deferred income tax assets.

The company BRE Ubezpieczenia TUiR SA is guided only by the law requirements in calculating the solvency margin and the minimum guarantee capital.

Insurance companies check the compliance of capital with law requirements as at the end of each reporting period. Within the whole year 2014 and 2013 the law requirements were met.

In 2014 compared to 2013, the Group has not made changes in assumptions applied to those used by the Group insurance risk assessment models.

PLN '000	31.12.2014	31.12.2013
Own resources	147 749	167 498
Margin of solvency	22 261	18 165
Minimal guarantee capital	15 403	15 048
1/3rd of margin of solvency	7 420	6 055
Own resources surplus for coverage of margin of solvency	125 488	123 602
Guarantee capital	15 403	15 048
Own resources surplus for coverage of guarantee capital	132 346	152 450

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3.14. Fair value of financial assets and liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value measurement assumes that the transaction of selling the asset or transferring a liability occurs either:

- on the main market for the asset or liability,
- in the absence of a main market, for the most advantageous market for the asset or liability.

The main and the most advantageous markets must be both available to the Group.

Following market practices the Group values open positions in financial instruments using either the mark-to-market approach or is applying pricing models well established in market practice (mark-to-model method) which use as inputs market prices or market parameters, and in few cases parameters estimated internally by the Group. All significant open positions in derivatives (currency or interest rates) are valued by market models using prices observable in the market. Domestic commercial papers are mark-to-model (by discounting cash flows), which in addition to market interest rate curve uses credit spreads estimated internally.

The Group estimated that the fair value of short-term financial liabilities (less than 1 year) is equal to the balance sheet values of such items.

In addition, the Group assumed that the estimated fair value of financial assets and financial liabilities longer than 1 year is based on discounted cash flows using appropriate interest rates.

The following table presents a summary of balance sheet values and fair values for each group of financial assets and liabilities not recognised in the statement of financial position of the Group at their fair values.

	31.12.2014		31.12.2013	
	Carrying value	Fair value	Carrying value	Fair value
Financial assets				
Loans and advances to banks	**3 751 415**	**3 748 671**	**3 471 241**	**3 515 772**
Loans and advances to customers	**74 582 350**	**75 070 826**	**68 210 385**	**67 300 927**
Loans and advances to individuals	**40 080 064**	**40 874 882**	**37 153 418**	**36 413 808**
current accounts	4 848 799	4 927 627	4 534 640	4 567 052
term loans including:	35 231 265	35 947 255	32 618 778	31 846 756
- housing and mortgage loans	29 969 161	30 553 308	28 223 739	27 403 194
Loans and advances to corporate entities	**31 531 987**	**31 236 748**	**28 270 161**	**28 124 414**
current accounts	3 460 379	3 435 981	3 362 963	3 353 764
term loans	22 915 949	22 645 108	20 161 638	20 025 090
- corporate & institutional enterprises	5 557 635	5 516 855	4 934 639	4 953 138
- medium & small enterprises	17 358 314	17 128 253	15 226 999	15 071 952
reverse repo / buy sell back transactions	3 838 553	3 838 553	3 287 066	3 287 066
other	1 317 106	1 317 106	1 458 494	1 458 494
Loans and advances to public sector	**1 923 026**	**1 911 923**	**2 133 179**	**2 142 078**
Other receivables	**1 047 273**	**1 047 273**	**620 627**	**620 627**
Financial liabilities				
Amounts due to other banks	**13 383 829**	**13 508 323**	**19 224 182**	**19 239 265**
Amounts due to customers	**72 422 479**	**72 501 565**	**61 673 527**	**61 670 841**
Debt securities in issue	**10 341 742**	**10 425 444**	**5 402 056**	**5 444 193**
Subordinated liabilities	**4 127 724**	**4 105 811**	**3 762 757**	**3 764 754**

The following sections present the key assumptions and methods used by the Group for estimation of the fair values of financial instruments:

Loans and advances to banks and loans and advances to customers. The fair value for loans and advances to banks and loans and advances to customers is disclosed as the present value of future cash flows using current interest rates including appropriate credit spreads and is based on the expected maturity of the respective loan agreements. The level of credit spread was determined based on market quotation of median credit spreads for Moody's rating grade. Attribution of a credit spread to a given credit exposure is based on a mapping between Moody's rating grade and internal rating grades of mBank. To reflect the fact that the majority of the Bank's exposures is collateralised whereas the median of market quotation is centred around unsecured issues, the Bank performed appropriate adjustments.

Available for sale financial assets. Listed available for sale financial instruments held by the Group are valued at fair value. The fair value of debt securities not listed at an active market is calculated using a discounted cash flow approach based on current interest rates (including the appropriate credit spread). The model of spread determination in the case of illiquid commercial papers was extended in order to reflect the costs of unexpected loss component of the credit spread more precisely.

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Financial liabilities. Financial instruments representing liabilities for the Group include the following:

- Contracted borrowings;
- Deposits;
- Issues of debt securities;
- Subordinated liabilities.

The fair value for these financial liabilities with more than 1 year to maturity is based on principle and interest cash flows discounted using interest rates. For received loans the Group used the swap amended by quotations of Commerzbank CDS for exposures in EUR (and for the loans received from European Investment Bank in EUR, EIB yield curve), quotations of issued bonds under EMTN program for the exposures in foreign currencies and the swap curve amended by credit spread for the exposures in PLN. In case of deposits the Group used the curve based on overnight rates, term cash rates, as well as FRA contracts up to 1 year and IRS contracts over 1 year for appropriate currencies and maturities. For debt securities in issue the Group used the prices directly from the market for these securities. For the purpose of measurement of subordinated liabilities the Group used obtained primary market spreads of subordinated bonds issued by the Group and if required corresponding cross-currency basis swap levels for the respective maturities.

The Group assumed that the fair values of these instruments with less than 1 year to maturity was equal to the carrying amounts of the instruments.

The table below presents the fair value hierarchy of financial assets and liabilities measured at fair value in accordance with the assumptions and methods described above, exclusively for disclosure as at 31 December 2014.

31.12.2014	Including:	Level 1 Quoted prices in active markets	Level 2 Valuation techniques based on observable market data	Level 3 Other valuation techniques
VALUATION ONLY FOR PURPOSES OF DISCLOSURE				
FINANCIAL ASSETS				
Loans and advances to banks	3 748 671	-	-	3 748 671
Loans and advances to customers	75 070 806	-	-	75 070 806
FINANCIAL LIABILITIES				
Amounts due to other banks	13 508 323	-	11 442 821	2 065 502
Amounts due to customers	72 501 565	-	5 558 939	66 942 626
Debt securities in issue	10 425 444	7 338 400	-	3 087 044
Subordinated liabilities	4 105 811	-	4 105 811	-
Total financial assets	**78 819 477**	**-**	**-**	**78 819 477**
Total financial liabilities	**100 541 143**	**7 338 400**	**21 107 571**	**72 095 172**

31.12.2013	Including:	Level 1 Quoted prices in active markets	Level 2 Valuation techniques based on observable market data	Level 3 Other valuation techniques
VALUATION ONLY FOR PURPOSES OF DISCLOSURE				
FINANCIAL ASSETS				
Loans and advances to banks	3 515 772	-	-	3 515 772
Loans and advances to customers	67 300 927	-	-	67 300 927
FINANCIAL LIABILITIES				
Amounts due to other banks	19 239 265	-	14 358 996	4 880 269
Amounts due to customers	61 670 841	-	4 866 251	56 804 590
Debt securities in issue	5 444 193	2 879 565	-	2 564 628
Subordinated liabilities	3 764 754	-	3 764 754	-
Total financial assets	**70 816 699**	**-**	**-**	**70 816 699**
Total financial liabilities	**90 119 053**	**2 879 565**	**22 990 001**	**64 249 487**

Level 1

In level 1, the Group included the fair value of bonds issued by mFinance France, the subsidiary of the Bank (Note 30). For issued debt securities, the Group applied prices directly from the market for these securities.

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Level 2

Level 2 includes the fair value of long-term loans received from banks, the fair value of long-term deposits placed by customers and the fair value of the loan received from the EIB (Note 29). In addition, at level 2, the Group has presented subordinated liabilities.

The fair value of financial liabilities with more than 1 year to maturity is based on principle and interest cash flows discounted using interest rates. For received loans in EUR the Group used the swap curve amended by the spread determined based on observable Commerzbank CDS quotations in EUR for various maturities and a fixed spread which represents the assumed credit spread differential for Group risk (derived from market quotation of bond issued under the EMTN program). For the loans in other currencies, the above spreads for EUR were applied and cross currency swaps quotations to EUR. In case of the loans received from European Investment Bank in EUR, the Group used EIB yield curve and the value of margin which was agreed upon the last contract for the loan in August 2014. Based on the assumption of fixed margin (irrespectively from maturity), the spread of Group to market swap curve was estimated. In case of deposits the Group used the curve based on overnight rates, term cash rates, as well as FRA contracts up to 1 year and IRS contracts over 1 year for appropriate currencies and maturities. For debt securities in issue the Group used the prices directly from the market for these securities. For the purpose of measurement of subordinated liabilities the Group used obtained primary market spreads of subordinated bonds issued by the Group and if required corresponding cross-currency basis swap levels for the respective maturities.

Level 3

Level 3 includes the fair value of loans and advances to banks and loans and advances to customers. The fair value for loans and advances to banks and loans and advances to customers is disclosed as the present value of future cash flows using current interest rates including appropriate credit spreads and is based on the expected maturity of the respective loan agreements. The level of credit spread was determined based on market quotation of median credit spreads for Moody's rating grade. Attribution of a credit spread to a given credit exposure is based on a mapping between Moody's rating grade and internal rating grades of mBank. To reflect the fact that the majority of the Group's exposures is collateralised whereas the median of market quotation is centred around unsecured issues, the Group performed appropriate adjustments.

Level 3 includes also the fair value of mortgage bonds and bonds issued by mBank Hipoteczny. For the valuation of the Group has applied the technique of estimation of interest flow using swap curve and discounting with the rate amended by credit spread which is obtainable in case of issue depending on currency and maturity of financial instrument. Moreover, level 3 includes short term liabilities due to banks and customers.

The following table presents the hierarchy of fair values of financial assets and liabilities recognised in the statement of financial position of the Group at their fair values.

31.12.2014	Including:	Level 1 Quoted prices in active markets	Level 2 Valuation techniques based on observable market data	Level 3 Other valuation techniques
RECURRING FAIR VALUE MEASUREMENTS				
FINANCIAL ASSETS				
TRADING SECURITIES	**1 163 944**	**629 361**	**7 494**	**527 089**
Debt securities	**1 145 997**	**618 930**	**-**	**527 067**
- government bonds	617 906	617 906	-	-
- banks bonds	473 097	1 024	-	472 073
- corporate bonds	54 994	-	-	54 994
Equity securities	**17 947**	**10 431**	**7 494**	**22**
- listed	10 431	10 431	-	-
- unlisted	7 516	-	7 494	22

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DERIVATIVE FINANCIAL INSTRUMENTS	**4 865 517**	**-**	**4 865 048**	**469**
Derivative financial instruments held for trading	**4 711 124**	**-**	**4 710 655**	**469**
- interest rate derivatives	4 406 512	-	4 406 512	-
- foreign exchange derivatives	295 564	-	295 564	-
- market risks derivatives	9 048	-	8 579	469
Derivative financial instruments held for hedging	**154 393**	**-**	**154 393**	**-**
- derivatives designated as fair value hedges	**102 226**	**-**	**102 226**	**-**
- derivatives designated as cash flow hedges	**52 167**	**-**	**52 167**	**-**
INVESTMENT SECURITIES	**27 678 614**	**22 858 617**	**4 479 540**	**340 457**
Debt securities	**27 416 998**	**22 627 697**	**4 479 540**	**309 761**
- government bonds	22 586 122	22 586 122	-	-
- money bills	4 479 540	-	4 479 540	-
- banks bonds	24 907	-	-	24 907
- corporate bonds	284 854	-	-	284 854
- communal bonds	41 575	41 575	-	-
Equity securities	**261 616**	**230 920**	**-**	**30 696**
- listed	229 961	229 961	-	-
- unlisted	31 655	959	-	30 696
TOTAL FINANCIAL ASSETS	**33 708 075**	**23 487 978**	**9 352 082**	**868 015**

31.12.2014	**Including:**	**Level 1** **Quoted prices in active markets**	**Level 2** **Valuation techniques based on observable market data**	**Level 3** **Other valuation techniques**
FINANCIAL LIABILITIES				
Derivative financial instruments	**4 719 056**	**-**	**4 718 186**	**870**
Derivative financial instruments held for trading	**4 714 774**	**-**	**4 713 904**	**870**
- interest rate derivatives	4 390 412	-	4 390 412	-
- foreign exchange derivatives	305 857	-	305 443	414
- market risks derivatives	18 505	-	18 049	456
Derivative financial instruments held for trading	**4 282**	**-**	**4 282**	**-**
- derivatives designated as fair value hedges	3 592	-	3 592	-
- derivatives designated as cash flow hedges	690	-	690	-
Total financial liabilities	**4 719 056**	**-**	**4 718 186**	**870**

TOTAL RECURRING FAIR VALUE MEASUREMENTS				
FINANCIAL ASSETS	**33 708 075**	**23 487 978**	**9 352 082**	**868 015**
FINANCIAL LIABILITIES	**4 719 056**	**-**	**4 718 186**	**870**

Transfers between levels in 2014	**Transfer into level 1**	**Transfer out of level 1**	**Transfer into level 1**	**Transfer out of level 1**
Investment securities	**898**	**-**	**-**	**(1 811)**
Equity	898	-	-	(1 811)

In case of financial instruments valuated in repetitive way to the fair value classified as level 1 and 2 in hierarchy of fair value, any cases in which transfer between these levels may occur, are monitored by Financial Market Risk Department on the basis of internal guidelines. There are two main cases which allow for a reclassification: change of availability of market parameters used to marked-to-market valuation for T-bonds or a change in liquidity of option on WIG20 index market. In case of T-bonds, if there is no market price for more than 2 business days, the methods of valuation is changed, i.e. change from marked-to-market valuation to marked-to-model valuation under the assumption that the valuation model for the respective type of fixed income securities has been already approved. Return to marked-to-market valuation takes place after 5 business days in which market prices are continuously available.

In case of options on the WIG20 index the utilization of an internal model or marked-to-market valuation depends on the liquidity of the options market. If a marked-to-model method is applied and the market is liquid for successive 3 months the valuation approach changes from a marked-to-model towards the marked-to-market method. In case a marked-to-market model is utilized and the market is illiquid in a given month the valuation approach is adjusted towards a marked-to-model valuation at least until the beginning of the next month.

In 2014, there have been observed three movements from level 2 to level 3 in the total amount of PLN 913 thousand and one movement from level 2 to level 1 in the amount of PLN 898 thousand. These transfers resulted from the effect of valuation techniques revision applied to minority stakes of low value held by the Group.

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Assets Measured at Fair Value Based on Level 3 - changes in 2014	Debt trading securities	Equity trading securities	Derivative financial instruments	Debt investment securities	Equity investment securities
As at the beginning of the period	**346 263**	**6**	**450**	**133 042**	**40 206**
Gains and losses for the period:	**12 053**	**16**	**19**	**6 736**	**(696)**
Recognised in profit or loss:	12 053	16	19	-	(710)
- Net trading income	*12 053*	*16*	*19*	-	-
- Gains less losses from investment securities, investments in subsidiaries and associates	-	-	-	-	*(710)*
Recognised in other comprehensive income:	-	-	-	*6 736*	*14*
- Available for sale financial assets	-	-	-	*6 736*	*14*
Purchases	3 121 268	-	-	61 902	8 610
Redemptions	(344 563)	-	-	-	-
Sales	(11 866 323)	-	-	(198 072)	(15 947)
Issues	9 260 092	-	-	304 918	-
Settlements	(1 723)	-	-	1 235	(2 390)
Transfers into Level 3	-	-	-	-	*913*
As at the end of the period	**527 067**	**22**	**469**	**309 761**	**30 696**

31.12.2013	Including:	Level 1 Quoted prices in active markets	Level 2 Valuation techniques based on observable market data	Level 3 Other valuation techniques
RECURRING FAIR VALUE MEASUREMENTS				
FINANCIAL ASSETS				
TRADING SECURITIES	**763 064**	**395 214**	**21 581**	**346 269**
Debt securities	734 621	388 358	-	346 263
- government bonds	388 259	388 259	-	-
- deposit certificates	37 787	-	-	37 787
- banks bonds	264 922	99	-	264 823
- corporate bonds	43 653	-	-	43 653
Equity securities	**28 443**	**6 856**	**21 581**	**6**
- listed	6 893	6 856	37	-
- unlisted	21 550	-	21 544	6
DERIVATIVE FINANCIAL INSTRUMENTS	**2 349 585**	**153**	**2 348 982**	**450**
Derivative financial instruments held for trading	**2 349 585**	**153**	**2 348 982**	**450**
- interest rate derivatives	2 103 034	**-**	2 103 034	-
- foreign exchange derivatives	232 776	**-**	232 733	43
- market risks derivatives	13 775	153	13 215	407
INVESTMENT SECURITIES	**25 341 763**	**18 852 508**	**6 316 007**	**173 248**
Debt securities	**25 069 257**	**18 622 019**	**6 314 196**	**133 042**
- government bonds	18 583 636	18 583 636	-	-
- money bills	6 314 196	-	6 314 196	-
- banks bonds	25 136	-	-	25 136
- corporate bonds	107 906	-	-	107 906
- communal bonds	38 383	38 383	-	-
Equity securities	**272 506**	**230 489**	**1 811**	**40 206**
- listed	229 617	229 617	-	-
- unlisted	42 889	872	1 811	40 206
TOTAL FINANCIAL ASSETS	**28 454 412**	**19 247 875**	**8 686 570**	**519 967**

31.12.2013	Including:	Level 1 Quoted prices in active markets	Level 2 Valuation techniques based on observable market data	Level 3 Other valuation techniques
FINANCIAL LIABILITIES				
Derivative financial instruments	**2 459 715**	**12**	**2 459 296**	**407**
Derivative financial instruments held for trading	**2 451 959**	**12**	**2 451 540**	**407**
- interest rate derivatives	2 253 550	-	2 253 550	-
- foreign exchange derivatives	183 643	-	183 643	-
- market risks derivatives	14 766	12	14 347	407
Derivative financial instruments held for trading	**7 756**	**-**	**7 756**	**-**
- derivatives designated as fair value hedges	7 756	-	7 756	-
Total financial liabilities	**2 459 715**	**12**	**2 459 296**	**407**
TOTAL RECURRING FAIR VALUE MEASUREMENTS				
FINANCIAL ASSETS	**28 454 412**	**19 247 875**	**8 686 570**	**519 967**
FINANCIAL LIABILITIES	**2 459 715**	**12**	**2 459 296**	**407**

In 2013 a reclassification of exotic options embedded in investment deposits (options on basket of underlyings such as commodities or indexes) within the fair hierarchy was observed from level 2 to level 3. The Fair value of reclassified instruments as of 31 December 2013 was equal to PLN 0.5 thousand (the value contains transactions with clients and opposite back-to-back transactions on interbank market, for transactions with clients the fair value was PLN 404 thousand). The presented in note value of PLN 407 thousand applies to options sold (liabilities) and purchased (assets). The reclassification was made due to a review of valuation methods, in which there was identified that variables such as volatilities of underlyings and their correlations, which are estimated in internal model due to lack of quotations for this variables, have significant impact on their fair value.

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Liabilities Measured at Fair Value Based on Level 3	Derivative financial instruments and other trading liabilities	Other financial liablitities
Transfers into Level 3	407	-
As at the end of the period	**407**	**-**

Assets Measured at Fair Value Based on Level 3 - changes in 2013	Debt trading securities	Equity trading securities	Derivative financial instruments	Debt investment securities	Equity investment securities
As at the beginning of the period	**303 587**	**17**	**96**	**204 032**	**34 885**
Gains and losses for the period:	**13 874**	**(11)**	**(53)**	**(3 408)**	**2 830**
Recognised in profit or loss:	13 874	(11)	(53)	-	62
- Net trading income	*13 874*	*(11)*	*(53)*	-	-
- Gains less losses from investment securities, investments in subsidiaries and associates	-	-	-	-	*62*
Recognised in other comprehensive income:	-	-	-	*(3 408)*	*2 768*
- Available for sale financial assets	-	-	-	*(3 408)*	*2 768*
Purchases	2 149 795	-	-	136 374	13 145
Redemptions	(1 462 147)	-	-	-	(884)
Sales	(11 822 979)	-	-	(409 537)	(13 851)
Issues	11 164 133	-	-	204 000	(452)
Settlements	-	-	-	1 581	4 533
Transfers into Level 3	-	-	*407*	-	-
As at the end of the period	**346 263**	**6**	**450**	**133 042**	**40 206**

According to the fair value methodology applied by the Group, financial assets and liabilities are classified as follows:

- Level 1: prices quoted on active markets for the same instrument (without modification);
- Level 2: valuation techniques based on observable market data;
- Level 3: valuation methods for which at least one significant input data is not based on observable market data.

Level 1

As at 31 December 2014, at level 1 of the fair value hierarchy, the Group has presented the fair value of held for trading government bonds in the amount of PLN 617 906 thousand (see Note 19) and the fair value of investment government bonds in the amount of PLN 22 586 122 thousand (see Note 23) (31 December 2013 respectively: PLN 388 259 thousand and PLN 18 583 636 thousand). Level 1 also includes the fair value of local government bonds in the amount of PLN 41 575 thousand (31 December 2013: PLN 38 383 thousand), and the fair value of bonds issued by banks in the amount of PLN 1 024 thousand (31 December 2013: PLN 99 thousand).

In addition, as at 31 December 2014 level 1 includes the value of the shares of listed companies in the amount of PLN 240 392 thousand, including the value of shares in PZU S.A. in the amount of PLN 229 961 thousand (31 December 2013 respectively: PLN 236 473 thousand and PLN 212 430 thousand).

These instruments are classified as level 1 because their valuation is directly derived by applying current market prices quoted on active and liquid financial markets.

Level 2

Level 2 of the fair value hierarchy includes the fair values of short term bills issued by NBP in the amount of PLN 4 479 540 thousand (31 December 2013: PLN 6 314 196 thousand), whose valuation is based on a NPV model (discounted future cash flows) fed with interest rate curves generated by transformation of quotations taken directly from active and liquid financial markets.

In addition, the level 2 category includes the valuation of derivative financial instruments borne on models consistent with market standards and practices, using parameters taken directly from the markets (e.g., foreign exchange rates, implied volatilities of fx options, stock prices and indices) or parameters which transform quotations taken directly from active and liquid financial markets (e.g., interest rate curves).

As at 31 December 2014 and 31 December 2013, level 2 also includes the value of options referencing on the WIG 20 index, listed on the Stock Exchange.

Level 3

Level 3 of the hierarchy presents the fair values of commercial debt securities issued by local banks and companies (bonds, mortgage bonds and certificates of deposit) in the amount of PLN 836 828 thousand (31 December 2013: PLN 479 305 thousand).

The above mentioned debt instruments are classified as level 3 because in addition to parameters which transform quotations taken directly from active and liquid financial markets (interest rate curves), their valuation uses credit spread estimated by the Bank by means of an internal credit risk model. The model uses parameters (e.g., rate of recovery from collateral, rating migrations, default ratio volatilities) which are not observed on active markets and hence were generated by statistical analysis.

Moreover, level 3 covers mainly the fair value of equity securities amounting to PLN 30 718 thousand (31 December 2013: PLN 40 212 thousand) valuated using the market multiples method. The market multiples method, consists of valuating the equity capital of a company by using a relation between the market values of the own equity capital or market values of the total capital invested in comparable companies (goodwill) and selected economic and financial figures.

3.15. Other activities

The Group provides custody, trustee, corporate administration, investment management and advisory services to third parties. In connection with these, the Group makes decisions concerning the allocation, purchase and sale of a wide variety of financial instruments. Assets held in a fiduciary capacity are not included in these financial statements.

4. Major estimates and judgments made in connection with the application of accounting policy principles

The Group applies estimates and adopts assumptions which impact the values of assets and liabilities presented in the subsequent period. Estimates and assumptions, which are continuously subject to assessment, rely on historical experience and other factors, including expectations concerning future events, which seem justified under the given circumstances.

Impairment of loans and advances

The Group reviews its loan portfolio in terms of possible impairments at least once per quarter. In order to determine whether any impairment loss should be recognised in the income statement, the Group assesses whether any evidence exists that would indicate some measurable reduction of estimated future cash flows attached to the loan portfolio. The methodology and the assumptions (on the basis of which the estimated cash flow amounts and their anticipated timing are determined) are regularly verified.

Fair value of derivatives and other financial instruments

The fair value of financial instruments not listed on active markets is determined by applying valuation techniques. All the models are approved prior to being applied and they are also calibrated in order to assure that the obtained results indeed reflect the actual data and comparable market prices. As far as possible, observable market data originating from an active market are used in the models.

Impairment of available for sale investments

The Group reviews its debt securities classified as available for sale investments at each reporting date to assess whether they are impaired. This requires similar judgment as applied to the individual assessment of loans and advances. The Group also records impairment charges on available for sale equity investments when there has been a significant or prolonged decline in the fair value below their cost. The determination of what is 'significant' or 'prolonged' requires judgment. In making this judgment, the Group evaluates, among other factors, historical share price movements and duration and extent to which the fair value of an investment is less than its cost.

Deferred tax assets

Deferred tax assets are recognised in respect of tax losses to the extent that it is probable that future taxable profit will be available, against which the losses can be utilised. Judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits.

Revenue and expenses from sale of insurance products bundled with loans

Revenue and expenses from sale of insurance products bundled with loans are split into interest income and fee and commission income based on the relative fair value analysis of each of these products.

The remuneration included in fee and commission income is recognised partly as upfront income and partly including deferring over time based on the analysis of the stage of completion of the service.

Now, the Group leads in case of insurance policies bundled with loans to upfront recognition less than 10% of bancassurance income associated with cash and car loans and 0% to approximately 25% of bancassurance income associated with mortgage loans. Recognition of the remaining part of the income is spread over the economic life of the associated loans. Expenses directly linked to the sale of insurance products are recognised using the same pattern.

Liabilities due to post-employment employee benefits

The costs of post-employment employee benefits are determined using an actuarial valuation. The actuarial valuation involves making assumptions about discount rates, future salary increases, mortality rates and other factors. Due to the long–term nature of these liabilities, such estimates are subject to significant uncertainty.

Technical-insurance provisions

Provision for unpaid claims and benefits which were reported to the insurer and in relation to which the information held does not enable to make an assessment of claims and benefits, is calculated using a lump sum method. Values of lump sum-based ratios for particular risks were established on the basis of information concerning the average value of claims arising from the given risk.

As at 31 December 2014, provisions for claims incurred but not reported to the insurer (IBNR) were calculated using the actuarial methods (Naive Loss Ratio and Bornhuetter-Ferguson). The expected loss ratios are composed on the basis of available market studies concerning loss arising from the given group of risks.

Leasing classification

The Group makes judgement classifying lease agreements as finance lease or operating lease based on the economic substance of the transaction basing on estimates whether substantially all the risk and rewards incidental to ownership of an asset were transferred or not.

5. Business segments

Following the adoption of 'management approach' of IFRS 8, operating segments are reported in accordance with the internal reporting provided to the Bank's Management Board (the chief operating decision-maker), which is responsible for allocating resources to the reportable segments and assesses their performance.

The classification by business segments is based on client groups and product groups defined by homogenous transaction characteristics. The classification is consistent with sales management and the philosophy of delivering complex products to the Bank's clients, including both standard banking products and more sophisticated investment products. The method of presentation of financial results coupled with the business management model ensures a constant focus on creating added value in relations with clients of the Bank and Group companies and should be seen as a primary division, which serves the purpose of both managing and perceiving business within the Group.

Under the rebranding process, on 25 November 2013, BRE Bank and MultiBank changed their names. Entities of the former BRE Bank Group merged under the name mBank S.A. The rebranding process covered all outlets of the former BRE Group. Existing units were equipped with a new logo. The process was completed in 2014. In accordance with the strategy, in 2018 all retail and corporate branches of the Bank will be connected, offering all customers a full range of mBank.

In 2014, the name of the sub-segment "Corporates and Institutions" has been changed to "Corporate and Investment Banking" and the name of the sub-segment "Trading and Investment" has been changed to "Financial Markets". Moreover, from the beginning of 2014 a change of the assignment of mLeasing and Dom Maklerski mBanku to segments took place. Results of mLeasing (previously assigned to Corporate and Investment Banking segment) have been split between Corporate and Investment Banking segment and Retail Banking segment (according to split of customers into corporate and retail). Results of Dom Maklerski mBanku (previously assigned to Financial Markets segment) have been split between Corporate and Investment Banking segment and Retail Banking segment according to split of customers into corporate and retail.

According to above-mentioned changes, the comparative data concerning business segments of the Group were restated to reflect changes in presentation made to the current financial year.

The Group conducts its business through different business segments, which offer specific products and services targeted at specific client groups and market segments. The Group currently conducts its operations through the following business segments:

- The Retail Banking segment, which divides its customers into mBank customers and Private Banking customers and which offers a full range of the Bank's banking products and services as well as specialized products offered by a number of subsidiaries belonging to the Retail Banking segment. The key products in this segment include current and savings accounts (including accounts in foreign currencies), term deposits, lending products (retail mortgage loans and non-mortgage loans such as cash loans, car loans, overdrafts, credit cards and other loan products), debit cards, insurance products, investment products, brokerage and leasing services offered to both individual customers and to micro-businesses. The results of the Retail Banking segment include the results of foreign branches of mBank in the Czech Republic and Slovakia. The Retail Banking segment also includes the results of mBank Hipoteczny S.A., mWealth Management S.A., Aspiro S.A., BRE Ubezpieczenia TUiR S.A., BRE Ubezpieczenia Sp. z o.o., BRE Agent Ubezpieczeniowy Sp. z o.o., AWL I Sp. z o.o. as well as results of retail segments of mLeasing Sp. z o.o. and Dom Maklerski mBanku S.A.

- The Corporates and Financial Markets segment, which is divided into two sub-segments:
- *Corporate and Investment Banking* sub-segment (business line), which targets small, medium and large-sized companies and public sector entities. The key products offered to these customers include transactional banking products and services including current account products, multi-functional internet banking, tailor-made cash management and trade finance services, term deposits, foreign exchange transactions, a comprehensive offer of short-term financing and investment loans, cross-border credit, project finance, structured and mezzanine finance services, investment banking products including foreign exchange options, forward contracts, interest rate derivatives and commodity swaps and options, structured deposit products with embedded options (interest on structured deposit products are directly linked to the performance of certain underlying financial instruments such as foreign exchange options, interest rate options and stock options), debt origination for corporate clients, treasury bills and bonds, non-government debt, medium-term bonds, buy sell back and sell buy back transactions and repo transactions, as well as leasing, factoring and brokerage services. The Corporate and Investment Banking sub-segment includes the results of the following subsidiaries: mFaktoring S.A., MLV 45 Sp. z o.o. spółka komandytowa, Transfinance a.s., Garbary Sp. z o.o., results of corporate segments of mLeasing Sp. z o.o. and Dom Maklerski mBanku S.A.
- *Financial Markets* sub-segment (business line) consists primarily of treasury, financial markets, and financial institutions operations, manages the liquidity, interest rate and foreign exchange risks of the Bank, its trading and investment portfolios, and conducts market making in PLN denominated cash and derivative instruments. The Bank also maintains an extensive correspondent banking network and also develops relationships with other banks providing products such as current accounts, overdrafts, stand alone and syndicated loans and loans insured by KUKE to support the Polish export market. This sub-segment also includes the results of mFinance France S.A.
- Operations which are not included in the Retail Banking segment and the Corporates and Financial Markets segment are reported under "Other". This segment includes the results of mLocum S.A., mCentrum Operacji Sp. z o.o. and BDH Development Sp. z o.o.

The principles of segment classification of the Group's activities are described below.

Transactions between the business segments are conducted on regular commercial terms.

Allocation of funds to the Group companies and assigning them to particular business segments results in funding cost transfers. Interest charged for these funds is based on the Group's weighted average cost of capital and presented in operating income.

Internal fund transfers between the Bank's units are calculated at transfer rates based on market rates. Transfer rates are determined on the same basis for all operating units of the Bank and their differentiation results only from currency and maturity structure of assets and liabilities. Internal settlements concerning internal valuation of funds transfers are reflected in the results of each segment.

Assets and liabilities of a business segment comprise operating assets and liabilities, which account for most of the statement of financial position, whereas they do not include such items as taxes or loans.

The separation of the assets and liabilities of a segment, as well as of its income and costs, is done on the basis of internal information prepared at the Bank for the purpose of management accounting. Assets and liabilities for which the units of the given segment are responsible as well as income and costs related to such assets and liabilities are attributed to individual business segments. The financial result of a business segment takes into account all the income and cost items attributable to it.

The business operations of particular companies of the Group are fully attributed to the appropriate business segments (including consolidation adjustments).

The primary basis used by the Group in the segment reporting is business line division. In addition, the Group's activity is presented by geographical areas reporting broken down into Poland and foreign countries because of the place of origin of income and expenses. Foreign countries segment includes activity of mBank's foreign branches in Czech Republic and Slovakia as well as activity of foreign subsidiaries Transfinance a.s. and mFinance France S.A. The activity of the company mFinance France S.A., after the elimination of income and expenses and assets and liabilities related to the issue of bonds under the EMTN programme, is presented in the "Foreign countries" segment. The cost of the EMTN programme as well as the related assets and liabilities are presented in the segment "Poland".

Business segment reporting on the activities of mBank S.A. Group
for the period from 1 January to 31 December 2014
(PLN'000)

	Corporates & Financial Markets		Retail Banking (including Private Banking)	Other	Total figure for the Group	Statement of financial position reconciliation/ income statement reconciliation
	Corporate and Investment Banking	Financial Markets				
Net interest income	**683 834**	**128 737**	**1 685 755**	**(7 668)**	**2 490 658**	**2 490 658**
- sales to external clients	591 306	619 754	1 280 713	(1 115)	2 490 658	
- sales to other segments	92 528	(491 017)	405 042	(6 553)	-	
Net fee and commission income	**381 906**	**(6 961)**	**512 986**	**13 759**	**901 690**	**901 690**
Dividend income	**17 223**	**191**	**78**	**2 500**	**19 992**	**19 992**
Trading income	**184 109**	**57 447**	**127 411**	**189**	**369 156**	**369 156**
Gains less losses from investment securities, investments in subsidiaries and associates	**10 074**	**45 299**	**(700)**	**(2 747)**	**51 926**	**51 926**
Other operating income	**95 880**	**1 234**	**116 725**	**133 083**	**346 922**	**346 922**
Net impairment losses on loans and advances	**(188 176)**	**(1 065)**	**(326 693)**	**31**	**(515 903)**	**(515 903)**
Overhead costs	**(573 967)**	**(86 488)**	**(881 000)**	**(39 088)**	**(1 580 543)**	**(1 580 543)**
Amortization and depreciation	**(71 624)**	**(8 772)**	**(106 407)**	**(3 219)**	**(190 022)**	**(190 022)**
Other operating expenses	**(39 352)**	**(96)**	**(64 446)**	**(137 282)**	**(241 176)**	**(241 176)**
Gross profit of the segment	**499 907**	**129 526**	**1 063 709**	**(40 442)**	**1 652 700**	**1 652 700**
Income tax					(363 390)	(363 390)
Net profit attributable to Owners of mBank S.A.					1 286 668	1 286 668
Net profit attributable to non-controlling interests					2 642	2 642
Assets of the segment	**27 883 921**	**42 158 138**	**47 579 311**	**364 452**	**117 985 822**	**117 985 822**
Liabilities of the segment	**25 757 739**	**36 864 794**	**43 585 612**	**704 697**	**106 912 842**	**106 912 842**
Other items of the segment						
Expenditures incurred on fixed assets and intangible assets	165 487	9 711	120 867	1 586	297 651	

Business segment reporting on the activities of mBank S.A. Group
for the period from 1 January to 31 December 2013
(PLN'000)

	Corporates & Financial Markets		Retail Banking (including Private Banking)	Other	Total figure for the Group	Statement of financial position reconciliation/ income statement reconciliation
	Corporate and Investment Banking	Financial Markets				
Net interest income	**721 598**	**8 667**	**1 506 007**	**(10 461)**	**2 225 811**	**2 225 811**
- sales to external clients	652 399	627 894	950 291	(4 773)	2 225 811	
- sales to other segments	69 199	(619 227)	555 716	(5 688)	-	
Net fee and commission income	**335 073**	**(4 337)**	**490 841**	**13 161**	**834 738**	**834 738**
Dividend income	**24 454**	**-**	**186**	**2 216**	**26 856**	**26 856**
Trading income	**199 539**	**20 603**	**122 903**	**(67)**	**342 978**	**342 978**
Gains less losses from investment securities, investments in subsidiaries and associates	**11 680**	**53 394**	**13 504**	**-**	**78 578**	**78 578**
Other operating income	**89 262**	**713**	**143 116**	**141 730**	**374 821**	**374 821**
Net impairment losses on loans and advances	**(179 964)**	**(45)**	**(297 721)**	**(48)**	**(477 778)**	**(477 778)**
Overhead costs	**(541 478)**	**(78 974)**	**(841 039)**	**(28 662)**	**(1 490 153)**	**(1 490 153)**
Amortization and depreciation	**(71 270)**	**(6 659)**	**(106 769)**	**(3 192)**	**(187 890)**	**(187 890)**
Other operating expenses	**(39 311)**	**(33)**	**(72 853)**	**(98 061)**	**(210 258)**	**(210 258)**
Gross profit of the segment	**549 583**	**(6 671)**	**958 175**	**16 616**	**1 517 703**	**1 517 703**
Income tax					(308 725)	(308 725)
Net profit attributable to Owners of mBank S.A.					1 206 375	1 206 375
Net profit attributable to non-controlling interests					2 603	2 603
Assets of the segment	**25 242 780**	**35 051 093**	**43 054 028**	**934 860**	**104 282 761**	**104 282 761**
Liabilities of the segment	**20 804 275**	**33 183 994**	**39 296 017**	**742 037**	**94 026 323**	**94 026 323**
Other items of the segment						
Expenditures incurred on fixed assets and intangible assets	103 014	6 841	118 674	181	228 710	

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The mBank S.A. Group geographical areas reporting

Geographical areas reporting on the acivities of mBank Group for the period from 1 January to 31 December	2014			2013		
	Poland	Foreign Countries	Total	Poland	Foreign Countries	Total
Net interest income	2 369 399	121 259	**2 490 658**	2 124 260	101 551	**2 225 811**
Net fee and commission income	875 745	25 945	**901 690**	811 613	23 125	**834 738**
Dividend income	19 992	-	**19 992**	26 856	-	**26 856**
Trading income	363 388	5 768	**369 156**	337 150	5 828	**342 978**
Gains less losses from investment securities, investments in subsidiaries and associates	51 926	-	**51 926**	78 578	-	**78 578**
Other operating income	345 279	1 643	**346 922**	370 182	4 639	**374 821**
Net impairment losses on loans and advances	(480 714)	(35 189)	**(515 903)**	(467 468)	(10 310)	**(477 778)**
Overhead costs	(1 473 145)	(107 398)	**(1 580 543)**	(1 395 426)	(94 727)	**(1 490 153)**
Amortization and depreciation	(185 911)	(4 111)	**(190 022)**	(183 337)	(4 553)	**(187 890)**
Other operating expenses	(238 129)	(3 047)	**(241 176)**	(202 490)	(7 768)	**(210 258)**
Gross profit of the segment	1 647 830	4 870	**1 652 700**	1 499 918	17 785	**1 517 703**
Income tax			(363 390)			(308 725)
Net profit attributable to Owners of mBank S.A.			1 286 668			1 206 375
Net profit attributable to non-controlling interests			2 642			2 603
Assets of the segment, including:	114 548 848	3 436 974	**117 985 822**	101 649 833	2 632 928	**104 282 761**
- tangible assets	1 171 783	11 220	1 183 003	1 147 730	17 167	1 164 897
- deferred income tax assets	266 382	6 034	272 416	367 611	3 210	370 821
Liabilities of the segment	101 151 600	5 761 242	**106 912 842**	88 968 671	5 057 652	**94 026 323**

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6. Net interest income

	Year ended 31 December	
	2014	2013
Interest income		
Loans and advances including the unwind of the impairment provision discount	2 833 184	2 841 195
Investment securities	836 567	884 205
Cash and short-term placements	73 327	78 807
Trading debt securities	47 882	43 693
Interest income on derivatives classified into banking book	138 097	88 583
Interest income on derivatives concluded under the fair value hedge	18 429	181
Interest income on derivatives concluded under the cash flow hedge	1 400	-
Other	7 368	13 307
Total interest income	**3 956 254**	**3 949 971**
Interest expense		
Arising from amounts due to banks	(190 634)	(256 936)
Arising from amounts due to customers	(892 120)	(1 133 931)
Arising from issue of debt securities	(229 293)	(191 965)
Arising from subordinated liabilities	(77 254)	(64 101)
Other	(76 295)	(77 227)
Total interest expense	**(1 465 596)**	**(1 724 160)**

Interest income related to impaired financial assets amounted to PLN 159 113 thousand (for the period ended 31 December 2013: PLN 178 515 thousand).

Net interest income per client groups is as follows:

	Year ended 31 December	
	2014	2013
Interest income		
From banking sector	404 700	444 185
From clients, including:	3 551 554	3 505 786
- corporate clients	1 154 100	1 207 644
- individual clients	1 607 090	1 524 418
- public sector	790 364	773 724
Total interest income	**3 956 254**	**3 949 971**
Interest expense		
From banking sector	(251 492)	(296 768)
From clients, including:	(967 818)	(1 275 478)
- corporate clients	(410 506)	(516 520)
- individual clients	(463 685)	(673 439)
- public sector	(93 627)	(85 519)
From debt securities in issue	(246 286)	(151 914)
Total interest expense	**(1 465 596)**	**(1 724 160)**

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7. Net fee and commission income

	Year ended 31 December	
	2014	2013
Fee and commission income		
Payment cards-related fees	413 614	413 729
Credit-related fees and commissions	254 302	227 600
Commissions from insurance activity	116 675	106 637
Commissions from bank accounts	157 474	154 980
Commissions from money transfers	97 627	88 239
Fees from brokerage activity	90 532	91 607
Commissions for agency service regarding selling products of external financial entities	88 291	77 413
Commissions due to guarantees granted and trade finance commissions	46 581	37 864
Commissions on trust and fiduciary activities	21 108	19 393
Fees from portfolio management services and other management-related fees	13 438	14 402
Other	99 959	71 970
Fee and commission income	**1 399 601**	**1 303 834**

Fee and commission expense		
Payment cards-related fees	(194 993)	(217 668)
Commissions paid to external entities for sale of the Bank's products	(78 001)	(59 035)
Discharged brokerage fees	(29 915)	(26 191)
Insurance activity-related fees	(4 209)	(3 628)
Other discharged fees	(190 793)	(162 574)
Total fee and commision expense	**(497 911)**	**(469 096)**

	Year ended 31 December	
	2014	2013
Fee and commission income from insurance contracts		
- Income from insurance intermediation	97 822	87 556
- Income from insurance policies administration	18 853	19 081
Total fee and commission income from insurance contracts	**116 675**	**106 637**

8. Dividend income

	Year ended 31 December	
	2014	2013
Trading securities	243	49
Securities available for sale	19 749	26 807
Total dividend income	**19 992**	**26 856**

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9. Net trading income

	Year ended 31 December	
	2014	2013
Foreign exchange result	**233 048**	**282 545**
Net exchange differences on translation	311 760	239 853
Net transaction gains/(losses)	(78 712)	42 692
Other net trading income and result on hedge accounting	**136 108**	**60 433**
Interest-bearing instruments	110 045	49 455
Equity instruments	(1 524)	145
Market risk instruments	(1 810)	2 833
Result on fair value hedge accounting, including:	29 059	8 000
- Net profit on hedged items	(108 241)	7 101
- Net profit on fair value hedging instruments	137 300	899
Ineffective portion of cash flow hedge	338	-
Total net trading income	**369 156**	**342 978**

"Foreign exchange result" includes profit/(loss) on spot transactions and forward contracts, options, futures and translation of assets and liabilities denominated in foreign currencies. "Interest-bearing instruments" include the profit/(loss) on money market instrument trading, swap contracts for interest rates, options and other derivative instruments. "Equity instruments" include the valuation and profit/(loss) on global trade in equity securities. "Market risk instruments" include profit/(loss) on: bond futures, index futures, security options, stock exchange index options, and options on futures contracts as well as the result from securities forward transactions and commodity swaps and futures.

The Group applies fair value hedge accounting and cash flow hedge accounting. Detailed information on the hedge applied by the Group are included in Note 21 "Hedge accounting"

10. Other operating income

	Year ended 31 December	
	2014	2013
Income from sale or liquidation of fixed assets, intangible assets, assets held for sale and inventories	149 766	142 651
Income from insurance activity net	96 237	82 931
Income from services provided	24 009	30 818
Net income from operating lease	11 157	14 873
Income due to release of provisions for future commitments	5 081	36 195
Income from recovering receivables designated previously as prescribed, remitted or uncollectible	2 233	1 169
Income from compensations, penalties and fines received	229	184
Other	58 210	66 000
Total other operating income	**346 922**	**374 821**

Income from sale or liquidation of tangible fixed assets, intangible assets as well as assets held for disposal comprises primarily income of the company mLocum S.A. from developer activity.

Income from services provided is earned on non-banking activities.

Income from insurance activity net comprises income from premiums, reinsurance and co-insurance activity, reduced by claims paid and costs of claims handling and adjusted by the changes in provisions for claims connected with the insurance activity conducted within mBank Group.

Net income from operating lease consists of income from operating lease and related depreciation cost of fixed asset provided by the Group under operating lease, incurred to obtain revenue.

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Net income from insurance activity generated in 2014 and 2013 is presented below.

	Year ended 31 December	
	2014	2013
Income from premiums		
- Premiums attributable	234 851	183 877
- Change in provision for premiums	(39 899)	2 518
Premiums earned	**194 952**	**186 395**
Reinsurer's shares		
- Gross premiums written	(66 607)	(72 131)
- Change in unearned premiums reserve	(2 416)	(2 098)
Reinsurer's share in premiums earned	**(69 023)**	**(74 229)**
Net premiums earned	**125 929**	**112 166**
Claims and benefits		
- Claims and benefits paid out in the current year including costs of liquidation before tax	(63 099)	(73 133)
- Change in provision for claims and benefits paid out in the current year including costs of liquidation before tax	(19 902)	(13 287)
- Reinsurer's share in claims and benefits paid out in the current year including costs of liquidation	46 141	51 868
- Change in provision for reinsurer's share of claims and benefits paid out in the current year including costs of liquidation	10 212	9 274
Claims and benefits net	**(26 648)**	**(25 278)**
- Other costs net of reinsurance	(3 183)	(3 744)
- Other operating income	440	8
- Costs of expertise and certificates concerning underwriting risk	(301)	(221)
Total net income from insurance activity	**96 237**	**82 931**

Net income from operating lease generated in 2014 and 2013 is presented below.

	Year ended 31 December	
	2014	2013
Net income from operating lease, including:		
- Income from operating lease	61 576	66 667
- Depreciation cost of fixed assets provided under operating lease	(50 419)	(51 794)
Total net income from operating lease	**11 157**	**14 873**

11. Overhead costs

	Year ended 31 December	
	2014	2013
Staff-related expenses	(844 131)	(808 259)
Material costs	(627 613)	(586 658)
Taxes and fees	(29 811)	(30 011)
Contributions and transfers to the Bank Guarantee Fund	(70 790)	(58 228)
Contributions to the Social Benefits Fund	(6 993)	(6 782)
Other	(1 205)	(215)
Total overhead costs	**(1 580 543)**	**(1 490 153)**

"Material costs" consist of tangible assets operating lease payment costs (mainly real estate) of PLN 27 678 thousand (2013: PLN 27 562 thousand).

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Staff-related expenses in 2014 and 2013 are presented below.

	Year ended 31 December	
	2014	2013
Wages and salaries	(682 454)	(657 993)
Social security expenses	(102 000)	(98 847)
Employee contributions related to post-employment benefits	(616)	(857)
Remuneration concerning share-based payments, including:	(24 814)	(15 886)
- share-based payments settled in mBank S.A. shares	(14 251)	(15 759)
- cash-settled share-based payments	(10 563)	(127)
Other staff expenses	(34 247)	(34 676)
Staff-related expenses, total	**(844 131)**	**(808 259)**

12. Other operating expenses

	Year ended 31 December	
	2014	2013
Costs arising from sale or liquidation of fixed assets, intangible assets, assets held for resale and inventories	(115 713)	(114 796)
Provisions for future commitments	(57 958)	(42 593)
Costs arising from provisions created for other receivables (excluding loans and advances)	(7 396)	(4 624)
Donations made	(2 669)	(2 726)
Costs of sale of services	(1 438)	(1 799)
Compensation, penalties and fines paid	(1 869)	(718)
Costs arising from receivables and liabilities recognised as prescribed, remitted and uncollectible	(3 584)	(478)
Impairment provisions created for tangible fixed assets and intangible assets	(8 090)	-
Other operating costs	(42 459)	(42 524)
Total other operating expenses	**(241 176)**	**(210 258)**

In 2014, the cost of impairment provisions created for tangible fixed assets and intangible assets relate mainly to an impairment loss of value of the property in the amount of PLN 6 869 thousand.

Costs arising from sale or liquidation of fixed assets, intangible assets, assets held for resale and inventories comprise primarily the expenses incurred by mLocum in connection with its developer activity.

In 2014, provisions for future commitments include provisions for legal proceedings of PLN 51 705 thousand (2013: PLN 29 199 thousand) (Note 33).

Costs of services provided concern non-banking services.

13. Net impairment losses on loans and advances

	Year ended 31 December	
	2014	2013
Net impairment losses on amounts due from other banks (Note 18)	(1 114)	282
Net impairment losses on loans and advances to customers (Note 22)	(521 444)	(468 485)
Net impairment losses on contingent liabilities (Note 33)	6 655	(9 575)
Total net impairment losses on loans and advances	**(515 903)**	**(477 778)**

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14. Income tax expense

	Year ended 31 December	
	2014	2013
Current tax	(324 716)	(243 039)
Deferred income tax (Note 34)	(38 674)	(65 686)
Total income tax	**(363 390)**	**(308 725)**

Profit before tax	**1 652 700**	**1 517 703**
Tax calculated at Polish current tax rate (19%)	(314 013)	(288 364)
Effect of different tax rates in other countries	5	(12)
Income not subject to tax *)	9 856	15 073
Costs other than tax deductible costs **)	(48 732)	(47 659)
Other positions affecting income tax	(402)	613
Deferred tax losses incurred by mBank branch in the Czech Republic in 2009-2011	(7 512)	13 334
Losses of branches of mBank S.A. in Slovakia	(2 592)	(1 710)
Income tax expense	**(363 390)**	**(308 725)**

Effective tax rate calculation		
Profit before income tax	1 652 700	1 517 703
Income tax	(363 390)	(308 725)
Effective tax rate	**21.99%**	**20.34%**

*) includes i.a. a positive result of branch in Czech Republic (excluded from taxation in Poland).

**) includes non-deductible costs according to Article 16 item 1 of Corporate Income Tax Act from 15 February 1992 (Journal of Laws No 21, item 86.

Information about deferred income tax is presented in Note 34. The tax on the Group's profit before tax differs from the theoretical amount that would arise using the basic tax rate of the parent as presented above.

15. Earnings per share

Earnings per share for 12 months

	Year ended 31 December	
	2014	2013
Basic:		
Net profit attributable to Owners of mBank S.A.	1 286 668	1 206 375
Weighted average number of ordinary shares	42 189 705	42 155 456
Net basic profit per share (in PLN per share)	**30.50**	**28.62**
Diluted:		
Net profit attributable to Owners of mBank S.A., applied for calculation of diluted earnings per share	1 286 668	1 206 375
Weighted average number of ordinary shares	42 189 705	42 155 456
Adjustments for:		
- share options	31 590	12 035
Weighted average number of ordinary shares for calculation of diluted earnings per share	42 221 295	42 167 491
Diluted earnings per share (in PLN per share)	**30.47**	**28.61**

According to IAS 33, the Bank prepares a calculation of the 'diluted earnings per share' taking into account contingently issuable shares as part of the incentive programmes described in the Note 44. The calculations did not include those elements of the incentive programmes, which were antidilutive for the presented periods that could potentially dilute basic earnings per share in the future.

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The basic earnings per share are computed as the quotient of the Bank stockholders' share of the profit and the weighted average number of ordinary shares during the year.

The diluted earnings per share are calculated by adjusting the weighted average number of ordinary shares as if all possible ordinary shares causing the dilution were replaced with shares. The Bank has one category of potential ordinary shares causing the dilution: share options. The number of diluting shares is computed as the number of shares that would be issued if all share options were executed at the market price, determined as the average annual closing price of the Bank's shares.

16. Other comprehensive income

Disclosure of tax effects relating to each component of other comprehensive income	Year ended 31 December 2014			Year ended 31 December 2013		
	Before-tax amount	Tax (expense) benefit	Net amount	Before-tax amount	Tax (expense) benefit	Net amount
Items that may be reclassified subsequently to the the income statement	**326 427**	**(93 066)**	**233 361**	**(209 715)**	**44 482**	**(165 233)**
Exchange differences on translation of foreign operations	245	-	245	(2 116)	-	(2 116)
Change in valuation of available for sale financial assets	321 174	(92 114)	229 060	(207 599)	44 482	(163 117)
Cash flow hedges (net)	5 008	(952)	4 056	-	-	-
Items that will not be reclassified to the income statement	**(2 352)**	**447**	**(1 905)**	**(875)**	**166**	**(709)**
Actuarial gains and losses relating to post-employment benefits	(2 352)	447	(1 905)	(875)	166	(709)
Total other comprehensive income	**324 075**	**(92 619)**	**231 456**	**(210 590)**	**44 648**	**(165 942)**

The table below presents detailed information concerning other comprehensive income for the years 2014 and 2013.

	Year ended 31 December	
	2014	2013
Items that may be reclassified subsequently to the the income statement	**233 361**	**(165 233)**
Exchange differences on translating foreign operations	**245**	**(2 116)**
Unrealised gains (positive differences) arising during the year (net)	2 157	6 378
Unrealised losses (negative differences) arising during the year (net)	(1 912)	(8 494)
Available-for-sale financial assets	**229 060**	**(163 117)**
Unrealised gains on debt instruments arising during the year (net)	259 643	33 149
Unrealised losses on debt instruments arising during the year (net)	-	(158 616)
Reclassification adjustments of gains (losses) on debt instruments to the income statement (net)	(36 524)	(37 794)
Unrealised gains on equity instruments arising during the year (net)	14 272	9 718
Reclassification adjustments of gains (losses) on equity instruments to the income statement (net)	(8 331)	(9 574)
Cash flow hedges	**4 056**	**-**
Unrealized gains arising during the year (net)	4 056	-
Items that will not be reclassified to the income statement	**(1 905)**	**(709)**
Actuarial gains and losses relating to post-employment benefits	**(1 905)**	**(709)**
Actuarial gains	-	35
Actuarial losses	(1 905)	(744)
Total other comprehensive income (net)	**231 456**	**(165 942)**

In 2014 and 2013, a change in the valuation of treasury bonds had a considerable impact on other components of equity.

Positive change in valuation of debt instruments at the end of 2014 in relation to the end of 2013 was driven by a decrease in the bond market yield curve, resulting in an increase in the price of bonds held by the Bank at the end of 2013 as well as acquired in 2014.

In 2014, the unrealized gains on equity instruments include positive valuation of shares in PZU S.A. in amount PLN 17 531 thousand, (in 2013, the unrealized loss of PLN 5 655 thousand).

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17. Cash and balances with central bank

	31.12.2014	31.12.2013
Cash in hand	372 987	250 696
Current account	2 681 562	1 399 771
Total cash and balances with the Central Bank (Note 43)	**3 054 549**	**1 650 467**

On the basis of the Act on the National Bank of Poland of 29 August 1997, mBank and mBank Hipoteczny hold a mandatory reserve deposit. The arithmetic mean of daily balances of the mandatory reserve which mBank and mBank Hipoteczny were obliged to maintain during a given period in the current account with NBP amounted to:

- PLN 2 123 204 thousand for the period from 31 December 2014 to 1 February 2015,
- PLN 1 851 071 thousand for the period from 31 December 2013 to 30 January 2014,

As at 31 December 2014, the former part of the reserve bore 1.8% interest (31 December 2013: 2.48%).

18. Loans and advances to banks

	31.12.2014	31.12.2013
Current accounts	492 313	479 627
Placements with other banks (up to 3 months)	459 943	1 167 287
Included in cash equivalents (Note 43)	**952 256**	**1 646 914**
Loans and advances	214 148	149 829
Term placements with other banks	10 396	4 953
Reverse repo / buy-sell-back transactions	1 811 151	1 249 936
Other receivables	764 948	419 898
Total (gross) loans and advances to banks	**3 752 899**	**3 471 530**
Provisions created for loans and advances to banks (negative amount)	(1 484)	(289)
Total (net) loans and advances to banks	**3 751 415**	**3 471 241**
Short-term (up to 1 year)	3 687 301	3 445 025
Long-term (over 1 year)	64 114	26 216

In 2014, the item "Other receivables" includes cash collaterals (as at 31 December 2014: PLN 563 150 thousand, 31 December 2013: PLN 272 259 thousand) deposited by the Group under the derivative transactions (Note 37).

The following table presents receivables from Polish and foreign banks:

	31.12.2014	31.12.2013
Loans and advances to Polish banks (gross)	1 220 190	934 387
Provisions created for loans and advances to Polish banks	(234)	(118)
Loans and advances to foreign banks (gross)	2 532 709	2 537 143
Provisions created for loans and advances to foreign banks	(1 250)	(171)
Total (net) loans and advances to banks	**3 751 415**	**3 471 241**

As at 31 December 2014, the variable rate loans to banks amounted to PLN 204 336 thousand and the fixed rate loans to banks amounted to PLN 9 812 thousand (as at 31 December 2013 – variable rate loans to banks amounted to PLN 140 215 thousand and fixed rate loans to PLN 9 614 thousand).

As at 31 December 2014 and 31 December 2013, the term placements with other banks were fixed rated and amounted to PLN 470 339 thousand and PLN 1 172 240 thousand respectively. An average deposit interest rate for deposits in other banks and loans granted to banks amounted to 1.50% (31 December 2013: 1.42%).

The following table presents the changes in provisions for losses on amounts due from banks:

	31.12.2014	31.12.2013
Provisions for loans and advances to banks as at the beginning of the period	**(289)**	**(559)**
Provisions created (Note 13)	(6 241)	(1 664)
Release of provisions (Note 13)	5 127	1 946
Foreign exchange differences	(81)	(12)
Provisions for loans and advances to banks as at the end of the period	**(1 484)**	**(289)**

As at 31 December 2014, provisions for loans and advances to banks relates mainly to the loans without impairment, as at 31 December 2013 provisions for loans and advances to banks relates as a whole to the loans without impairment.

Loans and advances to banks	31.12.2014		31.12.2013	
	exposure in PLN '000	share/coverage (%)	exposure in PLN '000	share/coverage (%)
Neither past due nor impaired	3 752 782	100.00	3 471 530	100.00
Past due but not impaired	-	-	-	-
Impaired	117	0	-	-
Total, gross	**3 752 899**	**100.00**	**3 471 530**	**100.00**
Provision (provision for impaired loans and advances as well as IBNI provision)	(1 484)	0.04	(289)	0.01
Total, net	**3 751 415**	**99.96**	**3 471 241**	**99.99**

Loans and advances neither past due nor impaired

Loans and advances to banks		
Sub-portfolio	**31.12.2014**	**31.12.2013**
1	1 421 582	1 860 281
2	1 192 383	881 110
3	145 096	203 301
4	641 456	230 093
5	1 063	42 827
6	-	-
7	19 491	-
8	173 171	116 261
Other*	158 540	137 657
Total	**3 752 782**	**3 471 530**

*) position "other" concerns these entities, which do not use the same rating systems as mBank S.A.

19. Trading securities

	31.12.2014			31.12.2013		
	Trading securities without pledge	Pledged trading securities	Total trading securities	Trading securities without pledge	Pledged trading securities	Total trading securities
Debt securities:	**547 962**	**598 035**	**1 145 997**	**482 343**	**252 278**	**734 621**
Issued by government	19 871	598 035	617 906	135 981	252 278	388 259
- government bonds	19 871	598 035	617 906	135 981	252 278	388 259
Other debt securities	528 091	-	528 091	346 362	-	346 362
- bank's bonds	473 097	-	473 097	264 922	-	264 922
- deposit certificates	-	-	-	37 787	-	37 787
- corporate bonds	54 994	-	54 994	43 653	-	43 653
Equity securities:	**17 947**	**-**	**17 947**	**28 443**	**-**	**28 443**
- listed	10 431	-	10 431	6 893	-	6 893
- unlisted	7 516	-	7 516	21 550	-	21 550
Total debt and equity securities:	**565 909**	**598 035**	**1 163 944**	**510 786**	**252 278**	**763 064**

Trading securities include securities used to secure sell-buy-back transactions with customers, the market value of which as at 31 December 2014 amounted to PLN 598 035 thousand (31 December 2013: PLN 252 278 thousand).

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20. Derivative financial instruments

The Group uses the following derivative instruments for economic hedging and for other purposes:

Forward currency transactions represent commitments to purchase foreign and local currencies, including outstanding spot transactions. **Futures for currencies and interest rates** are contractual commitments to receive or pay a specific net value, depending on currency rate of exchange or interest rate variations, or to buy or sell a foreign currency or a financial instrument on a specified future date for a fixed price established on the organised financial market. Because futures contracts are collateralised with fair-valued cash or securities and the changes of the face value of such contracts are accounted for daily in reference to stock exchange quotations, the credit risk is marginal. **FRA contracts** are similar to futures except that each FRA is negotiated individually and each requires payment on a specific future date of the difference between the interest rate set in the agreement and the current market rate on the basis of theoretical amount of capital.

Currency and interest rate swap contracts are commitments to exchange one cash flow for another cash flow. Such a transaction results in swap of currencies or interest rates (e.g., fixed to variable interest rate) or combination of all these factors (e.g., cross-currency CIRS). With the exception of specific currency swap contracts, such transactions do not result in swaps of capital. The credit risk of the Group consists of the potential cost of replacing swap contracts if the parties fail to discharge their liabilities. This risk is monitored daily by reference to the current fair value, proportion of the face value of the contracts and market liquidity. The Group evaluates the parties to such contracts using the same methods as for its credit business, to control the level of its credit exposure.

The Group applies fair value hedge accounting for a part of the portfolio of fixed interest rate mortgage loans granted by the foreign branch of the Bank in the Czech Republic, fixed interest rate Eurobonds issued by mFinance France S.A.,a subsidiary of mBank, fixed interest rate mortgage bonds issued by mBank Hipoteczny, a subsidiary of mBank, as well as cash flow hedge accounting of variable rate loans indexed to market rates, granted by the Bank. Hedging instrument in both types of hedge accounting are fix to float Interest Rate Swap.

Detailed information on hedge accounting are presented in Note 21 below.

Currency and interest rate options are agreements, pursuant to which the selling party grants the buying party the right, but not an obligation, to purchase (call option) or sell (put option) a specific quantity of a foreign currency or a financial instrument at a predefined price on or by a specific date or within an agreed period. In return for accepting currency or interest rate risk, the buyer offers the seller a premium. An option can be either a public instrument traded at a stock exchange or a private instrument negotiated between the Group and a customer (private transaction). The Group is exposed to credit risk related to purchased options only up to the balance sheet value of such options, i.e. the fair value of the options.

Market risk transactions include futures contracts as well as commodity options, stock options and index options.

Face values of certain types of financial instruments provide a basis for comparing them to instruments disclosed in the statement of financial position but they may not be indicative of the value of the future cash flows or of the present fair value of such instruments. For this reason, the face values do not indicate the level of the Group's exposure to credit risk or price change risk. Derivative instruments can have positive value (assets) or negative value (liabilities), depending on market interest or currency exchange rate fluctuations. The aggregate fair value of derivative financial instruments may be subject to strong variations.

The following table presents the fair values of the derivatives:

	Contract amount		Fair value	
	Purchase	Disposal	Assets	Liabilities
As at 31 December 2014				
Derivatives held for trading				
Foreign exchange derivatives				
- Currency forwards	17 780 971	17 711 933	172 061	38 397
- Currency swaps	12 180 402	12 276 709	45 073	162 466
- Cross-currency interest rate swaps	4 723 072	4 760 397	12 290	57 389
- OTC currency options bought and sold	2 910 254	2 807 456	56 775	48 286
Total OTC derivatives	**37 594 699**	**37 556 495**	**286 199**	**306 538**
- Currency futures	139 953	141 615	-	-
Total foreign exchange derivatives	**37 734 652**	**37 698 110**	**286 199**	**306 538**

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Interest rate derivatives				
- Interest rate swap, OIS	254 956 265	254 956 265	4 264 152	4 260 275
- Forward rate agreements	66 775 000	81 157 400	147 744	123 087
- OTC interest rate options	341 659	374 641	3 981	4 059
Total OTC interest rate derivatives	**322 072 924**	**336 488 306**	**4 415 877**	**4 387 421**
- Interest rate futures	2 664	295 171	-	-
Total interest rate derivatives	**322 075 588**	**336 783 477**	**4 415 877**	**4 387 421**
Market risk transactions	**716 656**	**653 246**	**9 048**	**20 815**
Total derivative assets / liabilities held for trading	**360 526 896**	**375 134 833**	**4 711 124**	**4 714 774**
Derivatives held for hedging				
Derivatives designated as fair value hedges	7 217 658	7 217 658	102 226	3 592
- Interest rate swaps	7 217 658	7 217 658	102 226	3 592
Derivatives designated as cash flow hedges	2 040 000	2 040 000	52 167	690
- Interest rate swaps	2 040 000	2 040 000	52 167	690
Total derivatives held for hedging	**9 257 658**	**9 257 658**	**154 393**	**4 282**
Total recognised derivative assets/ liabilities	**369 784 554**	**384 392 491**	**4 865 517**	**4 719 056**
Short-term (up to 1 year)	188 488 877	201 319 549	1 001 243	973 957
Long-term (over 1 year)	181 295 677	183 072 942	3 864 274	3 745 099

	Contract amount		Fair value	
	Purchase	Disposal	Assets	Liabilities
As at 31 December 2013				
Derivatives held for trading				
Foreign exchange derivatives				
- Currency forwards	8 434 192	8 503 882	33 158	98 114
- Currency swaps	8 055 578	7 952 942	120 168	26 676
- Cross-currency interest rate swaps	2 207 359	2 204 651	24 041	17 232
- OTC currency options bought and sold	2 352 502	2 506 977	55 409	41 621
Total OTC derivatives	**21 049 631**	**21 168 452**	**232 776**	**183 643**
- Currency futures	60 449	60 728	-	-
Total foreign exchange derivatives	**21 110 080**	**21 229 180**	**232 776**	**183 643**
Interest rate derivatives				
- Interest rate swap, OIS	182 875 031	182 875 028	1 976 546	2 133 359
- Forward rate agreements	97 450 000	89 025 000	121 700	115 818
- OTC interest rate options	428 843	453 606	4 788	4 373
Total OTC interest rate derivatives	**280 753 874**	**272 353 634**	**2 103 034**	**2 253 550**
- Interest rate futures	10 335	10 373	-	-
Total interest rate derivatives	**280 764 209**	**272 364 007**	**2 103 034**	**2 253 550**
Market risk transactions	**745 284**	**727 958**	**13 775**	**14 766**
Total derivative assets / liabilities held for trading	**302 619 573**	**294 321 145**	**2 349 585**	**2 451 959**
Derivatives held for hedging				
Derivatives designated as fair value hedges	2 869 300	2 869 300	-	7 756
- Interest rate swaps	2 869 300	2 869 300	-	7 756
Total derivatives held for hedging	**2 869 300**	**2 869 300**	**-**	**7 756**
Total recognised derivative assets/ liabilities	**305 488 873**	**297 190 445**	**2 349 585**	**2 459 715**
Short-term (up to 1 year)	167 797 967	160 542 697	1 029 709	1 134 139
Long-term (over 1 year)	137 690 906	136 647 748	1 319 876	1 325 576

In both reporting periods, market risk transactions comprise the fair values of: stock index options, shares and other equity securities, futures for commodities, swap contracts for commodities.

Under financial derivative instruments the Group presented derivative instruments in the amount of PLN 1 238 thousand (liabilities), which have been separated from the structured investment deposits (31 December 2013: PLN 1 223 thousand).

As at 31 December 2014 and 31 December 2013, the Group did not have any financial assets and liabilities designated upon initial recognition as at fair value through the income statement.

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21. Hedge accounting

Fair value hedge accounting

The Group applies fair value hedge accounting. The interest rate risk is the only type of risk hedged for which hedge accounting is applied.

At the end of each month, the Group evaluates effectiveness of the applied hedging by carrying out analysis of changes in fair value of the hedged and hedging instruments in respect of the hedged risk.

Description of the hedging relation

The Group hedges against the risk of change in fair value:

- a part of the portfolio of mortgage loans for a fixed interest rate granted by foreign branch of mBank in Czech Republic. The hedged risk results from changes in interest rates,
- fixed interest rate Eurobonds issued by mFinance France S.A. (mFF), subsidiary of mBank. The hedged risk results from changes in interest rates.

Hedged items

The hedged items are:

- a part of the portfolio of mortgage loans for a fixed interest rate denominated in CZK and granted by foreign branch of mBank in Czech Republic,
- two tranches of fixed interest rate Eurobonds issued by mFF with a total nominal value of EUR 1 000 000 thousand,
- fixed interest rate Eurobonds issued by mFF with a nominal value of CHF 200 000 thousand,
- fixed interest rate Eurobonds issued by mFF with a nominal value of CZK 500 000 thousand,

Hedging instruments

IRS is the hedging instrument swapping the fixed interest rate for a variable interest rate.

Presentation of the result from hedged and hedging transactions

Fair value adjustment of the hedged assets and liabilities as well as valuation of the hedging instruments are recognised in the income statement as the income from trading operation.

The total results of fair value hedge accounting in 2014 and 2013

	31.12.2014	31.12.2013
Interest income on derivatives concluded under the fair value hedge (Note 6)	18 429	181
Net profit on hedged items (Note 9)	(108 241)	7 101
Net profit on fair value hedging instruments (Note 9)	137 300	899
The total results of fair value hedge accounting	**47 488**	**8 181**

Cash flow hedge accounting

Starting from the third quarter of 2014, the Group applies cash flow hedge accounting of the part of loans at a variable interest rate indexed to the market rate, granted by the Bank. An Interest Rate Swap is the hedging instrument changing the variable interest rate to a fixed interest rate. The interest rate risk is the hedged risk within applied by the Group cash flow hedge accounting. The ineffective portion of the gains or losses on the hedging instrument is presented in Note 9 " Other net trading income and result on hedge accounting". Portion of the gains or losses on the hedging instrument that is an effective hedge, is presented in the statement of comprehensive income as "Cash flow hedges (net)".

The following note presents other comprehensive income due to cash flow hedges as at 31 December 2014.

	31.12.2014
Other comprehensive income from cash flow hedge at the beginning of the period	-
Gains/losses rocognised in comprehensive income during the reporting period (gross)	6 746
Amount included as interest income in income statement during the reporting period	1 400
Ineffective portion of cash flow hedge recognized in the income statement	338
Accumulated other comprehensive income at the end of the reporting period (gross)	5 008
Deferred tax	(952)
Accumulated net other comprehensive income at the end of the reporting period	4 056
Impact on other comprehensive income in the reporting period (gross)	5 008
Deferred tax on cash flow hedges	(952)
Impact on other comprehensive income in the reporting period (net)	4 056

Below is presented impact of cash flow hedge accounting recognised in the income statement in 2014 and 2013

	31.12.2014	31.12.2013
Interest income on derivatives concluded under the cash flow hedge (Note 6)	1 400	-
Ineffective portion of cash flow hedge (Note 9)	338	-
The total results of cash flow hedge accounting	**1 738**	**-**

The period from January 2015 to September 2017 is the period in which the cash flows are expected, and when they are expected to have an impact on the result.

Below is given the timetable prepared as at 31 December 2014, presenting the periods in which the cash flows from loans secured under the cash flow hedge accounting are expected and their impact on the profit and loss account.

Cash flows from loans secured under the cash flow hedge accounting (PLN 000's)		
up to 3 months	**period from 3 months to 1 year**	**period from 1 year to 5 years**
10 303	24 038	35 501

The fair value equal to book value of derivatives hedging was presented in Note 20 "Derivative Financial Instruments".

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22. Loans and advances to customers

	31.12.2014	31.12.2013
Loans and advances to individuals:	**41 560 477**	**38 307 915**
- current accounts	5 442 653	4 978 854
- term loans, including:	36 117 824	33 329 061
housing and mortgage loans	30 510 513	28 692 896
Loans and advances to corporate entities:	**32 841 046**	**29 475 274**
- current accounts	3 701 490	3 597 377
- term loans:	23 977 679	21 076 873
corporate & institutional enterprises	5 751 583	5 115 320
medium & small enterprises	18 226 096	15 961 553
- reverse repo / buy-sell-back transactions	3 838 553	3 287 066
- other	1 323 324	1 513 958
Loans and advances to public sector	**1 924 395**	**2 177 976**
Other receivables	**1 047 273**	**620 627**
Total (gross) loans and advances to customers	**77 373 191**	**70 581 792**
Provisions for loans and advances to customers (negative amount)	(2 790 841)	(2 371 407)
Total (net) loans and advances to customers	**74 582 350**	**68 210 385**

Short-term (up to 1 year)	26 964 700	24 596 330
Long-term (over 1 year)	47 617 650	43 614 055

As at 31 December 2014, variable rate credits amounted to PLN 73 877 559 thousand and fixed rate credits amounted to PLN 3 495 632 thousand (as at 31 December 2013 respectively: PLN 69 584 163 thousand and PLN 997 629 thousand). The values mentioned above relate to loans granted to individual clients, corporate clients and the budget sector. An average interest rate for loans granted to customers (excluding reverse repos) amounted to 3.98% (31 December 2013: 4.01%).

The item "Other" includes cash collaterals (as at 31 December 2014 in the amount of PLN 18 226 thousand, as at 31 December 2013: PLN 62 498 thousand) placed by the Group under derivatives transactions (Note 37).

In 2013, the Group sold in several transactions, retail and corporate impaired loan portfolios (default portfolios). The nominal value of sales transactions amounted to PLN 852 092 thousand (including corporate portfolio of PLN 642 930 thousand). Sold receivables, in the majority of cases, were highly covered by impairment provisions, and above mentioned transactions have had a significant impact on reducing the defaulted portfolio at the end of 2013 and coverage ratio.

Provisions for loans and advances

	31.12.2014	31.12.2013
Incurred but not identified losses		
Gross balance sheet exposure	72 458 578	66 158 075
Impairment provisions for exposures analysed according to portfolio approach	(242 401)	(256 556)
Net balance sheet exposure	**72 216 177**	**65 901 519**

Receivables with impairment		
Gross balance sheet exposure	4 914 613	4 423 717
Provisions for receivables with impairment	(2 548 440)	(2 114 851)
Net balance sheet exposure	**2 366 173**	**2 308 866**

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Movements in provisions for loans and advances

MOVEMENTS IN PROVISIONS FOR LOANS AND ADVANCES TO CUSTOMERS AS OF 2014	Provisions as at 01.01.2014	Provisions created	Release of provisions	Reclassification and foreign exchange differences	Write-offs	Provisions as at 31.12.2014
Loans and advances to individuals	**(1 154 497)**	**(1 004 962)**	**703 279**	**(24 442)**	**209**	**(1 480 413)**
Current accounts	(444 214)	(405 670)	264 742	(8 812)	100	**(593 854)**
Term loans, including:	(710 283)	(599 292)	438 537	(15 630)	109	**(886 559)**
Housing and mortgage loans	(469 157)	(311 490)	249 763	(10 552)	84	**(541 352)**
Loans and advances to corporate entities	**(1 205 113)**	**(742 274)**	**512 086**	**(32 647)**	**158 889**	**(1 309 059)**
Current accounts	(234 414)	(197 360)	186 836	(22 710)	26 537	**(241 111)**
Term loans, including:	(915 235)	(512 930)	324 214	11 273	30 948	**(1 061 730)**
Corporate & institutional enterprises	(180 681)	(74 498)	63 586	(2 355)	-	**(193 948)**
Medium & small enterprises	(734 554)	(438 432)	260 628	13 628	30 948	**(867 782)**
Other	(55 464)	(31 984)	1 036	(21 999)	101 404	**(7 007)**
Reclassification to non-current assets hels for sale	-	-	-	789	-	**789**
Loans and advances to public sector	**(11 797)**	**(2 100)**	**12 527**	**1**	**-**	**(1 369)**
Total movements in provisions for loans and advances to customers	**(2 371 407)**	**(1 749 336)**	**1 227 892**	**(57 088)**	**159 098**	**(2 790 841)**

MOVEMENTS IN PROVISIONS FOR LOANS AND ADVANCES TO CUSTOMERS AS OF 2013	Provisions as at 01.01.2013	Provisions created	Release of provisions	Reclassification and foreign exchange differences	Write-offs	Provisions as at 31.12.2013
Loans and advances to individuals	**(1 057 723)**	**(1 251 779)**	**990 527**	**(18 078)**	**182 556**	**(1 154 497)**
Current accounts	(586 189)	(459 141)	518 946	(17 120)	99 290	**(444 214)**
Term loans, including:	(471 534)	(792 638)	471 581	(958)	83 266	**(710 283)**
Housing and mortgage loans	(283 938)	(488 484)	268 959	760	33 546	**(469 157)**
Loans and advances to corporate entities	**(1 458 484)**	**(767 033)**	**559 269**	**6 835**	**454 300**	**(1 205 113)**
Current accounts	(286 561)	(252 500)	174 579	38 567	91 501	**(234 414)**
Term loans, including:	(1 112 926)	(503 632)	384 007	(27 363)	344 679	**(915 235)**
Corporate & institutional enterprises	(311 280)	(139 081)	193 890	1 271	74 519	**(180 681)**
Medium & small enterprises	(801 646)	(364 551)	190 117	(28 634)	270 160	**(734 554)**
Other	(58 997)	(10 901)	683	(4 369)	18 120	**(55 464)**
Loans and advances to public sector	**(12 326)**	**(724)**	**1 255**	**(2)**	**-**	**(11 797)**
Total movements in provisions for loans and advances to customers	**(2 528 533)**	**(2 019 536)**	**1 551 051**	**(11 245)**	**636 856**	**(2 371 407)**

Loans and advances include receivables under finance leases.

	31.12.2014	31.12.2013
Gross investment in finance leases, receivable:	**5 122 993**	**4 541 342**
- not later than 1 year	1 634 260	1 393 783
- later than 1 year and not later than 5 years	2 893 079	2 492 111
- later than 5 years	595 654	655 448
Unearned future finance income on finance leases (negative amount)	(537 336)	(533 982)
Net investment in finance leases	**4 585 657**	**4 007 360**

Net investment in finance leases, receivable:		
- not later than 1 year	1 446 365	1 208 758
- later than 1 year and not later than 5 years	2 645 409	2 230 081
- later than 5 years	493 883	568 521
Net investment in finance leases	**4 585 657**	**4 007 360**
Impairment provisions for finance leases receivable	**(159 100)**	**(149 130)**
Net carrying amount of finance leases receivable	**4 426 557**	**3 858 230**

Unguaranteed residual value accruing to the lessor	**323 458**	**202 245**

Loans and advances to customers	31.12.2014		31.12.2013	
	exposure in PLN '000	share/coverage (%)	exposure in PLN '000	share/coverage (%)
Neither past due nor impaired	69 925 565	90.37	63 847 985	90.46
Past due but not impaired	2 533 013	3.27	2 310 090	3.27
Impaired	4 914 613	6.35	4 423 717	6.27
Total, gross	**77 373 191**	**100.00**	**70 581 792**	**100.00**
Provision (provision for impaired loans and advances as well as IBNI provision)	(2 790 841)	3.61	(2 371 407)	3.36
Total, net	**74 582 350**	**96.39**	**68 210 385**	**96.64**

The amount of recognized provision for loans and advances is PLN 2 790 841 thousand (as at 31 December 2013: PLN 2 371 407 thousand) of which PLN 2 548 440 thousand (as at 31 December 2013: PLN 2 114 851 thousand) represents the individually impaired loans and advances to customers and the remaining amount of PLN 242 401 thousand represents the portfolio provision IBNI (as at 31 December 2013 PLN 256 556 thousand). Further information on the impairment allowance for loans and advances to banks and to customers is provided in Note 22.

90.37% of the loans and advances portfolio is considered to be neither past due nor impaired (31 December 2013: 90.46%).

Loans and advances neither past due nor impaired

31 December 2014	Individuals			Corporate entities					Public sector	Other receivables	Total - Loans and advances to customers
			including:		Term loans						
Sub-portfolio	Current accounts	Term loans	housing and mortgage loans	Current accounts	corporate & institutional enterprises	medium & small enterprises	Reverse repo / buy-sell-back transactions	Other			
1	50 121	2 756 681	2 698 567	76 519	444 595	460 889	-	2	177 917	246	3 966 970
2	902 114	19 205 880	18 575 234	489 396	1 077 725	996 792	-	18 226	1 197 564	1 302	23 888 999
3	1 100 939	5 646 539	4 220 487	545 440	1 165 995	3 116 904	-	3	339 965	279	11 916 064
4	1 295 018	3 393 621	1 580 106	1 619 116	2 643 625	8 909 256	-	-	175 188	100	18 035 924
5	592 123	1 262 949	611 563	484 530	33 037	1 895 509	-	-	5 960	7	4 274 115
6	39 417	145 005	85 502	24 807	687	158 190	-	-	-	-	368 106
7	105 480	356 644	262 273	40 367	99 902	400 277	-	-	-	1	1 002 671
8	57 433	152 165	118 386	4	-	-	3 838 553	-	3 192	1 044 814	5 096 161
other *)	-	-	-	1	-	-	-	1 299 532	-	-	1 299 533
Default category	54	8 516	3 223	12 592	8 009	47 398	-	-	-	453	77 022
Total	**4 142 699**	**32 928 000**	**28 155 341**	**3 292 772**	**5 473 575**	**15 985 215**	**3 838 553**	**1 317 763**	**1 899 786**	**1 047 202**	**69 925 565**

31 December 2013	Individuals			Corporate entities					Public sector	Other receivables	Total - Loans and advances to customers
			including:		Term loans						
Sub-portfolio	Current accounts	Term loans	housing and mortgage loans	Current accounts	corporate & institutional enterprises	medium & small enterprises	Reverse repo / buy-sell-back transactions	Other			
1	38 137	1 815 230	1 771 948	54 135	86 384	567 148	-	-	535 278	8	3 096 320
2	697 256	15 893 469	15 335 382	407 710	2 969 942	1 184 488	-	62 504	1 181 787	-	22 397 156
3	736 917	6 843 621	5 779 251	857 803	1 116 207	2 690 665	-	1 033 080	285 853	-	13 564 146
4	1 247 564	3 828 028	2 430 586	1 560 288	456 508	7 292 149	-	-	134 253	-	14 518 790
5	738 397	1 306 710	714 315	274 359	100 001	1 711 440	-	-	1 232	-	4 132 139
6	40 410	142 453	98 376	9 840	67 504	136 557	-	-	-	-	396 764
7	200 440	585 078	429 435	23 698	28 014	270 214	-	-	-	-	1 107 444
8	150 459	101 802	30 656	1	-	-	3 287 066	-	-	620 619	4 159 947
other *)	-	-	-	443	-	-	-	346 526	-	-	346 969
Default category	-	6 300	2 179	12 908	7 919	101 183	-	-	-	-	128 310
Total	**3 849 580**	**30 522 691**	**26 592 128**	**3 201 185**	**4 832 479**	**13 953 844**	**3 287 066**	**1 442 110**	**2 138 403**	**620 627**	**63 847 985**

*) position "other" concerns these entities, which do not use the same rating systems as mBank S.A.

Loans and advances past due but not impaired

Gross amounts of loans and advances, which were past due but not impaired are presented below by classes of assets. No impairment is recognised in respect of loans and advances past due for less than 90 days, unless other available information indicates their impairment.

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31 December 2014	Individuals			Corporate entities					Public sector	Other receivables	Total - Loans and advances to customers
	Current accounts	Term loans	including: housing and mortgage loans	Current accounts	Term loans: corporate & institutional enterprises	Term loans: medium & small enterprises	Reverse repo / buy-sell-back transactions	Other			
Past due up to 30 days	322 554	1 055 791	833 692	14 822	18 504	611 548	-	-	24 609	-	2 047 828
Past due 31 - 60 days	23 808	145 974	104 053	3 324	392	61 823	-	-	-	71	235 392
Past due 61 - 90 days	9 685	34 553	20 861	621	-	11 201	-	-	-	-	56 060
Past due over 90 days	9 441	19 548	5 556	10 296	-	154 448	-	-	-	-	193 733
Total	**365 488**	**1 255 866**	**964 162**	**29 063**	**18 896**	**839 020**	**-**	**-**	**24 609**	**71**	**2 533 013**

31 December 2013	Individuals			Corporate entities					Public sector	Other receivables	Total - Loans and advances to customers
	Current accounts	Term loans	including: housing and mortgage loans	Current accounts	Term loans: corporate & institutional enterprises	Term loans: medium & small enterprises	Reverse repo / buy-sell-back transactions	Other			
Past due up to 30 days	316 856	924 349	722 009	10 058	7 644	438 088	-	-	26 667	-	1 723 662
Past due 31 - 60 days	31 433	155 514	116 847	4 542	4 609	151 076	-	-	-	-	347 174
Past due 61 - 90 days	11 304	41 670	31 349	1 323	-	11 070	-	-	-	-	65 367
Past due over 90 days	23 657	72 040	20 928	11 590	332	53 362	-	-	12 906	-	173 887
Total	**383 250**	**1 193 573**	**891 133**	**27 513**	**12 585**	**653 596**	**-**	**-**	**39 573**	**-**	**2 310 090**

Loans and advances individually impaired

Loans and advances individually impaired amounted to PLN 2 366 173 thousand (as at 31 December 2013: PLN 2 308 866 thousand). Gross amounts of loans and advances individually impaired (i.e., before taking into consideration the cash flows from collateral held and expected repayments) are presented below by classes of assets.

	Individuals			Corporate entities					Public sector	Other receivables	Total - Loans and advances to customers
	Current accounts	Term loans	including: housing and mortgage loans	Current accounts	Term loans: corporate & institutional enterprises	Term loans: medium & small enterprises	Reverse repo / buy-sell-back transactions	Other			
31 December 2014											
Loans and advances with impairment	934 466	1 933 958	1 391 010	379 655	259 112	1 401 861	-	5 561	-	-	**4 914 613**
Provisions for loans and advances with impairment	(539 544)	(788 893)	(496 287)	(335 978)	(181 480)	(697 127)	-	(5 418)	-	-	**(2 548 440)**
31 December 2013											
Loans and advances with impairment	746 024	1 612 797	1 209 635	368 679	270 256	1 354 113	-	71 848	-	-	**4 423 717**
Provisions for loans and advances with impairment	(388 617)	(608 010)	(411 346)	(215 575)	(170 440)	(677 545)	-	(54 664)	-	-	**(2 114 851)**

The Group is characterized by a conservative approach in the area of verification of collateral value and setting of acceptable LtV levels. The policy, in this respect, imposes particularly significant restrictions in case of transactions with probability of default higher than average (non-purpose loans and consolidation loans) and/or secured on low-liquid real estate (localized on not well developed markets).

Financial effect of collaterals

As at 31 December 2014	Gross amount	Provisions created	Provisions without cash flow from collaterals	Financial effect of collaterals
Balace sheet data				
Loans and advances to banks	**3 752 899**	**(1 484)**	**(1 484)**	**-**
Loans and advances to customers, including:	**77 373 191**	**(2 790 841)**	**(4 148 918)**	**1 385 297**
Loans to individuals:	41 560 477	(1 480 479)	(1 797 724)	317 245
− Current accounts	5 442 653	(593 854)	(614 931)	21 077
− Term loans, including:	36 117 824	(886 625)	(1 182 793)	296 168
housing and mortgage loans	30 510 513	(541 418)	(764 534)	223 116
Loans to corporate clients:	27 679 169	(1 281 773)	(2 349 790)	1 068 017
− Current accounts	3 701 490	(349 331)	(397 825)	48 494
− Term loans:	23 977 679	(932 442)	(1 951 965)	1 019 523
corporate & institutional enterprises	5 751 583	(193 948)	(280 510)	86 562
medium & small enterprises	18 226 096	(738 494)	(1 671 455)	932 961
Loans and advances to public sector	1 924 395	(1 369)	(1 404)	35
Total balance sheet data	**81 126 090**	**(2 792 325)**	**(4 150 402)**	**1 385 297**
Off-balance sheet data:				
Loan commitments and other commitments	19 883 402	(41 376)	(45 684)	4 308
Guarantees, banker's acceptances, documentary and commercial letters of credit	3 610 377	(8 237)	(11 773)	3 536
Total off-balance sheet data:	**23 493 779**	**(49 613)**	**(57 457)**	**7 844**

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As at 31 December 2013	Gross amount	Provisions created	Provisions without cash flow from collaterals	Financial effect of collaterals
Balace sheet data				
Loans and advances to banks	**3 471 530**	**(289)**	**(289)**	**-**
Loans and advances to customers, including:	**70 581 792**	**(2 371 407)**	**(3 737 661)**	**1 703 106**
Loans to individuals:	38 307 915	(1 154 563)	(1 486 116)	331 553
– Current accounts	4 978 854	(444 214)	(468 880)	24 666
– Term loans, including:	33 329 061	(710 349)	(1 017 236)	306 887
housing and mortgage loans	28 692 896	(469 223)	(671 645)	202 422
Loans to corporate clients:	25 152 990	(1 390 778)	(2 616 968)	1 226 190
– Current accounts	3 597 377	(234 414)	(321 643)	87 229
– Term loans:	21 076 873	(633 781)	(1 912 212)	1 278 431
corporate & institutional enterprises	5 115 320	(180 681)	(299 011)	118 330
medium & small enterprises	15 961 553	(453 100)	(1 613 201)	1 160 101
Loans and advances to public sector	2 177 976	(11 797)	(17 690)	5 893
Total balance sheet data	**74 053 322**	**(2 529 092)**	**(4 104 919)**	**1 703 106**
Off-balance sheet data:				
Loan commitments and other commitments	18 417 254	(34 720)	(58 792)	24 072
Guarantees, banker's acceptances, documentary and commercial letters of credit	3 188 247	(21 348)	(36 775)	15 427
Total off-balance sheet data:	**21 605 501**	**(56 068)**	**(95 567)**	**39 499**

23. Investment securities

	31.12.2014			31.12.2013		
	Investment securities without pledge	Pledged investment securities	Total investment securities	Investment securities without pledge	Pledged investment securities	Total investment securities
Debt securities	**22 270 938**	**5 146 060**	**27 416 998**	**19 303 219**	**5 766 038**	**25 069 257**
Issued by government	17 440 062	5 146 060	22 586 122	12 839 094	5 744 542	18 583 636
- government bonds	17 440 062	5 146 060	22 586 122	12 839 094	5 744 542	18 583 636
Issued by central bank	4 479 540	-	4 479 540	6 292 700	21 496	6 314 196
Other debt securities	351 336	-	351 336	171 425	-	171 425
- bank's bonds	24 907	-	24 907	25 136	-	25 136
- corporate bonds	284 854	-	284 854	107 906	-	107 906
- communal bonds	41 575	-	41 575	38 383	-	38 383
Equity securities:	**261 616**	**-**	**261 616**	**272 506**	**-**	**272 506**
Listed	229 961	-	229 961	229 617	-	229 617
Unlisted	31 655	-	31 655	42 889	-	42 889
Total debt and equity securities:	**22 532 554**	**5 146 060**	**27 678 614**	**19 575 725**	**5 766 038**	**25 341 763**
Short-term (up to 1 year)	**9 034 438**	**-**	**9 034 438**	**6 706 581**	**23 494**	**6 730 075**
Long-term (over 1 year)	**13 498 116**	**5 146 060**	**18 644 176**	**12 869 144**	**5 742 544**	**18 611 688**

Value of equity securities recognised at cost less impairment presented above includes provisions for impairment of PLN 12 007 thousand (31 December 2013: PLN 11 422 thousand).

As at 31 December 2014, listed equity securities include fair value of PZU shares in amount of PLN 229 961 thousand (31 December 2013 - PLN 212 430 thousand).

As at 31 December 2013, the carrying values of debt securities with fixed interest rates amounted to PLN 21 184 127 thousand and debt securities with variable interest rates PLN 6 232 871 thousand (31 December 2013: PLN 17 983 776 thousand and PLN 7 085 478 thousand).

The above note includes government bonds pledged under the Bank Guarantee Fund (BFG), investment government bonds pledged as sell-buy-back transactions and government bonds pledged as collateral for the loans received from the European Investment Bank and government bonds pledged as collateral for deposit placed by the client.

In accordance with the BFG Law of 14 December 1994, as at 31 December 2014 the Group held included in the statement of financial position government bonds and bills in the amount of PLN 410 712 thousand, at face value PLN 377 000 thousand (31 December 2013: fair value PLN 369 633 thousand; face value PLN 356 500 thousand), which were used as security under the Bank Guarantee Fund and they were deposited in a separate account respectively: money bonds at the National Bank of Poland and bonds at the National Depository of Securities.

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Gains and losses from investment securities include:

	Year ended 31 December	
	2014	2013
Sale/redemption of financial assets available for sale, investments in subsidiaries and associates	55 373	79 030
Impairment of investment securities	(3 447)	(452)
Total gains and losses from investment securities	**51 926**	**78 578**

In 2014, the item "Sale/redemption of financial assets available for sale, investments in subsidiaries and associates" includes profit on sale of government bonds in the amount of PLN 45 090 (in 2013: PLN 50 796 thousand).

Impairment of investment securities incudes the write-off of the carrying value of Transfinance a.s. assets to the fair value less costs to sale due to classification the subsidiary as non-current assets (disposal group) held for sale in the amount of PLN 2 737 thousand.

Moreover, this item includes profit on sale of equity securities in the amount of PLN 10 283 thousand.

Movements in investment securities

	31.12.2014	31.12.2013
Investment securities		
As at the beginning of the period	**25 341 763**	**19 993 388**
Exchange differences	18 860	(35 272)
Additions	331 433 043	434 054 540
Disposals (sale, redemption and forfeiture)	(329 435 421)	(428 478 060)
Gains / (losses) from impairment of equity securities and debt securities available for sale	(710)	(452)
Gains / (losses) from changes in fair value	321 079	(192 381)
As at the end of the period	**27 678 614**	**25 341 763**

Movements in provisions for losses on investment securities

	31.12.2014	31.12.2013
Provisions for losses on equity securities		
Listed		
As at the beginning of the period	**(125)**	**(125)**
Amounts written off during the period as uncollectible	125	-
As at the end of the period	**-**	**(125)**
Unlisted		
As at the beginning of the period	**(11 297)**	**(10 845)**
Allowance for impairment	(710)	(452)
As at the end of the period	**(12 007)**	**(11 297)**
Total provisions for investment securities		
As at the beginning of the period	**(11 422)**	**(10 970)**
Allowance for impairment	(710)	(452)
Amounts written off during the period as uncollectible	125	-
As at the end of the period	**(12 007)**	**(11 422)**

24. Assets and liabilities held for sale

On 8 December 2014, an agreement for the sale of 100% shares of Transfinance a.s. between mBank S.A. and UniCredit Bank Czech Republic and Slovakia a.s. (UniCredit) was concluded. The transaction was finalized on 20 January 2015, after the fullfilment of all contractual suspending conditions. The sale of Transfinance is the result of implementing the One Bank Strategy for 2012-2016 and is the last stage of restructuring of foreign factoring activities of the Group i.e. after the sale of Magyar Factor zRt and Intermarket Bank AG in 2011.

In accordance with the above mentioned, the Group classified Transfinance a.s. as non-current assets (disposal groups) held for sale as at 31 December 2014.

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On 11 September 2014, the Bank's subsidiary Aspiro S.A. ("Aspiro") being the shareholder of the company BRE Ubezpieczenia Towarzystwo Ubezpieczeń i Reasekuracji S.A. ("BRE TUiR"), concluded an agreement with Avanssur SA the company belonging to AXA Group for the sale of 100% shares in BRE TUiR ("Agreement on the Sale of Shares").

In accordance with the Agreement on the Sale of Shares, the sale of 100% of shares of BRE TUiR to Avanssur SA is conditioned by meeting specific conditions precedent, in particular: (i) obtain the consent of the Office of Competition and Consumer Protection and (ii) no objections raised by the Polish Financial Supervision Authority.

Therefore, starting from the financial statements as at 30 September 2014, the Group classified BRE TUiR and indirectly its subsidiary AWL I Sp. z o.o. as non-current assets (disposal groups) held for sale.

Below are presented financial data concerning non-current assets (disposal group) held for sale as at 31 December 2014.

Non-current assets held for sale	31.12.2014
Cash and balances with the Central Bank	18
Loans and advances to banks	86 838
Trading securities	122 677
Loans and advances to customers	289 969
Intangible assets	3 204
Tangible assets	831
Current income tax assets	804
Deferred income tax assets	1 092
Other assets	71 405
Total non-current assets held for sale	**576 838**

Liabilities held for sale	31.12.2014
Amounts due to other banks	85 994
Amounts due to customers	4 908
Other liabilities	45 836
Current income tax liabilities	4 048
Provisions	135 555
Total liabilities held for sale	**276 341**

The item "Provisions" entirely relates to technical insurance provisions in the BRE TUiR (see note below).

Technical insurance provisions

	31.12.2014	31.12.2013
Insurance provisions and reinsurance assets		
Insurance provisions gross, including:	236 199	179 892
- Provision for losses raised and costs of liquidation	30 702	22 221
- IBNR	105 627	93 644
- Provision for premiums	99 870	64 027
Insurance provisions gross, total	**236 199**	**179 892**
Reinsurer's share, including:		
- Provision for losses raised and costs of liquidation	22 563	16 328
- IBNR	47 155	42 883
- Provision for premiums	30 926	33 513
Reinsurer's share, total	**100 644**	**92 724**
Insurance provisions net, including		
- Provision for losses raised and costs of liquidation	8 139	5 893
- IBNR	58 472	50 761
- Provision for premiums	68 944	30 514
Insurance provisions net, total	**135 555**	**87 168**

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Financial data concerning cash-flow positions connected with non-current assets held for sale for the year ended on 31 December 2014.

	31.12.2014
Cash flow from operating activities	(72 335)
Cash flow from investing activities	(2 384)
Cash flow from financing activities	-

Activities of the company Transfinance a.s., until its sale by the Group, was included in the segment "Corporations and Financial Markets" in the sub-segment "Corporate and Investment Banking." The gross profit achieved by the company for 2014 and for 2013 year was respectively: PLN (18 887) thousand and PLN 3 249 thousand.

The activity of BRE Ubezpieczenia TUiR .SA. was included in the segment "Retail Banking (including private banking)." The gross profit achieved by the company for 2014 and for 2013 year was respectively: PLN 83 390 thousand and PLN 94 100 thousand.

25. Intangible assets

	31.12.2014	31.12.2013
Development costs	1	382
Goodwill	3 532	4 728
Patents, licences and similar assets, including:	361 214	343 802
- computer software	269 674	289 606
Other intangible assets	6 278	7 067
Intangible assets under development	94 601	99 366
Total intangible assets	**465 626**	**455 345**

In 2014 and 2013, the Group performed impairment tests of intangible assets under development and goodwill. As a result of the test, in 2014 the Group made an impairment provision of goodwill in the amount of PLN 1 196 thousand.

Movements in intangible assets

Movements in intangible assets from 1 January to 31 December 2014	Development costs	Acquired patents, licences and other similar assets		Other intangible assets	Intangible assets under development	Goodwill	Total intangible assets
			including: acquired computer software				
Gross value of intangible assets as at the beginning of the period: 01.01.2014	**5 537**	**876 331**	**696 619**	**26 177**	**99 366**	**4 728**	**1 012 139**
Increase (due to)	**-**	**129 712**	**64 440**	**95**	**93 313**	**-**	**223 120**
- purchase	-	41 977	4 936	83	67 368	-	109 428
- transfer from fixed assets under construction	-	192	9	-	-	-	192
- transfer from intangible assets under development	-	69 374	46 556	-	-	-	69 374
- development costs	-	-	-	-	14 968	-	14 968
- other increases	-	18 169	12 939	12	10 977	-	29 158
Decrease (due to)	**(5 313)**	**(19 668)**	**(13 205)**	**(3 902)**	**(98 078)**	**-**	**(126 961)**
- liquidation	-	(3 201)	(1 407)	-	-	-	(3 201)
- transfer to intangible assets given to use	-	-	-	-	(69 374)	-	(69 374)
- non-current assets held for sale	-	(8 482)	(8 482)	-	(1 636)	-	(10 118)
- other decreases	(5 313)	(7 985)	(3 316)	(3 902)	(27 068)	-	(44 268)
Gross value of intangible assets as at the end of the period: 31.12.20134	**224**	**986 375**	**747 854**	**22 370**	**94 601**	**4 728**	**1 108 298**
Accumulated amortization as at the beginning of the period: 01.01.2014	**(5 155)**	**(532 519)**	**(407 013)**	**(19 110)**	**-**	**-**	**(556 784)**
Amortization for the period (due to)	**4 932**	**(92 632)**	**(71 167)**	**3 018**	**-**	**-**	**(84 682)**
- amortization	(4)	(91 233)	(59 064)	(1 119)	-	-	(92 356)
- other increases	(1)	(22 325)	(19 724)	-	-	-	(22 326)
- liquidation	-	3 202	1 408	-	-	-	3 202
- non-current assets held for sale	-	4 558	4 558	-	-	-	4 558
- other decreases	4 937	13 166	1 655	4 137	-	-	22 240
Accumulated amortization as at the end of the period: 31.12.2014	**(223)**	**(625 151)**	**(478 180)**	**(16 092)**	**-**	**-**	**(641 466)**
Impairment losses as at the beginning of the period: 01.01.2014	**-**	**(10)**	**-**	**-**	**-**	**-**	**(10)**
- increase	-	-	-	-	-	(1 196)	(1 196)
Impairment losses as at the end of the period: 31.12.2014	**-**	**(10)**	**-**	**-**	**-**	**(1 196)**	**(1 206)**
Net value of intangible assets as at the end of the period: 31.12.2014	**1**	**361 214**	**269 674**	**6 278**	**94 601**	**3 532**	**465 626**

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Movements in intangible assets from 1 January to 31 December 2013	Development costs	Acquired patents, licences and other similar assets		Other intangible assets	Intangible assets under development	Goodwill	Total intangible assets
			including: acquired computer software				
Gross value of intangible assets as at the beginning of the period: 01.01.2013	**23 475**	**770 652**	**603 633**	**26 270**	**140 318**	**4 728**	**965 443**
Increase (due to)	**-**	**138 431**	**104 071**	**192**	**93 318**	**-**	**231 941**
- purchase	-	23 414	5 710	192	74 892	-	98 498
- transfer from fixed assets under construction	-	493	247	-	-	-	493
- transfer from intangible assets under development	-	113 129	96 744	-	-	-	113 129
- development costs	-	-	-	-	12 530	-	12 530
- other increases	-	1 395	1 370	-	5 896	-	7 291
Decrease (due to)	**(17 938)**	**(32 752)**	**(11 085)**	**(285)**	**(134 270)**	**-**	**(185 245)**
- liquidation	(17 938)	(28 146)	(7 992)	(283)	-	-	(46 367)
- transfer to intangible assets given to use	-	-	-	-	(113 129)	-	(113 129)
- other decreases	-	(4 606)	(3 093)	(2)	(21 141)	-	(25 749)
Gross value of intangible assets as at the end of the period: 31.12.2013	**5 537**	**876 331**	**696 619**	**26 177**	**99 366**	**4 728**	**1 012 139**
Accumulated amortization as at the beginning of the period: 01.01.2013	**(22 985)**	**(488 026)**	**(374 876)**	**(18 302)**	**-**	**-**	**(529 313)**
Amortization for the period (due to)	**17 830**	**(44 493)**	**(32 137)**	**(808)**	**-**	**-**	**(27 471)**
- amortization	(108)	(76 497)	(42 972)	(1 091)	-	-	(77 696)
- liquidation	17 938	28 138	7 984	283	-	-	46 359
- other decreases	-	3 866	2 851	-	-	-	3 866
Accumulated amortization as at the end of the period: 31.12.2013	**(5 155)**	**(532 519)**	**(407 013)**	**(19 110)**	**-**	**-**	**(556 784)**
Impairment losses as at the beginning of the period: 01.01.2013	**-**	**(7)**	**(7)**	**-**	**-**	**-**	**(7)**
- increase	-	(10)	-	-	-	-	(10)
- decrease	-	7	7	-	-	-	7
Impairment losses as at the end of the period: 31.12.2013	**-**	**(10)**	**-**	**-**	**-**	**-**	**(10)**
Net value of intangible assets as at the end of the period: 31.12.2013	**382**	**343 802**	**289 606**	**7 067**	**99 366**	**4 728**	**455 345**

26. Tangible assets

	31.12.2014	31.12.2013
Tangible assets, including:	644 774	672 519
- land	1 335	1 267
- buildings and structures	202 454	215 061
- equipment	116 923	147 926
- vehicles	225 322	190 017
- other fixed assets	98 740	118 248
Fixed assets under construction	72 603	37 033
Total tangible assets	**717 377**	**709 552**

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Movements in tangible assets

Movements in tangible assets from 1 January to 31 December 2014	Land	Buildings and structures	Equipment	Vehicles	Other fixed assets	Tangible assets under construction	Total
Gross value of tangible assets as at the beginning of the period: 01.01.2014	**1 267**	**356 197**	**589 388**	**321 877**	**414 012**	**37 213**	**1 719 954**
Increase (due to)	**91**	**2 972**	**41 499**	**128 729**	**18 230**	**62 675**	**254 196**
- purchase	-	471	24 220	92 054	4 662	55 751	177 158
- transfer from tangible assets under construction	-	543	10 731	61	12 997	-	24 332
- other increases	91	1 958	6 548	36 614	571	6 924	52 706
Decrease (due to)	**(23)**	**(2 017)**	**(52 772)**	**(124 544)**	**(13 364)**	**(27 105)**	**(219 825)**
- sale	-	-	(43 429)	(88 642)	(3 253)	-	(135 324)
- liquidation	-	(4)	(4 632)	(2)	(9 500)	-	(14 138)
- transfer to tangible assets	-	-	-	-	-	(24 332)	(24 332)
- transfer to intangible assets	-	-	-	-	-	(192)	(192)
- non-current assets held for sale	-	(638)	(1 695)	(678)	(179)	-	(3 190)
- other decreases	(23)	(1 375)	(3 016)	(35 222)	(432)	(2 581)	(42 649)
Gross value of tangible assets as at the end of the period: 31.12.2014	**1 335**	**357 152**	**578 115**	**326 062**	**418 878**	**72 783**	**1 754 325**
Accumulated depreciation as at the beginning of the period: 01.01.2014	**-**	**(91 866)**	**(441 462)**	**(131 860)**	**(295 633)**	**-**	**(960 821)**
Depreciation for the period (due to)	**-**	**(6 693)**	**(19 730)**	**31 145**	**(24 374)**	**-**	**(19 652)**
- depreciation charge	-	(7 233)	(49 319)	(55 496)	(36 037)	-	(148 085)
- other increases	-	(427)	(1 613)	(3)	(336)	-	(2 379)
- sale	-	-	22 981	58 984	3 238	-	85 203
- liquidation	-	-	4 542	2	8 249	-	12 793
- non-current assets held for sale	-	514	1 048	345	71	-	1 978
- other decreases	-	453	2 631	27 313	441	-	30 838
Accumulated depreciation as at the end of the period: 31.12.2014	**-**	**(98 559)**	**(461 192)**	**(100 715)**	**(320 007)**	**-**	**(980 473)**
Impairment losses as at the beginning of the period: 01.01.2014	**-**	**(49 270)**	**-**	**-**	**(131)**	**(180)**	**(49 581)**
- increase	-	(6 869)	-	(25)	-	-	(6 894)
Impairment losses as at the end of the period: 31.12.2014	**-**	**(56 139)**	**-**	**(25)**	**(131)**	**(180)**	**(56 475)**
Net value of tangible assets as at the end of the period: 31.12.2014	**1 335**	**202 454**	**116 923**	**225 322**	**98 740**	**72 603**	**717 377**

Movements in tangible assets from 1 January to 31 December 2013	Land	Buildings and structures	Equipment	Vehicles	Other fixed assets	Tangible assets under construction	Total
Gross value of tangible assets as at the beginning of the period: 01.01.2013	**1 175**	**354 336**	**563 252**	**330 624**	**416 971**	**40 531**	**1 706 889**
Increase (due to)	**153**	**3 132**	**44 566**	**59 367**	**25 107**	**38 597**	**170 922**
- purchase	-	447	26 122	54 512	2 756	35 224	119 061
- transfer from tangible assets under construction	-	1 691	16 031	-	22 226	-	39 948
- other increases	153	994	2 413	4 855	125	3 373	11 913
Decrease (due to)	**(61)**	**(1 271)**	**(18 430)**	**(68 114)**	**(28 066)**	**(41 915)**	**(157 857)**
- sale	-	(702)	(2 938)	(63 897)	(2 281)	-	(69 818)
- liquidation	-	(177)	(14 820)	-	(24 784)	-	(39 781)
- transfer to tangible assets	-	-	-	-	-	(39 948)	(39 948)
- transfer to intangible assets	-	-	-	-	-	(493)	(493)
- other decreases	(61)	(392)	(672)	(4 217)	(1 001)	(1 474)	(7 817)
Gross value of tangible assets as at the end of the period: 31.12.2013	**1 267**	**356 197**	**589 388**	**321 877**	**414 012**	**37 213**	**1 719 954**
Accumulated depreciation as at the beginning of the period: 01.01.2013	**-**	**(85 293)**	**(400 472)**	**(118 134)**	**(276 734)**	**-**	**(880 633)**
Depreciation for the period (due to)	**-**	**(6 573)**	**(40 990)**	**(13 726)**	**(18 899)**	**-**	**(80 188)**
- depreciation charge	-	(7 319)	(58 373)	(57 071)	(39 225)	-	(161 988)
- other increases	-	-	(192)	-	(1 230)	-	(1 422)
- sale	-	693	2 672	40 632	2 090	-	46 087
- liquidation	-	21	14 198	-	18 793	-	33 012
- other decreases	-	32	705	2 713	673	-	4 123
Accumulated depreciation as at the end of the period: 31.12.2013	**-**	**(91 866)**	**(441 462)**	**(131 860)**	**(295 633)**	**-**	**(960 821)**
Impairment losses as at the beginning of the period: 01.01.2013	**-**	**(49 270)**	**(207)**	**-**	**(2 695)**	**(180)**	**(52 352)**
- decrease	-	-	207	-	2 564	-	2 771
Impairment losses as at the end of the period: 31.12.2013	**-**	**(49 270)**	**-**	**-**	**(131)**	**(180)**	**(49 581)**
Net value of tangible assets as at the end of the period: 31.12.2013	**1 267**	**215 061**	**147 926**	**190 017**	**118 248**	**37 033**	**709 552**

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The recoverable value of impaired tangible assets is the net sale price determined on the basis of market prices for similar assets.

As part of its activities as a lessor, the mBank Group presents within tangible assets those assets which are leased to third parties under operating lease agreements. The table below presents future minimum lease payments under non-cancellable operating lease agreements with the Group as a lessor.

	31.12.2014	31.12.2013
Minimum lease payments under non-cancellable operating lease		
Up to 1 year	46 662	48 985
Over 1 year up to 5 years	50 895	59 256
Over 5 years	-	5
Total	**97 557**	**108 246**

The Group presents depreciation of tangible assets leased under operating lease agreements as net income from operating lease (Note 10).

27. Other assets

	31.12.2014	31.12.2013
Other, including:	**794 964**	**952 236**
- debtors	176 599	237 188
- interbank balances	2 726	3 306
- other accruals	73 358	66 575
- accrued income	46 588	39 188
- inventories	303 392	355 942
- receivables resulting from insurance premiums	-	27 921
- other	192 301	222 116
Total other assets	**794 964**	**952 236**
Short-term (up to 1 year)	473 489	643 472
Long-term (over 1 year)	321 475	308 764

The value of inventories results primarily from the business of the companies: mLocum and mLeasing.

Throughout the year 2014 and 2013, the Group did not capitalize borrowing costs.

As at 31 December 2014, other assets in amount of PLN 196 670 thousand include receivables of Dom Maklerski from the National Depository of Securities in amount of PLN 115 514 thousand (31 December 2013: PLN 134 328 thousand).

As at 31 December 2014, the above note includes financial assets in amount of PLN 294 839 thousand (31 December 2013: PLN 402 743 thousand).

	31.12.2014	31.12.2013
Gross other financial assets, including:	**310 418**	**418 472**
- Not past due	303 131	401 681
- Past due over 90 days	7 287	16 791
- Provisions for impaired assets (negative amount)	(15 579)	(15 729)
Net other financial assets	**294 839**	**402 743**

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28. Amounts due to other banks

	31.12.2014	31.12.2013
Current accounts	684 644	1 458 250
Term deposits	10 084	475 510
Loans and advances received	11 345 217	14 692 269
Repo / sell-buy-back transactions	1 124 586	2 391 742
Liabilities in respect of cash collaterals	172 838	166 958
Payables to be settled	2 739	2 915
Other	43 721	36 538
Amounts due to other banks	**13 383 829**	**19 224 182**
Short-term (up to 1 year)	5 121 501	8 432 484
Long-term (over 1 year)	8 262 328	10 791 698

As at 31 December 2014, the fixed rate term deposits accepted from other banks amounted to PLN 10 084 thousand (31 December 2013: PLN 475 510 thousand). In both periods, there were no variable rate term deposits.

As at 31 December 2014 and as at 31 December 2013, loans and advances received, were variable rate loans.

The average interest rate for loans and deposits obtained from banks in 2014 amounted to 1.25% (31 December 2013: 1.31%).

mBank S.A. did not provide collateral related to loans from other banks. The Group did not note any violations of contractual terms related to liabilities in respect of loans received.

29. Amounts due to customers

	31.12.2014	31.12.2013
Individual customers:	**39 284 776**	**34 203 119**
Current accounts	27 974 843	24 260 502
Term deposits	11 202 722	9 889 000
Other liabilities:	107 211	53 617
- liabilities in respect of cash collaterals	19 357	24 566
- other	87 854	29 051
Corporate customers:	**32 237 087**	**26 752 869**
Current accounts	13 516 365	12 849 839
Term deposits	11 128 087	6 434 108
Loans and advances received	3 218 105	2 100 331
Repo transactions	3 738 058	4 629 955
Other liabilities:	636 472	738 636
- liabilities in respect of cash collaterals	492 975	433 438
- other	143 497	305 198
Public sector customers:	**900 616**	**717 539**
Current accounts	627 765	579 319
Term deposits	250 263	129 981
Repo transactions	12 951	-
Other liabilities:	9 637	8 239
- liabilities in respect of cash collaterals	125	137
- other	9 512	8 102
Total amounts due to customers	**72 422 479**	**61 673 527**
Short-term (up to 1 year)	67 174 957	57 590 020
Long-term (over 1 year)	5 247 522	4 083 507

As at 31 December 2014, the majority of the deposits from retail and corporate customers bore fixed interest rates. The average interest rate for amounts due to customers (excluding repos) amounted to 1.50% (31 December 2013: 2.02%).

As at 31 December 2014, the balance of loans and advances received included a loan received from European Investment Bank amounting to PLN 3 218 105 thousand (31 December 2013: PLN 2 100 331 thousand). The loan was collateralized with treasury bonds, which have been presented as pledged assets under Note 23 and Note 37 .

30. Debt securities in issue

As at 31 December 2014

Debt securities in issue by category	Nominal value	Contractual interest rate	Guarantee/collateral	Redemption date	Carrying value
Short-term issues	**2 978 911**				**2 994 568**
Bonds (in PLN)	50 000	3.31%	no collateral	16-03-2015	50 072
Mortgage bonds (in PLN)	78 611	3.03%	mortgage bond register	15-05-2015	78 799
Mortgage bonds (in PLN)	100 000	3.56%	mortgage bond register	07-07-2015	101 695
Mortgage bonds (in PLN)	57 150	3.99%	mortgage bonds publicly registered	28-07-2015	57 911
Mortgage bonds (in PLN)	100 000	3.66%	mortgage bond register	28-09-2015	100 891
Bonds (in EUR)	2 131 150	2.75%	guarantee	12-10-2015	2 141 691
Bonds (in PLN)	385 000	3.55%	no collateral	23-11-2015	386 423
Mortgage bonds (in PLN)	77 000	3.23%	mortgage bonds publicly registered	30-11-2015	77 086
Debt securities in issue by category	**Nominal value**	**Contractual interest rate**	**Guarantee/collateral**	**Redemption date**	**Carrying value**
Long-term issues	**7 331 869**				**7 347 174**
Mortgage bonds (in PLN)	145 700	3.15%	mortgage bond register	20-04-2016	146 237
Mortgage bonds (in PLN)	149 500	4.09%	mortgage bonds publicly registered	28-09-2016	150 879
Mortgage bonds (in PLN)	31 000	3.73%	mortgage bond register	15-11-2016	28 900
Mortgage bonds (in PLN)	172 750	3.30%	mortgage bond register	20-04-2017	173 521
Mortgage bonds (in PLN)	150 000	3.03%	mortgage bond register	16-06-2017	149 549
Bonds (in PLN)	42 623	2.08%	mortgage bond register	19-10-2017	42 745
Mortgage bonds (in EUR)	31 967	1.10%	mortgage bond register	15-02-2018	31 945
Mortgage bonds (in EUR)	103 900	3.74%	mortgage bond register	15-06-2018	103 369
Bonds (in CHF)	708 965	2.50%	guarantee	08-10-2018	710 272
Mortgage bonds (in EUR)	213 115	1.21%	mortgage bond register	22-10-2018	213 164
Mortgage bonds (in EUR)	85 246	1.12%	mortgage bond register	22-10-2018	85 000
Bonds (in CZK)	76 840	2.32%	guarantee	06-12-2018	76 963
Bonds (in PLN)	12 000	4.14%	no collateral	16-01-2019	11 745
Bonds (in PLN)	50 000	3.48%	no collateral	21-01-2019	49 669
Bonds (in EUR)	2 131 150	2.38%	guarantee	01-04-2019	2 155 147
Mortgage bonds (in PLN)	80 000	3.05%	mortgage bond register	21-06-2019	79 963
Mortgage bonds (in EUR)	213 115	0.95%	mortgage bond register	15-10-2019	212 724
Mortgage bonds (in EUR)	127 869	2.75%	mortgage bond register	28-07-2020	127 338
Mortgage bonds (in PLN)	2 131 150	2.00%	guarantee	26-11-2021	2 116 927
Bonds (in EUR)	291 700	3.62%	mortgage bond register	28-07-2022	294 906
Mortgage bonds (in PLN)	200 000	3.62%	mortgage bond register	20-02-2023	202 017
Mortgage bonds (in PLN)	34 098	3.50%	mortgage bond register	28-02-2029	34 407
Mortgage bonds (in EUR)	63 935	3.50%	mortgage bond register	15-03-2029	64 564
Mortgage bonds (in EUR)	85 246	3.20%	mortgage bond register	30-05-2029	85 223
Debt securities in issue (carrying value in PLN '000)					**10 341 742**

As at 31 December 2013

Debt securities in issue by category	Nominal value	Contractual interest rate	Guarantee/collateral	Redemption date	Carrying value
Short-term issues	**498 200**				**502 188**
Bonds (in PLN)	50 000	3.78%	no collateral	07-01-2014	50 445
Bonds (in PLN)	30 000	3.73%	no collateral	15-01-2014	30 238
Bonds (in PLN)	20 000	3.31%	no collateral	06-02-2014	19 867
Deposit certificates (in PLN)	30 000	3.30%	no collateral	21-02-2014	19 933
Bonds (in PLN)	9 900	3.20%	no collateral	28-02-2014	9 849
Bonds (in PLN)	20 000	3.45%	no collateral	12-03-2014	29 858
Bonds (in PLN)	1 600	3.60%	no collateral	17-03-2014	1 576
Bonds (in PLN)	500	3.63%	no collateral	15-04-2014	422
Bonds (in PLN)	15 000	3.58%	no collateral	15-07-2014	15 111
Bonds (in PLN)	30 000	3.60%	no collateral	06-10-2014	30 219
Mortgage bonds (in PLN)	25 000	4.05%	mortgage bond register	28-04-2014	25 174
Bonds (in PLN)	177 000	4.11%	mortgage bond register	28-07-2014	180 028
Bonds (in PLN)	89 200	3.94%	mortgage bond register	28-11-2014	89 468
Debt securities in issue by category	**Nominal value**	**Contractual interest rate**	**Guarantee/collateral**	**Redemption date**	**Carrying value**
Long-term issues	**4 888 773**				**4 899 868**
Mortgage bonds (in PLN)	78 611	3.70%	mortgage bond register	15-05-2015	78 875
Mortgage bonds (in PLN)	100 000	3.59%	mortgage bond register	07-07-2015	101 613
Mortgage bonds (in PLN)	57 150	4.01%	mortgage bonds publicly registered	28-07-2015	57 992
Mortgage bonds (in PLN)	100 000	4.07%	mortgage bond register	28-09-2015	100 921
Bonds (in EUR)	2 073 600	2.75%	guarantee	12-10-2015	2 080 773
Bonds (in PLN)	450 000	4.22%	no collateral	23-11-2015	451 296
Mortgage bonds (in PLN)	77 000	3.88%	mortgage bonds publicly registered	30-11-2015	77 155
Mortgage bonds (in PLN)	145 750	3.85%	mortgage bond register	20-04-2016	146 515
Mortgage bonds (in PLN)	149 500	4.50%	mortgage bonds publicly registered	28-09-2016	150 915
Mortgage bonds (in PLN)	31 000	4.40%	mortgage bond register	15-11-2016	27 972
Mortgage bonds (in PLN)	172 750	4.00%	mortgage bond register	20-04-2017	173 657
Mortgage bonds (in PLN)	150 000	3.68%	mortgage bond register	16-06-2017	149 537
Mortgage bonds (in EUR)	41 472	2.24%	mortgage bond register	19-10-2017	41 580
Mortgage bonds (in PLN)	98 900	4.39%	mortgage bond register	15-06-2018	98 524
Bonds (in CHF)	675 660	2.50%	guarantee	08-10-2018	676 227
Mortgage bonds (in EUR)	207 360	1.35%	mortgage bond register	22-10-2018	207 085
Bonds (in CZK)	75 604	2.32%	guarantee	06-12-2018	75 725
Mortgage bonds (in PLN)	80 000	3.70%	mortgage bond register	21-06-2019	79 973
Mortgage bonds (in EUR)	124 416	2.75%	mortgage bond register	28-07-2020	123 533
Debt securities in issue (carrying value in PLN '000)					**5 402 056**

The Group did not note any violations of contractual terms related to liabilities in respect of issued debt securities.

Issues in 2014

On 20 November 2014, mFinance France S.A. (mFF), a subsidiary of the Bank issued Eurobonds with a nominal value of EUR 500 000 thousand (PLN 2 107 750 thousand at the average exchange rate of the National Bank of Poland as at 20 November 2014) maturing in 2021. The funds coming from the issue in the amount of EUR 495 916 thousand (PLN 2 089 265 thousand at the average exchange rate of the National Bank of Poland as at 20 November 2014), were placed by mFF in mBank as a security deposit to back the guarantee issued by the Bank to secure payment of any amounts payable on debt securities issued under Eurobond Issue Programme.

On 24 March 2014, mFinance France S.A. issued Eurobonds with a nominal value of EUR 500 000 thousand (equivalent to PLN 2 099 500 at the average exchange rate of the National Bank of Poland as at 24 March 2014) maturing in 2019. On 1 April 2014, the funds raised from the issue in the amount of EUR 496 095, on the basis of the agreement concluded on 24 March 2014, were deposited in mBank S.A. by mFF as the security deposit for the guarantee of payment of all amounts to be paid in respect of the issued Eurobonds granted by mBank.

Issues in 2013

On 25 September 2013, mFinance France S.A. issued the next tranche of Eurobonds with a nominal value of CHF 200 000 thousand (PLN 685 500 thousand at the average exchange rate of the National

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Bank of Poland as at 25 September 2013) maturing on 8 October 2018. The settlement of the issue took place on 8 October 2013.

On 8 October 2013, on the basis of the agreement concluded on 25 September 2013, the funds coming from the issue in the amount of CHF 198 967 thousand (PLN 681 959 thousand at the average exchange rate of the National Bank of Poland as at 25 September 2013), were placed by mFF in mBank as a security deposit to back the guarantee issued by the Bank to secure payment of any amounts payable on debt securities issued under Eurobond Issue Programme.

On 22 November 2013, mFF issued the next tranche of Eurobonds with a nominal value of CZK 500 000 thousand (equivalent to PLN 77 100 at the average exchange rate of the National Bank of Poland as at 22 November 2013) maturing on 6 December 2018. The settlement of the issue took place on 6 December 2013.

On 6 December 2013, the funds raised from the issue in the amount of CZK 500 000 thousand, on the basis of the agreement concluded on 22 November 2013, were deposited by mFF in mBank S.A. as the security deposit to back the guarantee in amount of CZK 500 000 to secure the payment obligations from the Eurobonds.

Movements in debt securities in issue

	31.12.2014	31.12.2013
As at the beginning of the period	**5 402 056**	**4 892 275**
Additions (issue)	5 654 056	3 371 571
Disposals (redemption)	(1 090 158)	(3 141 380)
Disposals (partial repayment)	(37 994)	-
Exchange differences	195 375	25 682
Other changes	218 407	253 908
Debt securities in issue as at the end of the period	**10 341 742**	**5 402 056**

On 31 March 2014, the Bank made an early redemption of 650 bonds with a nominal value of PLN 65 000 thousand issued by mBank S.A. in November 2012 as part of the Bonds and Bank Securities Issue Programme.

As at 31 December 2014, the nominal value of receivables constituting collateral for the issue of mortgage covered bonds amounted to PLN 3 263 858 thousand (31 December 2013: PLN 2 404 717 thousand). According to legal requirements, the nominal value of mortgage covered bonds issued cannot exceed 60% of the value of the related real estate. At 31 December 2014, this amount in the register of collateral of mortgage bond amounted to PLN 2 653 030 thousand (31 December 2013: PLN 2 019 926 thousand). Both, as at 31 December 2014 and as at 31 December 2013, covered bonds were secured with receivables secured with mortgage entered as the first item in the land and mortgage register.

Additionally, as at 31 December 2014, the basis for the issue of mortgage bonds register were government bonds with a nominal value of PLN 160 000 thousand.

The value of receivables constituting collateral for the issue of public sector covered bonds amounted to PLN 421 805 thousand as at 31 December 2014 (31 December 2013: PLN 480 604 thousand).

Additionally, as at 31 December 2014, the basis for the issue of mortgage bonds publicly registered were government bonds with a nominal value of PLN 30 000 thousand.

Transactions regarding Bank's bonds included in subordinated liabilities have been described under Note 31 below.

31. Subordinated liabilities

SUBORDINATED LIABILITIES	Nominal value	Currency	Terms of interest rate (%)	Effective interest rate (%)	Redemption date	As at the end of the period (in PLN '000)
As at 31 December 2014						
- Commerzbank AG	400 000	CHF	3M LIBOR + 1.2%*	1.20	08.03.2017	1 419 015
- Commerzbank AG	80 000	CHF	3M LIBOR + 1.4%**	1.35	perpetual [1)]	283 683
- Commerzbank AG	70 000	CHF	3M LIBOR + 2.0%***	2.01	18.12.2017	248 307
- Commerzbank AG	170 000	CHF	3M LIBOR + 2.2%****	2.20	perpetual [1)]	605 697
- Commerzbank AG	90 000	CHF	3M LIBOR + 2.5%	2.45	24.06.2018	319 177
- Investors not associated with mBank S.A. Group	500 000	PLN	6M WIBOR + 2.25%	4.30	20.12.2023	500 664
- Investors not associated with mBank S.A. Group	750 000	PLN	6M WIBOR + 2.1%	4.15	17.01.2025	751 181
						4 127 724

SUBORDINATED LIABILITIES	Nominal value	Currency	Terms of interest rate (%)	Effective interest rate (%)	Redemption date	As at the end of the period (in PLN '000)
As at 31 December 2013						
- Commerzbank AG	400 000	CHF	3M LIBOR + 1.2%*	1.22	08.03.2017	1 366 332
- Commerzbank AG	80 000	CHF	3M LIBOR + 1.4%**	1.42	perpetual [1)]	273 591
- Commerzbank AG	120 000	CHF	3M LIBOR + 2.0%***	2.02	18.12.2017	412 355
- Commerzbank AG	170 000	CHF	3M LIBOR + 2.2%****	2.22	perpetual [1)]	584 340
- Commerzbank AG	90 000	CHF	3M LIBOR + 4.0%	4.02	perpetual [1)]	313 929
- Commerzbank AG	90 000	CHF	3M LIBOR + 2.5%	2.52	24.06.2018	310 331
- Investors not associated with mBank S.A. Group	500 000	PLN	6M WIBOR + 2.25%	4.95	20.12.2023	501 879
						3 762 757

* Margin amounting to 0.7% was in force for the period of first five years. From June 2012, margin amounting to 1.2% is in force.

** Margin amounting to 1.4% is in force up to December 2016. Within the period of next years it will be equal to 3.4%.

*** Margin amounting to 2.0% is in force from December 2012.

**** Margin amounting to 2.2% is in force up to January 2018. Within the period of next years it will be equal to 4.2%.

[1)] Debt securities become due on the initiative of the Bank no earlier than two years after the issue date or on the initiative of Commerzbank, not earlier than five years after the issue date, after obtaining the approval of the Polish Financial Supervision Authority.

The effective interest rate specified in the tables above is the interest rate at the inception day of the last interest period.

On 17 December 2014 the Bank issued subordinated bonds with a total nominal value of PLN 750 000 thousand, 7 500 subordinated bonds with a nominal value of PLN 100 000 each. The redemption date of the subordinated bonds is 17 January 2025. The Bank applied to the Polish Financial Supervision Authority in accordance with Article 127, item 3, point 2, letter b) of the Banking Law, for approval to subject the financial liabilities in the amount of PLN 750 000 thousand obtained from the above mentioned issue into the Bank's supplementary capital and obtained the consent on 8 January 2015. As at 31 December 2014, these bonds were not included in the Bank's and Group's own funds.

In 2014 and in 2013, the Group did not note any delays in repayments of interest instalments and was not in default of any other contractual provisions related to its subordinated liabilities.

Subordinated liabilities include the amount of issued subordinated debt securities with an indefinite maturity term. In the calculation of the capital adequacy ratio the funds raised through these issues were included in the Bank's own funds calculation. The Bank received the approvals of Polish Financial Supervision Authority (KNF) for the inclusion of the funds obtained from the issues into the Group's supplementary capital.

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On 3 December 2013, the Bank issued subordinated bonds with a total nominal value of PLN 500 000 thousand. The Bank applied to the Polish Financial Supervision Authority in accordance with Article 127, item 3, point 2, letter b) of the Banking Law, for approval to subject the financial liabilities in the amount of PLN 500 000 thousand obtained from the above mentioned issue into the Group's supplementary capital and received the consent on 14 February 2014. As at 31 December 2013, these bonds were not included in the Group's own funds.

On 24 March 2014, the bonds with undefined maturity date, issued on 24 June 2008 in the amount of CHF 90 000 thousand CHF (equivalent of PLN 310 032 thousand at the rate from 24 March 2014), was prepaid by mBank S.A. The consent for the prepayment was obtained from Polish Financial Supervision Authority (KNF). As at 31 December 2013, amount acquired from the issue according to the decision of KNF, was included in Tier2 of Bank' own funds. The prepayment of the issue did not have significant impact on the calculation of mBank S.A. and mBank S.A. Group total capital ratio under the regulations effective from 1 January 2014 (rules based on "Basel III").

On 18 June 2014 mBank SA made a partial repayment of the subordinated loan taken on 18 December 2007 in the amount of CHF 120 000 thousand with the maturity date on 18 December 2017. Partial payment has been made in the amount of CHF 50 000 thousand (equivalent to PLN 170 090 thousand at the exchange rate of 18 June 2014).

Movements in subordinated liabilities

	31.12.2014	31.12.2013
As at the beginning of the period	**3 762 757**	**3 222 295**
Additions (issue)	750 000	500 000
Disposals (repayment)	(480 122)	-
Exchange differences	133 121	(4 940)
Other changes	(38 032)	45 402
Subordinated liabilities as at the end of the period	**4 127 724**	**3 762 757**

Short-term (up to 1 year)	6 560	50 237
Long-term (over 1 year)	4 121 164	3 712 520

32. Other liabilities

	31.12.2014	31.12.2013
Other liabilities, including		
- tax liabilities	24 819	37 948
- interbank settlements	425 309	384 736
- creditors	323 815	273 834
- accrued expenses	160 502	137 411
- deferred income	111 711	136 652
- reinsurance liabilities	-	34 834
- provisions for post-employment employee benefits	12 012	9 015
- provisions for holiday equivalents	24 581	24 513
- provisions for other employee benefits	165 703	155 432
- other	101 202	73 297
Total other liabilities	**1 349 654**	**1 267 672**

As at 31 December 2014, the presented note includes financial liabilities of PLN 909 626 thousand (as at 31 December 2013: PLN 830 815 thousand). Cash flows resulting from those financial liabilities are presented under the Note 3.10.1. The other components of presented liabilities, except for part of accrual of pension benefits that were calculated on actuarial basis, as a rule, are short term liabilities.

Due to reclassification of BRE Ubezpieczenia TUiR S.A. as non-current assets (disposal group) held for sale, the reinsurance liabilities have been included under Note 24.

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Movements in provisions for post-employment employee benefits

	31.12.2014	31.12.2013
Provisions for post-employment employee benefits		
As at the beginning of the period (by type)	**9 015**	**7 536**
pension and disability provisions	4 878	4 005
provisions for death severance	2 635	2 248
provisions for Social Benefit Fund	1 502	1 283
Change in the period (due to)	**2 997**	**1 479**
Provisions created, due to:	**616**	**1 083**
pension and disability provisions	421	930
provisions for death severance	148	74
provisions for Social Benefit Fund	47	79
Interest expense, due to:	**417**	**309**
pension and disability provisions	238	154
provisions for death severance	112	93
provisions for Social Benefit Fund	67	62
Actuarial gains and losses recognised in other comprehensive income (Note 16), due to:	**2 352**	**875**
pension and disability provisions	1 153	420
provisions for death severance	529	219
provisions for Social Benefit Fund	670	236
Reduction / elimination of the plan, due to:	**(1)**	**(31)**
pension and disability provisions	(1)	(31)
Benefits paid, due to:	**(387)**	**(757)**
pension and disability provisions	(189)	(600)
provisions for death severance	(38)	1
provisions for Social Benefit Fund	(160)	(158)
As at the end of the period (by type)	**12 012**	**9 015**
pension and disability provisions	6 500	4 878
provisions for death severance	3 386	2 635
provisions for Social Benefit Fund	2 126	1 502
Short-term (up to 1 year)	**1 032**	**865**
pension and disability provisions	794	632
provisions for death severance	194	190
provisions for Social Benefit Fund	44	43
Long-term (over 1 year)	**10 980**	**8 150**
pension and disability provisions	5 706	4 245
provisions for death severance	3 192	2 446
provisions for Social Benefit Fund	2 082	1 459

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	31.12.2014	31.12.2013
Breakdown of actuarial gains and losses		
Change in financial assumptions, due to:	**1 678**	**(7)**
pension and disability provisions	774	(7)
provisions for death severance	424	-
provisions for Social Benefit Fund	480	-
Change in demographic assumptions, due to:	**332**	**26**
pension and disability provisions	93	182
provisions for death severance	204	(163)
provisions for Social Benefit Fund	35	7
Other changes, due to:	**342**	**856**
pension and disability provisions	286	245
provisions for death severance	(99)	382
provisions for Social Benefit Fund	155	229

33. Provisions

	31.12.2014	31.12.2013
For off-balance sheet granted contingent liabilities *	49 613	56 068
For legal proceedings	96 933	56 275
Technical-insurance provisions	-	87 168
Other	30 335	28 717
Total provisions	**176 881**	**228 228**

* includes valuation of financial guarantees

In connection with the qualification of BRE Ubezpieczenia TUiR S.A. as non-current assets (disposal groups) information on the technical-insurance provisions are presented in Note 24.

Estimated dates of granted contingent liabilities realisation are presented in Note 36.

The estimated cash flow due to created provisions for legal proceedings and other provisions is expected to crystalise over 1 year.

Movements in the provisions

	31.12.2014	31.12.2013
As at the beginning of the period (by type)	**228 228**	**213 327**
For off-balance sheet granted contingent liabilities	56 068	46 462
For legal proceedings	56 275	47 204
Technical-insurance provisions	87 168	84 512
Other	28 717	35 149
Change in the period (due to)	**(51 347)**	**14 901**
- increase of provisions, due to:	254 601	151 374
for off-balance-sheet granted contingent liabilities (Note 13)	144 061	118 169
for legal proceedings	51 705	29 199
technical-insurance provisions	48 387	2 656
other	10 448	1 350

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- release of provisions, due to:	(151 067)	(115 307)
for off-balance-sheet granted contingent liabilities (Note 13)	(150 716)	(108 594)
for legal proceedings	(351)	(2 190)
other	-	(4 523)
- write-offs	(19 548)	(20 942)
- utilization	-	(150)
- reclassification to non-current assets held for sale	(135 555)	-
- foreign exchange differences	222	(74)
As at the end of the period (by type)	**176 881**	**228 228**
For off-balance sheet granted contingent liabilities	49 613	56 068
For legal proceedings	96 933	56 275
Technical-insurance provisions	-	87 168
Other	30 335	28 717

Provisions for off-balance sheet granted contingent liabilities

	31.12.2014	31.12.2013
Incurred but not identified losses		
Off-balance sheet contingent liabilities	23 435 879	21 542 323
Provisions for off-balance sheet contingent liabilities analysed according to portfolio approach (negative amount)	(27 693)	(24 927)
Net off-balance sheet contingent liabilities	**23 408 186**	**21 517 396**

Off-balance sheet granted contingent liabilities with impairment		
Off-balance sheet contingent liabilities	57 900	63 178
Provisions for off-balance sheet contingent liabilities analysed individually (negative amount)	(21 920)	(31 141)
Net off-balance sheet contingent liabilities	**35 980**	**32 037**

34. Assets and liabilities for deferred income tax

Assets and liabilities for deferred income tax are calculated for all temporary differences in accordance with the balance sheet method, using an effective income tax rate of 19% in 2014 and 2013.

Assets and liabilities for deferred income tax are not recognised as short term assets and liabilities.

Changes in assets and liabilities for deferred income tax are presented below.

Deferred income tax assets	As at 01.01.2014	Recognised in the income statement	Recognised in other comprehensive income	Other changes	As at 31.12.2014
Interest	105 053	(28 198)	-	-	**76 855**
Valuation of derivative financial instruments	27 103	(24 504)	-	-	**2 599**
Valuation of investment securities	9 058	15 349	-	(387)	**24 020**
Provisions for impairment of loans and advances	194 482	39 704	-	-	**234 186**
Provisions for employee benefits	33 548	2 657	447	(352)	**36 300**
Other provisions	8 830	1 434	-	(1 416)	**8 848**
Prepayments/accruals	23 730	2 965	-	(1 060)	**25 635**
Tax losses carried forward	16 245	(9 800)	-	-	**6 445**
Differences between carrying and tax value of lease	118 806	38 998	-	-	**157 804**
Other negative temporary differences	77 497	(3 713)	(4)	(918)	**72 862**
Total deferred income tax assets	**614 352**	**34 892**	**443**	**(4 133)**	**645 554**

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Deferred income tax liabilities	As at 01.01.2014	Recognised in the income statement	Recognised in other comprehensive income	Other changes	As at 31.12.2014
Interest	(44 502)	(13 496)	-	-	**(57 998)**
Valuation of derivative financial instruments	(6 173)	(25 000)	(952)	-	**(32 125)**
Valuation of investment securities	(93 616)	(1 113)	(64 492)	848	**(158 373)**
Interest and fees received in advance	(35 767)	(4 844)	-	-	**(40 611)**
Difference between tax and book value of tangible and intangible assets	(34 613)	(12 546)	-	314	**(46 845)**
Prepayments regarding amortization of applied investment relief	(18 657)	-	-	-	**(18 657)**
Other positive temporary differences	(13 157)	(16 567)	4	1 406	**(28 314)**
Total deferred income tax liabilities	**(246 485)**	**(73 566)**	**(65 440)**	**2 568**	**(382 923)**

Deferred income tax assets	As at 01.01.2013	Recognised in the income statement	Recognised in other comprehensive income	Other changes	As at 31.12.2013
Interest	70 607	34 446	-	-	**105 053**
Valuation of derivative financial instruments	137 000	(109 897)	-	-	**27 103**
Valuation of investment securities	20 736	(11 678)	-	-	**9 058**
Provisions for impairment of loans and advances	222 228	(27 746)	-	-	**194 482**
Provisions for employee benefits	34 652	(1 270)	166	-	**33 548**
Other provisions	7 635	1 195	-	-	**8 830**
Prepayments/accruals	29 128	(5 398)	-	-	**23 730**
Tax losses carried forward	3 722	12 523	-	-	**16 245**
Differences between carrying and tax value of lease	116 104	2 702	-	-	**118 806**
Other negative temporary differences	95 541	(17 338)	-	(706)	**77 497**
Total deferred income tax assets	**737 353**	**(122 461)**	**166**	**(706)**	**614 352**

Deferred income tax liabilities	As at 01.01.2013	Recognised in the income statement	Recognised in other comprehensive income	Other changes	As at 31.12.2013
Interest	(50 461)	5 959	-	-	**(44 502)**
Valuation of derivative financial instruments	-	(6 173)	-	-	**(6 173)**
Valuation of investment securities	(162 623)	24 525	44 482	-	**(93 616)**
Interest and fees received in advance	(38 339)	2 572	-	-	**(35 767)**
Difference between tax and book value of tangible and intangible assets	(25 680)	(8 933)	-	-	**(34 613)**
Prepayments regarding amortization of applied investment relief	(18 657)	-	-	-	**(18 657)**
Other positive temporary differences	(52 073)	38 825	-	91	**(13 157)**
Total deferred income tax liabilities	**(347 833)**	**56 775**	**44 482**	**91**	**(246 485)**

Deferred income tax included in the income statement	31.12.2014	31.12.2013
Interest	(41 694)	40 405
Valuation of derivative financial instruments	(49 504)	(116 070)
Valuation of securities	14 236	12 847
Provisions for impairment of loans and advances	39 704	(27 746)
Provisions for employee benefits	2 657	(1 270)
Other provisions	1 434	1 195
Prepayments/accruals	2 965	(5 398)
Interest and fees received in advance	(4 844)	2 572
Difference between tax and book value of tangible and intangible assets	(12 546)	(8 933)
Differences between carrying and tax value of lease	38 998	2 702
Tax losses carried forward	(9 800)	12 523
Other temporary differences	(20 280)	21 487
Total deferred income tax included in the profit and loss account (Note 14)	**(38 674)**	**(65 686)**

In calculation of deferred tax asset the Group has taken into account tax losses incurred by foreign branch in Czech Republic in years 2009-2011, in the part in which they have been not settled in 2014. The tax losses incurred by foreign branch in Slovakia were not taken into account by the Bank in this calculation. Including losses of Czech branch and excluding losses of Slovak branch in deferred tax asset calculation resulted from assessment of the tax base in the current year and in the subsequent fiscal years (including the periods scheduled for settlement of tax losses), in the Czech Republic and Slovakia, respectively. On the basis of adopted financial projections and the level of tax base for 2014 it could be stated that in the case of: (i) losses of the Czech branch - reaching the tax base making it possible to deduct the tax losses or a higher tax base is probable, (ii) losses of the Slovak branch - reaching the tax base making it possible to offset negative temporary differences and deduct tax losses is not probable. Right to tax losses' settlement expires between 2015 and 2016 year.

Due to the improbability of occurrence of taxable income enabling to use tax losses incurred in Garbary Sp. z o.o. and BDH Development Sp. z o.o., the Group does not include those losses in the deferred tax asset calculation. The total amount of unused tax losses not included in the calculation of deferred tax assets amounted to PLN 67 823 thousand at the end of 31 December 2014 and PLN 67 380 thousand at the end of 31 December 2013. Right to tax losses' settlement expires between 2015 and 2019 year.

The Group recognizes deferred tax liabilities or assets related to temporary differences arising from investments in subsidiaries and associates except that the implementation of the temporary differences is controlled by the Group and it is probable that in the foreseeable future, these differences will not be reversed. At the end of 2014 the Group did not include settlements on temporary differences in the total amount of PLN 669 642 thousand incurred due to investments in subsidiaries and affiliated companies in deferred tax calculation and PLN 531 005 thousand at the end of 2013.

Deferred tax assets are recognised, because it is probable that future taxable profit will occur.

35. Proceedings before a court, arbitration body or public administration authority

As at 31 December 2014, the Bank was not involved in any proceedings before a court, arbitration body, or public administration authority concerning liabilities of the Bank or its subsidiaries, which represent at least 10% of the Bank's equity. Moreover, the total value of claims concerning liabilities of the Bank or its subsidiary in all proceedings before a court, an arbitration body or a public administration authority as at 31 December 2014 was also not higher than 10% of the Bank's equity.

The Bank monitors the status of all legal proceedings brought against the Bank and the level of required provisions.

Report on major proceedings brought against the Bank

1. Lawsuit brought by Bank BPH SA ('BPH') against Garbary Sp. z o.o. ('Garbary')

   BPH brought the case to court on 17 February 2005. The value of the dispute was estimated at PLN 42 854 thousand. The purpose was to cancel actions related to the creation of Garbary and the contribution in kind. The dispute focuses on determination of the value of the right to perpetual usufruct of land and related buildings that ZM Pozmeat SA contributed in kind to Garbary as payment for a stake in ZM Pozmeat SA share capital worth PLN 100 000 thousand. On 6 June 2006, the District Court in Poznań issued a verdict according to which the claims were dismissed in their entirety. The claimant filed an appeal against that verdict. On 6 February 2007, the Court of Appeal dismissed the claimant's appeal. The claimant filed the last resort appeal against the ruling of the Court of Appeal. On 2 October 2007, the Supreme Court revoked the ruling of the Court of Appeal and referred the case back. After re-examining the case, the Court of Appeal dismissed the ruling of the District Court in Poznań on 4 March 2008 and referred the case back. On 16 September 2010, the District Court in Poznań dismissed the claim in whole. On 19 October 2010, BPH filed an appeal against the ruling in question. On 24 February 2011, the Court of Appeal made a decision on revoking the ruling and discontinuance of proceedings involving Bank Pekao S.A. (the Bank entered in the proceedings as successor of BPH) justified by lack of title to bring the action before the court on the side of the Bank. The case was returned to the court of the first instance where it will be continued with the participation of BPH as the claimant. Bank Pekao SA filed the last resort appeal against the aforesaid decision with the Supreme Court. On 25 April 2012, the Supreme Court revoked the aforesaid decision of the Court of Appeal and referred the case back. On 9 April 2014 the Court of Appeal changed the ruling of the District Court and considered the activities connected with setting up Garbary company and contribution in kind as ineffective in relation to Bank Pekao S.A. The Bank filed an annulment appeal to the Supreme Court from above mentioned judgment.

2. Lawsuit brought by Bank BPH SA against the Bank and Tele-Tech Investment Sp. z o.o. ('TTI')

   On 17 November 2007, BPH brought to court a case for damages in the amount of PLN 34 880 thousand plus statutory interest from 20 November 2004 to the date of payment, due to alleged illegal actions such as the sale by ZM Pozmeat SA to TTI of all shares in the equity of Garbary Sp. z o.o. (previously Milenium Center Sp. z o.o.), an important part of its assets, while ZM Pozmeat SA was at risk of insolvency.

   In its reply to the claim, the Bank petitioned the Court for dismissing the claim on the grounds of there being no legal basis for allowing the claim. On 1 December 2009, the Court decided to suspend the case until the completion of Pozmeat's bankruptcy proceedings. On 26 January 2011, the court has decided to reinstate suspended proceedings due to the closing of the insolvency procedure. On 5 June 2012, the court once again decided to suspend the proceedings until the case filed by Bank BPH SA against Garbary Sp. z o.o. is finally settled.

3. Claims of clients of Interbrok

170 entities who were clients of Interbrok Investment E. Dróżdż i Spółka Spółka jawna (hereinafter referred to as Interbrok) called the Bank for amicable settlement in the total amount of PLN 385 520 thousand and via the District Court in Warsaw. In addition, 9 legal compensation suits have been delivered to the Bank. Eight of the nine suits where placed by former clients of Interbrok for the total amount of PLN 800 thousand with the reservation that the claims may be extended up to the total amount of PLN 5 950 thousand. Plaintiffs allege that the Bank aided in Interbrok's illegal activities, which caused damage to plaintiffs. The District Court in Warsaw settled 8 of the aforementioned court cases and dismissed actions in all cases. As a consequence of the Court of Appeal verdict on 4 March 2010, one of the judgments becomes final and valid. On 22 June 2011, the Supreme Court dismissed the plaintiff's cassation appeal in the said case. As far as the remaining cases are concerned, on 21 December 2010 and 17 January 2012, the Court of Appeals revoked the judgments of the District Court and remanded the cases to the District Court in Warsaw for re-examination. On 23 May 2013, the District Court in Warsaw upon re-examination of the case of 6 former clients of Interbrok dismissed actions for a total of PLN 600 thousand. The court case was in whole appealed against by all plaintiffs, whereas in relation to one plaintiff the appeal was rejected, and in relation to five plaintiffs the appeal was dismissed under the verdict of the Court of Appeal in Warsaw issued on 13 June 2014. In the 9th case the value of the subject of litigation amounts to PLN 275 423 thousand together with statutory interest and legal costs. The amount set forth in the petition is to cover the receivables, acquired by the Plaintiff by way of assignment, due to parties aggrieved by Interbrok on account of the reduction (as a result of Interbrok's bankruptcy) of the receivables by a return of the deposits paid by the aggrieved for making investments on the forex market. The Plaintiff claims the Bank's liability on the grounds of the Bank's aiding to commit the illicit act of Interbrok involving the pursuit of brokerage activity without a permit. At present, the case is being heard by the court of first instance.

In all court cases the Bank moves for dismissal of the claims in entirety and objects to charges raised in the legal suits. The legal analysis of the abovementioned claims indicates that there are not significant grounds to state that the Bank bears liability in the case.

4. Class action against mBank S.A.

On 4 February 2011, the Bank received a class action brought to the District Court in Łódź on 20 December 2010 by the Municipal Ombudsman who represents a group of 835 persons – retail clients of the Bank. The petitioners demand that a responsibility of the Bank is determined for improper performance of mortgage credit agreements. In particular, it was indicated that the Bank improperly applied provisions of the agreements concerning interest rates adjustment, namely that the Bank did not reduce interest rates on loans, although, according to the petitioners, it should have. The Bank rejects the above reasoning. On 18 February 2011, the Bank submitted a formal answer to the court, in which it applied for a dismissal of the claim as a whole.

On 6 May 2011, the District Court in Łódź decided to reject the application of mBank S.A. for dismissing the claim and decided that the case will proceed as a class action. On 13 June 2011, mBank S.A. lodged a complaint against this decision with the Court of Appeal in Łódź. On 28 September 2011, the Court of Appeal dismissed the complaint of mBank S.A. Currently, the case proceeds as a class action. The time for joining the class ended in March 2012. As at 17 October 2012, the approved class consisted of 1 247 members. Moreover, the District Court in Łódź ruled against setting up a cash deposit for mBank S.A. requested by the Bank. The Bank lodged a complaint against this ruling. On 29 November 2012, the Court of Appeal in Łódź dismissed the Bank's complaint about setting up the cash deposit. The ruling is valid and the Plaintiff is not obliged to pay the cash deposit. The final response to the petition was sent in January 2013, while the Plaintiff replied to it in a pleading filed on 15 February 2013. By a decision dated 18 February 2013, the District Court in Łódź decided to refer the case to mediation. In a letter dated 26 February 2013, the Municipal Consumer Ombudsman raised an objection to the mediation. On 22 June 2013, a trial was conducted, and on 3 July 2013, the Court announced its judgment in which it took into account the action in its entirety acknowledging that the Bank improperly performed the agreement whereby the consumers sustained a loss. On 9 September 2013, the Bank filed an appeal against the aforementioned verdict. Under the sentence of 30 April 2014, the Court of Appeal in Łódź dismissed the appeal of mBank, upholding the decision of the District Court expressed in the appealed verdict. The aforementioned verdict is legally valid, however, after having received its written justification, mBank lodged an annulment appeal to the Supreme Court. The annulment appeal was brought by mBank on 3 October 2014. On 7 October 2014 the Court of Appeal in Łódź ceased the enforceability of the judgement of District Court in Łódź until consideration of Bank's annulment appeal. On 18

February 2015, the Supreme Court received the annulment appeal filed by mBank. The date of the main court hearing has not been set.

As at 31 December 2014, the Bank was not involved in any proceedings before a court, arbitration body, or public administration authority concerning receivables of the Bank or its subsidiaries, which represent at least 10% of the Bank's equity. The total value of claims concerning receivables of the Bank or its subsidiaries in all proceedings before a court, an arbitration body or a public administration authority underway at 31 December 2014 was also not higher than 10% of the Bank's equity.

Taxes

On 9 December 2014 Director of the Treasury Control Office in Łódź (Urząd Kontroli Skarbowej w Łodzi) initiated audit proceedings in Aspiro S.A. concerning correctness of the settlement of value added tax for the year 2012. Audit proceedings are still pending.

Within the period from 18 November 2014 to 28 November 2014, Head of the Lodz Treasury Office in Łódź (Łódzki Urząd Skarbowy w Łodzi) carried out audit proceedings and tax audit in Aspiro S.A. concerning corectness of value added tax return for period from 1 July 2014 to 31 August 2014. The audit did not identify any relevant irregularities.

Within the period from 16 October 2014 to 4 November 2014, Director of the Treasury Control Office in Łódź (Urząd Kontroli Skarbowej w Łodzi) carried out audit proceedings and tax audit in mLocum S.A. concerning correctness of the settlement of the value added tax and corporate income tax for the year 2012. The audit did not identify any irregularities.

From 14 May 2014 to 4 June 2014, Director of the Treasury Office Poznan-Wilda (Urząd Skarbowy Poznań – Wilda) carried out tax audit in Garbary Sp. z o.o. concerning correctness of the settlements of the personal income tax, the corporate income tax and the value added tax for the year 2012. The audits did not identify any irregularities.

From 11 February 2014 to 4 April 2014, Director of the First Mazovian Treasury Office in Warsaw (Pierwszy Mazowiecki Urząd Skarbowy w Warszawie) carried out tax audit at the company mLeasing concerning correctness of the settlement of the value added tax for the fourth quarter of 2013. The audit did not identify any irregularities.

From 9 January 2014 to 7 February 2014, Director of the First Mazovian Treasury Office in Warsaw (Pierwszy Mazowiecki Urząd Skarbowy w Warszawie) carried out tax audit at the company BRE Ubezpieczenia Sp. z o.o. concerning correctness of the settlement of the value added tax for the third quarter of 2013. The audit did not identify any irregularities.

Within the period from 7 January 2013 to 5 December 2013, audit proceedings and tax audit concerning reliability of declared tax bases and correctness of calculation and payment of corporate income tax for the year 2007 were conducted in mBank S.A. by the workers of Treasury Control Office in Warsaw (Urząd Kontroli Skarbowej w Warszawie). The audit did not identify any material irregularities.

The tax authorities, may inspect at any time the books and records within 5 years subsequent to the reported tax year, and may impose additional tax assessments and penalties. The Management Board is not aware of any circumstances, which may give rise to a potential tax liability in this respect.

36. Off-balance sheet liabilities

Off-balance sheet liabilities of the Group comprise:

- Loan commitments

The amounts and deadlines by which the Group will be obliged to realise its off-balance sheet liabilities by granting loans or other monetary services are presented in the table below.

- Guarantees and other financial facilities

Guarantees are presented in the table below based on the earliest contractual maturity date.

- Operating lease liabilities

Where a company of the Group is a lessee, the minimum future lease payments as part of irrevocable operating lease agreements are presented in the table below.

The following table presents the Group's off-balance sheet commitments granted and received as well as nominal value of open positions of derivative transactions as at 31 December 2014 and 31 December 2013.

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	31.12.2014	Up to 1 year	1 - 5 years	Over 5 years	Total
I	**Contingent liabilities granted and received**	**21 045 084**	**3 148 607**	**1 064 279**	**25 257 970**
	Commitments granted	**20 137 683**	**2 697 004**	**764 386**	**23 599 073**
	1. Financing	17 907 669	1 527 842	538 455	19 973 966
	a) Loan commitments	17 883 271	1 446 946	538 455	19 868 672
	b) Operating lease commitments	24 398	80 896	-	105 294
	2. Guarantees and other financial facilities	2 215 614	1 168 832	225 931	3 610 377
	a) Banker's acceptances	8 998	-	-	8 998
	b) Guarantees and standby letters of credit	2 200 258	1 168 832	225 931	3 595 021
	c) Documentary and commercial letters of credit	6 358	-	-	6 358
	3. Other commitments	14 400	330	-	14 730
	Commitments received	**907 401**	**451 603**	**299 893**	**1 658 897**
	1. Financial commitments received	31 841	-	-	31 841
	2. Guarantees received	875 560	451 603	299 893	1 627 056
II	**Derivative financial instruments (nominal value of contracts)**	**389 808 426**	**320 238 073**	**44 130 546**	**754 177 045**
	1. Interest rate derivatives	336 245 647	298 811 916	42 316 818	677 374 381
	2. Currency derivatives	52 979 729	20 736 915	1 716 118	75 432 762
	3. Market risk derivatives	583 050	689 242	97 610	1 369 902
	Total off-balance sheet items	**410 853 510**	**323 386 680**	**45 194 825**	**779 435 015**

	31.12.2013	Up to 1 year	1 - 5 years	Over 5 years	Total
I	**Contingent liabilities granted and received**	**18 561 294**	**3 687 624**	**879 947**	**23 128 865**
	Commitments granted	**18 006 558**	**2 998 959**	**724 349**	**21 729 866**
	1. Financing	15 836 732	2 163 996	531 559	18 532 287
	a) Loan commitments	15 813 281	2 073 508	521 133	18 407 922
	b) Operating lease commitments	23 451	90 488	10 426	124 365
	2. Guarantees and other financial facilities	2 160 567	834 890	192 790	3 188 247
	a) Banker's acceptances	2 765	-	209	2 974
	b) Guarantees and standby letters of credit	2 035 596	828 110	192 581	3 056 287
	c) Guarantees of issues underwritten	35 000	-	-	35 000
	c) Documentary and commercial letters of credit	87 206	6 780	-	93 986
	3. Other commitments	9 259	73	-	9 332
	Commitments received	**554 736**	**688 665**	**155 598**	**1 398 999**
	1. Financial commitments received	3 375	207 360	-	210 735
	2. Guarantees received	551 361	481 305	155 598	1 188 264
II	**Derivative financial instruments (nominal value of contracts)**	**328 340 664**	**253 718 640**	**20 620 014**	**602 679 318**
	1. Interest rate derivatives	293 192 365	245 105 506	20 568 945	558 866 816
	2. Currency derivatives	33 809 749	8 517 321	12 190	42 339 260
	3. Market risk derivatives	1 338 550	95 813	38 879	1 473 242
	Total off-balance sheet items	**346 901 958**	**257 406 264**	**21 499 961**	**625 808 183**

The above operating lease liabilities relate to the lease of buildings.

The leasing agreement for the Bank's headquarters is the most important leasing agreement concluded by the Bank. According to the agreement, the leasing period ends on 30 June 2019. The agreement has been concluded for a definite period and, in principal, is not subject to early termination. The agreement provides for the possibility of purchasing the leased object upon a written application of the lessee at least 6 months and no more than 12 months prior to the termination of the leasing agreement, as well as the pre-emptive right under the conditions specified in the agreement. Under the agreement, the Bank shall ensure proper maintenance of the object of leasing.

The nominal values of derivatives are presented in Note 20.

As at 31 December 2014, apart from financial commitments granted by the Bank, the largest impact on the amount of financial commitments granted had commitments granted by mBank Hipoteczny and mFaktoring respectively in amount of PLN 1 085 818 thousand and PLN 1 044 410 thousand (31 December 2013 respectively: PLN 979 471 thousand and PLN 1 125 242 thousand).

37. Pledged assets

Assets may be pledged as collateral for repo/sell-buy-back transactions, derivatives contract with other banks. Collateral may be also placed due to stock market derivatives such as futures, options and participation in stock market.

Collateral may be placed in different form (e.g. cash, securities, pledged assets).

Similarly, customers establish collateral on their assets to secure the transaction with the Bank. If securities are subject to collateral (in buy-sell-back transaction) they can be re-pledged in the opposite transaction (sell-by-back).

Moreover the Bank accepts collaterals in the form of properties (esp. real estates) related to credit type transactions like mortgage loans, credit lines, banking guarantees.

The table below presents the breakdown of the measures possible to pledge by the main items of the statement of financial position of mBank Group, as at 31 December 2014. Treasury securities are the main component of the Group's liquidity collateral for the purpose of pledge.

31.12.2014

Position (PLN 000's)	Assets			Collateral received in kind of securities related with buy sell back transactions			Assets available for pledge (3+6)
	Total	Pledged	Eligible for pledge	Received	Reused	Available for pledge	
	1	2	3	4	5	6	7
Debt securities (Note 19 and 23) including:	**28 562 995**	**5 744 095**	**21 981 048**	**5 650 950**	**3 733 189**	**1 728 649**	**23 709 697**
- NBP bills	4 479 540	-	4 479 540	-	-	-	4 479 540
- Government bonds	23 204 028	5 744 095	17 459 933	5 650 950	3 733 189	1 728 649	19 188 582
- Mortgage bonds	-	-	-	-	-	-	-
- Other	879 427	-	41 575	-	-	-	41 575
Cash collaterals (due to derivatives transactions) (Note 18, 22)	581 376	581 376	-	-	-	-	-
Loans and advances to customers	74 582 350	3 660 577	-	-	-	-	-
Property collateral	-	-	-	-	-	-	-
Other assets	14 259 101	-	-	-	-	-	-
Total	**117 985 822**	**9 986 048**	**21 981 048**	**5 650 950**	**3 733 189**	**1 728 649**	**23 709 697**

31.12.2013

Position (PLN 000's)	Assets			Collateral received in kind of securities related with buy sell back transactions			Assets available for pledge (3+6)
	Total	Pledged	Eligible for pledge	Received	Reused	Available for pledge	
	1	2	3	4	5	6	7
Debt securities (Note 19 and 23) including:	**25 803 878**	**6 018 316**	**19 306 158**	**4 536 134**	**4 024 126**	**410 885**	**19 717 043**
- NBP bills	6 314 196	21 496	6 292 700	-	-	-	6 292 700
- Government bonds	18 971 895	5 996 820	12 975 075	4 536 134	4 024 126	410 885	13 385 960
- Mortgage bonds	-	-	-	-	-	-	-
- Other	517 787	-	38 383	-	-	-	38 383
Cash collaterals (due to derivatives transactions) (Note 18, 22)	334 757	334 757	-	-	-	-	-
Loans and advances to customers	72 422 479	2 854 890	-	-	-	-	-
Property collateral	-	-	-	-	-	-	-
Other assets	5 721 647	-	-	-	-	-	-
Total	**104 282 761**	**9 207 963**	**19 306 158**	**4 536 134**	**4 024 126**	**410 885**	**19 717 043**

In 2014, mBank Hipoteczny S.A. secured issued mortgage and public bonds with receivables obtained from loans and advances. As at 31 December 2014, the net carrying value of loans registered in the mortgage and public bonds register, presented above as pledged assets amounted to PLN 3 660 577 thousand (31 December 2013: PLN 2 854 890 thousand).

The value of treasury securities presented as pledged assets, except for collaterals due to sell-buy-back transactions, includes collateral of liabilities due to the loan received from the EIB, the security deposit placed by the client and funds guaranteed under the Bank Guarantee Fund (BFG).

38. Registered share capital

The total number of ordinary shares as at 31 December 2014 was 42 210 057 shares (31 December 2013: 42 174 013) at PLN 4 nominal value each (31 December 2013: PLN 4). All issued shares were fully paid up.

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REGISTERED SHARE CAPITAL (THE STRUCTURE) AS AT 31 DECEMBER 2014						
Share type	Type of preference	Type of restrictions	Number of shares	Series / issue value	Paid up	Year of registration
ordinary bearer*	-	-	9 982 500	39 930 000	fully paid in cash	1986
ordinary registered*	-	-	17 500	70 000	fully paid in cash	1986
ordinary bearer	-	-	2 500 000	10 000 000	fully paid in cash	1994
ordinary bearer	-	-	2 000 000	8 000 000	fully paid in cash	1995
ordinary bearer	-	-	4 500 000	18 000 000	fully paid in cash	1997
ordinary bearer	-	-	3 800 000	15 200 000	fully paid in cash	1998
ordinary bearer	-	-	170 500	682 000	fully paid in cash	2000
ordinary bearer	-	-	5 742 625	22 970 500	fully paid in cash	2004
ordinary bearer	-	-	270 847	1 083 388	fully paid in cash	2005
ordinary bearer	-	-	532 063	2 128 252	fully paid in cash	2006
ordinary bearer	-	-	144 633	578 532	fully paid in cash	2007
ordinary bearer	-	-	30 214	120 856	fully paid in cash	2008
ordinary bearer	-	-	12 395 792	49 583 168	fully paid in cash	2010
ordinary bearer	-	-	16 072	64 288	fully paid in cash	2011
ordinary bearer	-	-	36 230	144 920	fully paid in cash	2012
ordinary bearer	-	-	35 037	140 148	fully paid in cash	2013
ordinary bearer	-	-	36 044	144 176	fully paid in cash	2014
Total number of shares			**42 210 057**			
Total registered share capital				**168 840 228**		
Nominal value per share		4				

* As at the end of the reporting period

Commerzbank AG is a shareholder holding over 5% of the share capital and votes at the General Meeting and as at 31 December 2014 it held 69.54% of the share capital and votes at the General Meeting of mBank S.A.

In 2014, there were changes in the holding of material share packages of the Bank.

On 30 July 2014, the Bank received from Aviva Otwarty Fundusz Emerytalny Aviva BZ WBK ("Aviva OFE") notification of decreasing below 5% of the total number of votes at the General Meeting of mBank.

At the unchanged ownership of 2 108 826 shares of mBank before the admission to trading of 31 844 mBank shares of a new issue, the above number of shares represented 5.00% of the share capital (issued shares) mBank SA and entitled Aviva OFE to 5.00% of the total number of votes at the General Meeting of mBank.

Following the admission to trading of 31 844 shares of mBank, the Aviva OFE participation in the share capital of mBank decreased to 4.996%, which resulted in a parallel decrease in the total number of votes at the General Meeting of mBank to the level of 4,996%.

On 11 December 2014, the Bank received from ING Otwarty Fundusz Emerytalny (Fund) a notification that the total number of votes controlled at the General Meeting of mBank S.A. decreased below 5%.

Before the sale of shares the Fund held 2 126 430 shares of mBank, representing 5.04% of the share capital of mBank S.A. and entitled the Fund to 2 126 430 of votes at the General Meeting of mBank S.A.

On 10 December 2014, there were 2 085 679 shares of mBank S.A. at the Fund's securities account. It constitutes 4.94% of the Bank's share capital which entitles to exercise 2 085 679 votes at the General Meeting of mBank S.A.

In 2014, the National Depository of Securities (KDPW) has registered 36 044 shares of mBank S.A., which were issued as part of the conditional increase in the share capital of the Bank by issuance of shares with no subscription rights for the existing shareholders in order to enable beneficiaries of the incentive programmes to take up shares in mBank S.A. As a result of the above registration, in 2014 the Bank's share capital increased by PLN 144 176.

39. Share premium

Share premium is formed from the share premium obtained from the issue of shares reduced by the direct costs incurred with that issue. This capital is intended to cover all losses that may result from the business activity of the Bank.

The increase of share premium in 2014 and 2013 results from the issue of shares under incentive programmes described under Note 44.

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40. Retained earnings

Retained earnings include: other supplementary capital, other reserve capital, general banking risk reserve, profit (loss) from the previous year and profit for the current year.

Other supplementary capital, other reserve capital and general banking risk reserve are created from profit for the current year and their aim is described in the By-laws or in other regulations of the law.

	31.12.2014	31.12.2013
Other supplementary capital	4 413 825	4 118 312
Other reserve capital	101 252	100 057
General banking risk reserve	1 041 953	989 953
Profit from the previous year	126 118	(15 760)
Profit for the current year	1 286 668	1 206 375
Total retained earnings	**6 969 816**	**6 398 937**

According to the Polish legislation, each bank is required to allocate 8% of its net profit to a statutory undistributable other supplementary capital until this supplementary capital reaches 1/3 of the share capital.

In addition, the Group transfers some of its net profit to the general banking risk reserve to cover unexpected risks and future losses. The general banking risk reserve can be distributed only on consent of shareholders at a general meeting.

41. Other components of equity

	31.12.2014	31.12.2013
Exchange differences on translating foreign operations	**(1 765)**	**(2 010)**
Unrealized gains (positive differences)	2 519	17 153
Unrealized losses (negative differences)	(4 284)	(19 163)
Available-for-sale financial assets	**549 621**	**320 561**
Unrealized gains on debt instruments	507 630	198 266
Unrealized losses on debt instruments	(2 123)	(7 808)
Unrealized gains on equity instruments	177 439	169 890
Deferred income tax	(133 325)	(39 787)
Cash flow hedges	**4 056**	**-**
Unrealized gains	5 008	-
Deferred income tax	(952)	-
Actuarial gains and losses relating to post-employment benefits	**(2 389)**	**(484)**
Actuarial gains	26	321
Actuarial (losses)	(2 975)	(918)
Deferred income tax	560	113
Total other components of equity	**549 523**	**318 067**

42. Dividend per share

On 31 March 2014, the XXVII Ordinary General Meeting of mBank S.A. adopted a resolution regarding the distribution of the profit with the decision to pay a dividend for the year 2013. The dividend to the shareholders contributed an amount of PLN 716 984 486, wherein the amount of the dividend per one share was PLN 17. Number of shares eligible for dividend was 42 175 558. The dividend date was fixed for the 5th of May 2014. Payment of the dividend was on 19 May 2014.

43. Cash and cash equivalents

For the purpose of the statement of cash flows, the balance of cash and cash equivalents comprises the following balances with maturities shorter than 3 months.

	31.12.2014	31.12.2013
Cash and balances with the Central Bank (Note 17)	3 054 549	1 650 467
Loans and advances to banks (Note 18)	952 256	1 646 914
Trading securities (Note 19)	617 906	388 259
Cash and cash equivalents of subsidiaries classified as non-current assets (disposal groups) held for sale (note 24)	86 794	-
Total cash and cash equivalents	**4 711 505**	**3 685 640**

Below is presented the explanatory note to the statement of cash flows.

(PLN 000's)	Year ended 31 December	
	2014	2013
Loans and advances to banks - change in the balance of the statement of financial position	(280 174)	473 337
The difference between the interest accrued and paid in cash in the period	(28 035)	(31 749)
Exclusion of a change in the balance of cash and cash equivalents	(694 386)	(306 103)
Total change in loans and advances to banks	**(1 002 595)**	**135 485**
Trading securities - change in the balance of the statement of financial position	**(400 880)**	**387 822**
The difference between the interest accrued and paid in cash in the period	12 089	1 252
Exclusion of a change in the balance of cash and cash equivalents	316 213	(417 838)
Total change in trading securities	**(72 578)**	**(28 764)**
Derivative financial instruments - change in the balance of the statement of financial position	(256 591)	(563 859)
The difference between the interest accrued and paid in cash in the period	46 679	28 701
Valuation included in other comprehensive income	5 008	-
Total change in derivative financial instruments	**(204 904)**	**(535 158)**
Loans and advances to customers including hedge accounting adjustments related to fair value hedged items - change in the balance of the statement of financial position	(6 371 456)	(1 262 086)
The difference between the interest accrued and paid in cash in the period	(34 994)	(127 065)
Total change in loans and advances to customers	**(6 406 450)**	**(1 389 151)**
Investment securities - change in the balance of the statement of financial position	(2 336 851)	(5 348 375)
Valuation included in other comprehensive income	322 598	(208 865)
The difference between the interest accrued and paid in cash in the period	(266 404)	(191 439)
Exclusion of change in cash flows from financing activity	-	(650)
Exclusion of change in cash flows from investing activity	-	2 016
Impairment of investment securities	(3 447)	(472)
Total change in investment securities	**(2 284 104)**	**(5 747 785)**
Changes in other assets - change in the balance of the statement of financial position	(419 566)	(68 610)
Balances unrealised in cash recognised in income statement	32 000	(18 812)
Total change in other assets	**(387 566)**	**(87 422)**
Amounts due to other banks - change in the balance of the statement of financial position	(5 840 353)	(1 886 757)
The difference between the interest accrued and paid in cash in the period	(172 743)	(84 904)
Exclusion of change in cash flows from financing activity	3 166 231	3 636 151
Total change in amounts due to other banks	**(2 846 865)**	**1 664 490**
Amounts due to customers including hedge accounting adjustments related to fair value hedged items - change in the balance of the statement of financial position	10 748 952	3 689 927
The difference between the interest accrued and paid in cash in the period	168 533	107 478
Exclusion of change in cash flows from financing activity	(1 117 659)	(403 577)
Total change in amounts due to customers	**9 799 826**	**3 393 828**
Debt securities in issue - change in the balance of the statement of financial position	4 939 686	509 781
The difference between the interest accrued and paid in cash in the period	(125 108)	36 907
Exclusion of change in cash flows from financing activity	(3 996 194)	(367 700)
Total change in debt securities in issue	**818 384**	**178 988**
Changes in other liabilities - change in the balance of the statement of financial position	358 323	(127 173)
Valuation of incentive programmes recognised in income statement (Note 11)	14 251	15 759
Actuarial gains and losses relating to post-employment benefits recognised in other comprehensive income (Note 16)	(2 352)	(875)
Total change in other liabilities	**370 222**	**(112 289)**

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44. Share-based incentive programmes

2008 Incentive Programme for the Management Board Members of the Bank

On 14 March 2008 the Ordinary General Meeting of mBank, by adopting a relevant resolution, expressed consent to carry out an incentive programme for Members of the Bank's Management Board at mBank. Under the programme Members of the Bank's Management Board have the right to take up bonds with priority right with respect to acquisition of shares of the ultimate parent entity, Commerzbank AG. In 2010, the programme was changed in the part concerning shares of Commerzbank, so that Members of the Management Board may obtain the right to receive cash equivalent corresponding to the value of the shares of Commerzbank calculated based on the average share price on the date when the right to receive the equivalent originated.

All the rights under payments settled in cash equivalent based on shares of Commerzbank and all the rights under payments settled in mBank S.A. shares within the framework of the programme have already been granted. Payments are settled in three equal deferred tranches: 12, 24 and 36 months form the date of acquiring the rights for a given year of the programme by the Manager. The last settlements under this programme accrue in 2015.

Cash bonus paid under the programme for 2008-2011 was presented as an obligation to employees and referred to profit and loss account in a given year for which it was awarded.

The bonds may be acquired by the Entitled Persons over the years 2010 – 2018, provided that their employment continues. The right to take up shares under the conditional capital increase, resulting from bonds, may be exercised by the Entitled Persons in the period from acquisition of bonds to 31 December 2018.

Share-Based Payments Settled in Cash

All rights under payments settled as a cash equivalent based on Commerzbank shares under the program have already been granted. Since payments are settled in three equal annual deferred tranches on the lapse of, respectively, 12, 24 and 36 months from the date of acquisition by the Manager of the right for a given year of the program, the cost of Commerzbank share-based payments settled in cash were recognised in the income statement in correspondence with liabilities to employees. The Bank's obligations arising from the unsettled part of the programme are measured at fair value through income statement before it is settled. The last settlements under this programme are in 2015.

Share-Based Payments Settled in mBank S.A. Shares

All rights under payments settled as a cash equivalent based on mBank S.A. shares under the program have already been granted. Since payments are settled in three equal annual deferred tranches on the lapse of, respectively, 12, 24 and 36 months from the date of acquisition by the Manager of the right for a given year of the program, the cost of share-based payments settled in cash are still recognised in the income statement in correspondence with other reserve capital. The last settlements under the programme accure in 2015.

This is equity-settled share-based program.

The table below presents the number and weighted average exercise prices of share options related to the 2008 incentive programme for Management Board Members of the Bank.

	31.12.2014		31.12.2013	
	Number of options	Weighted average exercise price (in PLN)	Number of options	Weighted average exercise price (in PLN)
Outstanding at the beginning of the period	**10 293**	**4**	**23 162**	**4**
Granted during the period	-	-	543	-
Forfeited during the period	-	-	-	-
Exercised during the period*	6 643	4	13 412	4
Expired during the period	-	-	-	-
Outstanding at the end of the period	**3 650**	**4**	**10 293**	**4**
Exercisable at the end of the period	**-**	**-**	**-**	**-**

* In 2014, the weighted average exercise price of the shares at the option exercise date was PLN 500.28 (in 2013 PLN 412.85).

2012 Incentive Programme for the Management Board Members of the Bank

On 7 December 2012, the Supervisory Board on the basis of recommendation of the Remuneration Committee, adopted Rules of the Incentive Programme at mBank S.A. which replaced the Rules of the Incentive Programme at mBank S.A. of 14 March 2008.

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Under the programme, Members of the Bank's Management Board have the right to receive a bonus, including "cashless bonus" paid in the Bank's shares, including phantom shares.

Cash bonus under the programme was paid for 2012-2013 and presented as an obligation to employees and referred to profit and loss account in a given year for which it was awarded.

Non-cash bonus, in which members of the Board have right to acquire bonds with priority rights to acquire shares were granted under the programme for 2012-2013. The right to purchase the bonds will be realized in three equal annual deferred tranches, on the lapse of, respectively, 12, 24 and 36 months from the date of acquisition by the member of the Board of the right to non-cash bonus. Conditions of obtaining and the amount of deferred tranche not paid out yet under non-cash bonus depend on the assessment of the financial position of the Bank by the Remuneration Committee and the performance evaluation of member of the Board for a period longer than one financial year.

The Supervisory Board on the basis of recommendations issued by the Remuneration Committee may make a decision on suspending in whole or limiting the right to acquire bonds with priority right to take up the shares of the Bank in whole or in part 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 one financial year (i.e. for the period of at least 3 years), which takes into account the business cycle of the Bank as well as the risk related to the bank's operation, but only when the acts or omissions of the Member of the Management Board had a direct and adverse impact on the bank's financial result and market position within the assessment period. The Supervisory Board, on the basis of the recommendation of the Remuneration Committee of the Supervisory Board may make a decision on suspending in whole or decreasing the bonus amount for a given financial year, as well as in the scope of deferred tranche not paid out yet, in the situation referred to in Article 142 (1) of the Banking Law Act. Suspending in whole or decreasing any deferred tranche by the Remuneration Committee of the Supervisory Board can also apply the deferred tranche not paid out to the Member of the Management Board upon termination or expiry of the management contract.

Bonds may be acquired by eligible persons in the years 2014-2018.

The table below presents the number of share options related to the 2012 incentive programme for Management Board Members of the Bank.

	31.12.2014		31.12.2013	
	Number of options	Weighted average exercise price (in PLN)	Number of options	Weighted average exercise price (in PLN)
Outstanding at the beginning of the period	**25 802**	**-**	**-**	**-**
Granted during the period	16 153	4	25 802	-
Forfeited during the period	0	-	-	-
Exercised during the period	8 603	4	-	-
Expired during the period	-	-	-	-
Outstanding at the end of the period	**33 352**	**4**	**25 802**	**4**
Exercisable at the end of the period	**-**	**-**	**-**	**-**

* In 2014, the weighted average exercise price of the shares at the option exercise date was PLN 500.28 (in 2013 PLN 412.85).

Cash Part of the Bonus

The bonus at 40% of the base amount for the year is recognised as a liability to employees and charged to the income statement in the year for which it was granted.

Share-Based Payments Settled in mBank S.A. Shares

A bonus at 60% of the base amount constitutes a payment settled in mBank S.A. shares.

As payments are settled in three equal annual deferred tranches on the lapse of, respectively, 12, 24 and 36 months from the date of acquisition by the member of the Board of the right for a given year of the program, the cost of payments settled in shares is recognised in the income statement in the correspondence with other reserve capital. The last settlement of this program is in 2017.

This is equity-settled share-based program.

2014 Incentive Programme for the Management Board Members of the Bank

On 31 March 2014 the Supervisory Board in accordance with the recommendation of Remuneration Committee adopted a regulation of incentive scheme in mBank SA, which replaced the regulation of incentive scheme in mBank SA dated at December 2012.

Under the program the members of the Board have the right to bonus, including non-cash bonus paid in Bank's shares, including phantom shares.

The net ROE of mBank S.A. Group and the month remuneration of the member of the Board as at 31 December form the basis for acquisition by Members of the Management Board of the right to bonus and calculation of the base amount to determine the amount of bonus for a given financial year. Equivalent of 50% calculated based on the base amount of ROE constitutes the so-called the first part of the bonus. As regards the remaining 50% of the base amount, the Remuneration Committee of the Supervisory Board may grant the so-called discretionary bonus if it decides that a given Member of the Management Board achieved the annual/multi-year business and development objective. The decision of granting the second part of the bonus is the sole responsibility of Remuneration Committee of the Supervisory Board, which according to its own judgement and decision confirm MBO achievement taking into account the situations on financial markets in the last/previous financial period.

The sum the first and the second part of bonus is the base bonus of the member of Board for a given financial period. 40% of the base bonus due to a Member of the Management Board for a given financial year, constituting non-deferred bonus and is paid in the year of determination of base bonus as follows: 50% in form of cash payment and 50% in Bank's shares or bonds with priority rights to acquire shares or phantom shares.

60% of base bonus is deferred bonus and is paid in three equal tranches in the next three following years after the year of determining the base bonus as follows: 50% of each of the deferred tranches in form of cash payment and 50% of each of the deferred tranches in form of non-cash payment in Bank's shares or bonds with priority rights to acquire shares or phantom shares.

The Supervisory Board on the basis of recommendation of Remuneration Committee may make a decision on suspending in whole or reduction the amount of deferred tranche due to the later assessment of the performance of the Member of the Management Board over a period of time longer than one financial year (i.e. for the period of at least 3 years), which takes into account the business cycle of the Bank as well as the risk related to the bank's 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 and when at least one of the element included in the assessment card is not fulfilled.

Remuneration Committee of the Supervisory Board may make a decision on suspending in whole or decreasing the non-deferred and deferred bonus amount for a given financial, as well as in the scope of deferred tranche not paid out yet, in the situation referred to in Article 142 (1) of the Banking Law Act. Suspending in whole or decreasing the non-deferred and deferred bonus, as well as any deferred tranche by the Remuneration Committee of the Supervisory Board can also apply to the non-deferred and deferred bonus, including deferred tranche not paid out yet after expiry or termination the agreement.

Cash Part of the Bonus

The bonus at 50% of the base amount for the year constitutes cash payment. It is recognised as a liability to employees and charged to the income statement in the correspondence to liability to employees.

Share-Based Payments Settled in mBank S.A. Shares

A bonus at 50% of the base amount constitutes a payment settled in mBank S.A. shares. The cost of payments settled in shares is recognised in the income statement in the correspondence with other reserve capital.

This is equity-settled share-based program.

2008 Incentive Programme for Key Managers of mBank Group

On 27 October 2008 the Extraordinary General Meeting of the Bank adopted an incentive programme for the key management staff of mBank S.A. Group.

The programme participants include:

- Bank Directors;
- Representatives of key management.

They are responsible for taking decisions which have material impact on the implementation of a strategy specified by the Bank's Management Board, the Group's results, stability and security of business and development and creating added value of the organization.

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In 2010, the Management Board of the Bank decided to launch the programme and approved the list of participants for Tranche III. Within Tranche III 13,000 options were granted. In 2011 within the Tranche IV and V programme 20,000 options and 19,990 options were granted. The rights started to be exercised in 2012 for Tranche III, in 2013 for Tranche IV and the process will last till 31 December 2019. The rights under Tranche V may be exercised after meeting specified conditions concerning acquisition of rights in the period from 1 May 2014 to 31 December 2019. The conditions for acquiring rights refer to being in an employment relationship throughout the term of the Tranche, obtaining an economic ratio for mBank S.A. Group specified by the Management Board and obtaining a specific appraisal by the programme participant in each year of the Tranche. In 2011 a decision was taken on suspension of the programme and not activating the remaining tranches.

Share-Based Payments Settled in mBank S.A. Shares

The cost of the programme for key managers is charged to the income statement and recognised in correspondence with other reserve capital.

The cost of payments settled in shares is recognised in the income statement as of the date of award of the program until the acquisition date of rights, i.e.:

- from 23.08.2010 to 30.04.2012 for Tranche III;
- from 1.02.2011 to 30.04.2013 for Tranche IV;
- from 1.02.2011 to 30.04.2014 for Tranche V.

This is equity-settled share-based program.

The table below presents the number and weighted average exercise prices of share options related to the 2008 incentive programme for key managers of mBank Group.

	31.12.2014		31.12.2013	
	Number of options	Weighted average exercise price (in PLN)	Number of options	Weighted average exercise price (in PLN)
Outstanding at the beginning of the period	**20 560**	**4**	**42 785**	**4**
Granted during the period	2 460	-	1 310	-
Forfeited during the period	200	-	-	-
Exercised during the period	20 798	4	21 625	4
Expired during the period	745	-	1 910	-
Outstanding at the end of the period	**1 277**	**4**	**20 560**	**4**
Exercisable at the end of the period	**1 277**	**4**	**2 285**	**4**

* In 2014, the weighted average exercise price of the shares at the option exercise date was PLN 500.28 (in 2013 PLN 412.85).

Options outstanding at the end of 2012 and 2013 expire on 31 December 2019.

Employee programme for key management staff of mBank Group of 2013

On 11 April 2013, the Extraordinary General Meeting of the Bank adopted a resolution amending the rules of the employee programme, which replaced the incentive programme for key management staff of mBank Group of 2008, whereas as regards the persons who acquired bonds or were granted right to acquire bonds in Tranches III, IV and V the programme will be carried out under the existing principles.

The aim of the programme is to ensure growth in the value of the Company's shares by linking the interest of the key management staff of mBank S.A. Group with the interest of the Company and its shareholders and implementing in mBank S.A. Group variable components of remuneration of the persons holding managerial positions at mBank S.A. Group in accordance with the Resolution of the Polish Financial Supervision Authority.

The programme will be applied with reference to employees having a material impact on the risk profile of mBank S.A. Group, in particular Members of the Management Board of strategic subsidiaries, Bank Directors and key staff of mBank, whose decisions have a significant impact on the implementation of the strategy specified by the Bank's Management Board, results of mBank S.A. Group, growth in the value of the Bank.

During the program have been granted the rights to acquire bonds under Tranche VI, which may be exercised in three equal parts after 12, 24 and 36 months from the date of granting this right, in accordance with the internal regulations adopted in mBank S.A. Group specifying rules of variable remuneration of the employees having a material impact on the risk profile at mBank S.A. Group.

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The bonds may be acquired by the Entitled Persons during the Programme Term, and not later than by 31 December 2019.

The Bank's Management Board/Supervisory Board of the Company, where the Program is carried out may take a decision on suspending the Program in whole or decreasing the number of bonds or the number of bonds deferred in a given tranche for the Entitled Person in the case of occurrence of the situations, referred to in Article 142 (1) of the Banking Law Act, occurrence of balance sheet loss or loss of liquidity, meeting the conditions set forth in the agreements with the program participants, forming the basis for work certificate or other services for the Bank and subsidiaries.

Cash Part of the Bonus

The bonus in the amount of 50% of the base amount for the year is recognised as a liability to employees and charged to the income statement in the year for which it was granted.

Share-Based Payments Settled in mBank S.A. Shares

As payments are settled in three equal annual deferred tranches on the lapse of, respectively, 12, 24 and 36 months from the date of acquisition by the program participants of the right for a given year of the program, the cost of this part of the programme is charged to the income statement and recognised in correspondence with other reserve capital.

This is equity-settled share-based program.

The table below presents the number and weighted average exercise prices of share options related to the 2013 incentive programme for key managers of mBank Group.

	31.12.2014		31.12.2013	
	Number of options	Weighted average exercise price (in PLN)	Number of options	Weighted average exercise price (in PLN)
Outstanding at the beginning of the period	**-**	**-**	**-**	**-**
Granted during the period	2 233	-	-	-
Forfeited during the period	-	-	-	-
Exercised during the period	-	-	-	-
Expired during the period	-	-	-	-
Outstanding at the end of the period	**2 233**	**-**	**-**	**-**
Exercisable at the end of the period	**-**	**-**	**-**	**-**

<u>Employee programme for key management staff of mBank Group of 2014</u>

On 31 March 2014, the Supervisory Board of the Bank adopted on the basis of recommendation of Remuneration Committee a resolution amending the rules of the employee programme, which replaced the incentive programme for key management staff of mBank Group of 2013, whereas as regards the persons who acquired bonds or were granted right to acquire bonds in Tranches III, IV, V and VI the programme will be carried out under the existing principles.

The aim of the programme is to ensure growth in the value of the Company's shares by linking the interest of the key management staff of mBank S.A. Group with the interest of the Company and its shareholders and implementing in mBank S.A. Group variable components of remuneration of the persons holding managerial positions at mBank S.A. Group.

Beginning from Tranche VII granted to the person entitled the right to purchase bonds will be divided into four parts, which may be realized respectively: I part – non-deferred bonds representing 50% of the 60% of the amount of discretionary bonus granted for a given financial year in the year of determining the right, and then another three equal parts – deferred bonds constituting 50% of the 40% of the amount of discretionary bonus granted for a given financial year on the lapse of 12, 24 and 36 months from the date of the grant of rights, in accordance with the internal regulations adopted in mBank S.A. Group specifying rules of variable remuneration of the employees having a material impact on the risk profile at mBank S.A. Group.

The Bank's Management Board/Supervisory Board of the Company, where the Program is carried out may take a decision on suspending the Program in whole or decreasing the number of bonds or the number of bonds deferred in a given tranche for the Entitled Person in the case of occurrence of the situations, referred to in Article 142 (1) of the Banking Law Act, occurrence of balance sheet loss or loss of liquidity, meeting the conditions set forth in the agreements with the program participants, forming the basis for work certificate or other services for the Bank and subsidiaries.

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Cash Part of the Bonus

The bonus in the amount of 50% of the base amount for the year is cash payment. It is recognised as a liability to employees and charged to the income statement in the correspondence to the liability to employees.

Share-Based Payments Settled in mBank S.A. Shares

A bonus at 50% of the base amount constitutes a payment settled in mBank S.A. shares. The cost of payments settled in shares is recognised in the income statement in the correspondence with other reserve capital.

This is equity-settled share-based program.

Employee programmes of mBank Group subsidiaries

Starting from the second quarter of 2014, the Group operates an incentive programme, under which the management and employees of BRE Ubezpieczenia TUiR SA will be entitled to potential capital gains concerning 4.99% of the shares of this company. The programme meet the definition of cash-settled share-based payment transactions. The incentive programme functioning in mBank Hipoteczny is based on phantom shares of this bank and according to IAS 19 considered as incentive programme.

Summary of the impact of the Programmes on the Bank's balance sheet and income statement

Share-Based Payments Settled in Shares

The table below presents changes in other reserve capital generated by the above mentioned incentive programmes for share-based payments settled in mBank S.A. shares.

	31.12.2014	31.12.2013
Incentive Programs		
As at the beginning of the period	**29 061**	**23 867**
- value of services provided by the employees	12 616	15 759
- settlement of exercised options	(11 421)	(10 565)
As at the end of the period	**30 256**	**29 061**

Share-Based Payments Settled in Cash

The incentive programme for the Management Board of the Bank in the part comprising Commerzbank shares has no impact on other reserves as its cost is taken to the income statement in correspondence with liabilities. In 2014, the costs of the programme related to the valuation of the unsettled liabilities under this programme to fair value amounted PLN 3 370 (31 December 2013: PLN 0 thousand) (Note 10). As at 31 December 2014, liabilities due to this programme amounted to PLN 1 955 thousand (31 December 2013: PLN 1 995 thousand).

Cash Payments

The cost of the cash part of the programmes is presented in Note 11 "Overhead costs".

45. Transactions with related entities

mBank S.A. is the parent entity of mBank S.A. Group and Commerzbank AG is the ultimate parent of the Group as well as the direct parent of mBank S.A.

All transactions between the Bank and related entities were typical and routine transactions concluded on terms, which not differ from arm's length terms, and their nature, terms and conditions resulted from the current operating activities conducted by the Bank. Transactions concluded with related entities as a part of regular operating activities include loans, deposits and foreign currency transactions.

The Group provides standard financial services to the Bank's key management personnel, Members of the Supervisory Board of the Bank and close members of their families, which comprise i.e.: maintaining bank accounts, taking deposits, granting loans or other financial services. In the Bank's opinion, these transactions are concluded on market terms and conditions.

Pursuant the Banking Law, the extension of a loan, cash advance, bank guarantee or other guarantee to the Members of the Management Board and Supervisory Board of the Bank, persons holding managerial positions at the Bank as well as at entities related financially or organisationally therewith, is governed by the By-Laws adopted by the Supervisory Board of mBank S.A.

The By-Laws set out detailed rules and debt limits for loans, cash advances, bank guarantees, and other guarantees in relation to aforementioned persons and entities, which are consistent with the Bank's internal regulations defining the competences of granting credit decisions concerning retail and corporate clients of the Bank. A decision to grant a loan, cash advances, bank guarantee or other guarantee to a Member of the Management Board and Supervisory Board of the Bank, person holding managerial position at the Bank or an entity related financially or organisationally therewith in excess of the limits set by the Banking Law is taken by the resolution of the Management Board and by the resolution of the Supervisory Board.

The terms and conditions of such loans, cash advances, bank guarantees or other guarantees, including in particular those related to interest rates as well as fees and commissions, cannot be more advantageous than the terms and conditions offered by the Bank to its retail or corporate clients, respectively.

The table below presents the values of transactions between the Bank and companies of mBank Group and: Members of the Supervisory Board and the Management Board of mBank, key executive management of mBank, Members of the Supervisory Board and the Management Board of Commerzbank and other related persons and entities, as well as Commerzbank AG Group entities. The amounts of transactions include assets, liabilities and related costs and income as at 31 December 2014 and 31 December 2013 and for the respective periods then ended are as follows.

PLN (000's)	Supervisory Board, Management Board and key management personnel of mBank S.A. as well as Supervisory Board and Management Board of Commerzbank AG		Other related persons *		Commerzbank AG	
As at the end of the period	**31.12.2014**	**31.12.2013**	**31.12.2014**	**31.12.2013**	**31.12.2014**	**31.12.2013**
Statement of Financial Position						
Assets	7 700	24 810	110 055	59 390	907 869	948 518
Liabilities	34 764	21 184	2 652	3 403	15 852 630	18 245 291
Income Statement						
Interest income	884	813	8 476	3 822	162 714	113 713
Interest expense	(910)	(1 597)	(73)	(114)	(332 127)	(345 291)
Fee and commission income	328	85	70	38	-	-
Fee and commission expense	-	-	-	-	-	-
Other operating inccome	629	7	26 781	3	378	320
Overhead costs, amortisation and other operating expenses	(359)	-	(67)	(70)	(9 532)	(9 022)
Contingent liabilities granted and received						
Liabilities granted	1 084	885	2 617	915	1 309 589	1 278 880
Liabilities received	-	-	-	-	836 870	717 528

* Other related persons and entities include: close members of the family of Members of the Supervisory and the Management Board of mBank, key executive management of mBank, Members of the Supervisory Board and the Management Board of Commerzbank, entities controlled or jointly controlled by above mentioned persons and mBank's subsidiaries not consolidated by acquisition method.

In 2014 and 2013 no provisions were created in connection with credits granted to related entities.

<u>Management Board Remuneration</u>

At the end of 2014, the Supervisory Board of mBank S.A. has been working in the seven person team with the following members:

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

Information on the salaries, bonuses and benefits paid and due to the Members of the Management Board of the Bank who were performing their functions at the end of 2014, as at 31 December 2014 and 31 December 2013, is presented below.

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		Remuneration paid in 2014 (in PLN)			
		Basic salary	Other benefits	Bonus for 2013	Cash settlement of the incentive program based on Commerzbank shares*
1.	Cezary Stypułkowski	2 091 963	155 478	1 294 010	279 935
2.	Lidia Jabłonowska-Luba	1 200 000	131 749	520 000	-
3.	Przemysław Gdański	1 200 000	127 515	720 000	860 734
4.	Joerg Hessenmueller	1 263 000	161 860	720 000	-
5.	Hans-Dieter Kemler	1 217 190	372 506	600 000	891 308
6.	Cezary Kocik	1 200 000	91 772	760 000	-
7.	Jarosław Mastalerz	1 200 000	109 274	760 000	983 029
	Total	**9 372 153**	**1 150 154**	**5 374 010**	**3 015 006**

* For Mr Przemysław Gdański, Mr Hans-Dieter Kemler and Mr Jarosław Mastalerz, the settlement relates to an incentive programme for members of the Management Board of 2008, in a part based on the shares of Commerzbank. In 2014, the listed Members of the Board received a cash equivalent for Commerzbank shares in settlement of the third tranche of the incentive programme for 2010 and the second tranche of the incentive programme for 2011. For Mr Cezary Stypułkowski, the settlement relates to deferred, based on the shares of Commerzbank part of the bonus for 2010.

Remuneration of the former Management Board Members paid in the year 2014.

		Remuneration paid in 2014 (in PLN)			
		Basic salary	Other benefits, payoff and compensations	Bonus for 2013	Cash settlement of the incentive program based on Commerzbank shares*
Remuneration of the former Management Board Members who ceased performing their functions in the year 2013					
1.	Wiesław Thor	-	-	248 800	-
Remuneration of the former Management Board Members who ceased performing their functions in the year 2012					
1.	Christian Rhino	-	-	-	217 510
Remuneration of the former Management Board Members who ceased performing their functions in the year 2010					
1.	Mariusz Grendowicz	-	-	-	91 491
	Total	**-**	**-**	**248 800**	**309 001**

* The settlement relates to an incentive programme for members of the Management Board of 2008, in a part based on the shares of Commerzbank. In 2014, eligible Members of the Board received: Mr Mariusz Grendowicz a cash equivalent for Commerzbank shares in settlement of the third tranche of the incentive programme for 2010; Mr Christian Rhino a cash equivalent for Commerzbank shares in settlement of the first tranche of the incentive programme of 2012.

In 2014, Mr. Wiesław Thor, who acted as Vice-President of the Bank until 11 April 2013, was paid bonus for 2013 in the amount of PLN 248 800 thousand.

Remuneration paid in the year 2013.

		Remuneration paid in 2013 (in PLN)			
		Basic salary	Other benefits	Bonus for 2012	Cash settlement of the incentive program based on Commerzbank shares*
1.	Cezary Stypułkowski	2 100 225	155 865	1 400 000	-
2.	Lidia Jabłonowska-Luba	872 359	162 339	-	-
3.	Przemysław Gdański	1 200 000	130 807	800 000	78 635
4.	Joerg Hessenmueller	1 263 000	161 693	620 000	-
5.	Hans-Dieter Kemler	1 202 623	414 864	600 000	80 783
6.	Cezary Kocik	1 200 000	91 802	700 000	-
7.	Jarosław Mastalerz	1 200 000	111 943	800 000	90 294
	Total	**9 038 207**	**1 229 313**	**4 920 000**	**249 712**

* The settlement relates to an incentive programme for members of the Management Board in 2008, in a part based on the shares of Commerzbank. In 2013, eligible Members of the Board received a cash equivalent for Commerzbank shares in settlement of the third tranche of the incentive programme for

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2009, the second tranche of the incentive programme for 2010 and the first tranche of the incentive programme for 2011.

Remuneration of the former Management Board Members paid in the year 2013.

		Remuneration paid in 2013 (in PLN)			
		Basic salary	Other benefits, payoff and compensations	Bonus for 2012	Cash settlement of the incentive program based on Commerzbank shares*
Remuneration of the former Management Board Members who ceased performing their functions in the year 2013					
1.	Wiesław Thor	488 346	1 535 023	1 000 000	291 128
Remuneration of the former Management Board Members who ceased performing their functions in the year 2012					
1.	Christian Rhino	-	-	249 315	-
Remuneration of the former Management Board Members who ceased performing their functions in the year 2010					
1.	Mariusz Grendowicz	-	-	-	91 515
	Total	**488 346**	**1 535 023**	**1 249 315**	**382 643**

* The settlement relates to an incentive programme for members of the Bank Management Board in 2008, in a part based on the shares of Commerzbank. In 2013, entitled former Members of the Management Board received: Mr. Wiesław Thor - cash equivalent for Commerzbank shares in settlement of the third tranche of the incentive programme for 2009, the second and third tranche of the incentive programme for 2010 and the first, second and third tranche of the incentive programme for 2011; Mr. Mariusz Grendowicz - cash equivalent for Commerzbank shares in settlement of the second tranche of the incentive programme for 2010.

In 2013, Mr. Wiesław Thor, who acted as Vice-President of the Bank until 11 April 2013, was paid bonus for 2012 in the amount of PLN 1 000 000 thousand. In 2013, was also paid bonus for 2012 in amount of PLN 249 315 thousand for Mr. Christian Rhino who acted as the Member of the Board until 31 March 2012.

The total compensation of members of the Management Board consists of: basic salary, bonuses, termination payments of management agreement, prohibition of competitiveness payment, insurance costs, accommodation costs.

The above mentioned benefits are short-term employee benefits.

In accordance with the Bank's remuneration system in force, the members of the Management Board of the Bank may be eligible to receive bonuses for the year 2014, which would be paid out in 2015. As a result provision created for the cash bonus payment for the members of the Management Board for 2014 amounts to PLN 6 613 898 as of 31 December 2014. The final decision concerning the level of the bonus will be taken by the Remuneration Committee of the Supervisory Board by 30 March 2015.

In 2014 and 2013, the members of the Management Board of mBank S.A. did not receive compensation for their role as members of the management boards and supervisory boards of the Bank's related companies.

The total amount of remuneration received in 2014 by Bank's Management Board members was PLN 18 911 323 (2013: PLN 18 751 729).

Information on the rules of payment other component of remuneration (severance payment) for the members of the Management Board

From the date of appointment of the members of the Management Board for the new term, i.e. from the date of General Shareholders Meeting approving the financial results for the year 2012 all members of the Management Board, in case of cancellation the managers from the Management Board before the expiration of the term, have got the severance payment in the amount which depends on years spent with the organization and is calculated as follows: (i) 4 monthly salaries if the member held his post for a period shorter than 1 year, (ii) 8 monthly salaries if the member held his position for more than 1 year but less than 2 years and (iii) 12 monthly salaries if the member held his post for more than 2 but less than 5 years, (iv) 18 monthly salaries if the member held his post for more than 5 years. If not appointed for next term of the office, the Management Board members are entitled to severance in the amount of 12 monthly salaries.

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Supervisory Board Compensation

On 31 March 2014, the XXVII Ordinary General Meeting of mBank S.A. appointed the 12-member Supervisory Board of mBank S.A. for a joint term of three years, with the following members:

1. Maciej Leśny – Chairman of the Supervisory Board, Chairman of the Executive Committee, Member of the Risk Committee, Member of the Audit Committee, Member of the Remuneration Committee,
2. Martin Zielke - Deputy Chairman of the Supervisory Board, Member of the Remuneration Committee,
3. Andre Carls – Member of the Supervisory Board, Chairman of the Remuneration Committee, Member of the Executive Committee, Member of the Audit Committee,
4. Stephan Engels - Member of the Supervisory Board, Chairman of the Audit Committee,
5. Dr Stefan Schmittman - Member of the Supervisory Board, Chairmen of the Risk Committee,
6. Martin Blessing - Member of the Supervisory Board, Member of the Executive Committee,
7. Thorsten Kanzler- Member of the Supervisory Board, Member of the Risk Committee,
8. Teresa Mokrysz – Member of the Supervisory Board, Member of the Executive Committee,
9. Waldemar Stawski – Member of the Supervisory Board, Member of the Audit Committee,
10. Jan Szomburg – Member of the Supervisory Board, Member of the Executive Committee,
11. Marek Wierzbowski – Member of the Supervisory Board, Member of the Remuneration Committee.
12. Wiesław Thor - Member of the Supervisory Board,

On 20 October 2014, Mr Maciej Leśny, Chairman of the Supervisory Board of mBank S.A., received from Mr Jan Szomburg, Member of the Supervisory Board of mBank S.A. and Member of the Executive Committee, a letter of resignation from his function as of 27 October 2014. The resignation is related with Mr Jan Szomburg being proposed for the post of a new advisory functions in the Commerzbank AG Group.

Under the Resolution from 27 October 2014, in place of Mr Jan Szomburg, the resigning Member of the Supervisory Board, on 28 October 2014 Mrs Agnieszka Słomka-Gołębiowska was appointed as a new Member of the Supervisory Board for the period until the end of the current term of the Supervisory Board. Mrs Agnieszka Słomka-Gołębiowska, was also posted as a Member of the Risk Committee of the Supervisory Board of mBank S.A.

Information about the Supervisory Board members' salaries, bonuses and benefits paid as at 31 December 2014 and 31 December 2013 is presented below.

		Remuneration paid in 2014 (in PLN)	Remuneration paid in 2013 (in PLN)
1.	Maciej Leśny	366 006	365 832
2.	Martin Zielke	-	-
3.	Andre Carls	252 000	252 000
4.	Stephan Engels	216 000	216 000
5.	Stefan Schmittmann	-	-
6.	Martin Blessing	-	-
7.	Thorsten Kanzler	216 000	216 000
8.	Teresa Mokrysz	220 202	220 054
9.	Agnieszka Słomka-Gołębiowska	54 906	-
10.	Waldemar Stawski	221 406	221 231
11.	Wiesław Thor	138 522	109 680
12.	Marek Wierzbowski	198 000	144 000
	Jan Szomburg*	184 500	221 231
	Dirk Wilhelm Schuh**	54 000	216 000
	Ulrich Sieber***	-	188 500
	Total	**2 121 542**	**2 370 528**

* On 27 October 2014, Mr Jan Szomburg resigned from the office.

* Mr Dirk Wilhelm Schuh posted the office until 31 March 2014.

*** On 30 November 2013, Mr Ulrich Sieber resigned from the office.

In accordance with the wording of paragraph 11(j) of the By-laws of mBank S.A. the General Meeting determines remuneration for members of the Supervisory Board in a resolution. Remuneration of the Management Board members is determined by the Supervisory Board (paragraph 22.1(e) of the By-laws of mBank S.A.

The total compensation of Members of the Supervisory Board, the Management Board and other key executive management of the Bank that perform their duties in 2014 amounted to PLN 26 219 666 (2013: PLN 25 275 930).

Information regarding proprietary position in Bank shares by Members of the Management Board and by Members of the Supervisory Board

As at 31 December 2014, the Bank shares were held by three Members of the Management Board: Mr Cezary Stypułkowski – 2 034 shares, Mr Przemysław Gdański – 2 000 shares and Mr Hans-Dieter Kemler – 1 000 shares.

As at 31 December 2013, the Bank shares were held by one Member of the Management Board, Mr. Przemysław Gdański – 1 000 shares.

As at 31 December 2014, the Bank shares were held by one Member of the Supervisory Board of mBank S.A., Mr. Wiesław Thor – 3 000 shares.

As at 31 December 2013, the Bank shares were held by one Member of the Supervisory Board of mBank S.A., Mr. Wiesław Thor – 6 463 shares.

As at 31 December 2014 and 31 December 2013, the Members of the Supervisory Board of the Bank had no Bank's shares.

46. Acquisitions and disposals

On 8 December 2014, an agreement for the sale of 100% shares of Transfinance a.s. between mBank S.A. and UniCredit Bank Czech Republic and Slovakia a.s. (UniCredit) was concluded. The transaction was finalized on 20 January 2015, after the fullfilment of all contractually suspending conditions. The sale of Transfinance is a consequence of impementing the One Bank Strategy for 2012-2016 and is the last stage of restructuring the foreign factoring activities of the Group i.e. after the sale of Magyar Factor zRt and Intermarket Bank AG in 2011.

In accordance with the above mentioned, as at 31 December 2014 the Group classified Transfinance a.s. as non-current assets (disposal groups) held for sale.

On 11 September 2014, the Bank's subsidiary Aspiro S.A. ("Aspiro") being the shareholder of the company BRE Ubezpieczenia Towarzystwo Ubezpieczeń i Reasekuracji S.A. ("BRE TUiR"), concluded an agreement with Avanssur SA the company belonging to AXA Group for the sale of 100% shares in BRE TUiR ("Agreement on the Sale of Shares").

In accordance with the Agreement on the Sale of Shares, the sale of 100% of shares of BRE TUiR to Avanssur SA is conditioned by meeting specific conditions precedent, in particular: (i) obtain the consent of the Office of Competition and Consumer Protection and (ii) no objections raised by the Polish Financial Supervision Authority.

On 30 July 2014, as part of the reorganisation of the insurance business in mBank Group, the company Aspiro S.A. acquired from AWL I Sp. z o.o. 100% of shares of BRE Ubezpieczenia Sp. z o.o. and BRE Agent Ubezpieczeniowy Sp. z o.o. for a total amount of PLN 72 876 thousand. The transaction resulted in redemption of shares in the company AWL I Sp. z o.o., by which its current share capital amounts to PLN 300 thousand. The sole shareholder of AWL I Sp. z o.o remains BRE Ubezpieczenia TUiR S.A. These events had no impact on the result of mBank Group.

47. Information about the registered audit company

The registered audit company with whom mBank S.A. signed an agreement is Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k. The agreement to conduct an audit of stand-alone financial statements of mBank S.A. and consolidated financial statements of mBank S.A. Group was signed on 20 May 2013.

The choice of a new auditor to audit the financial statements of mBank S.A. and consolidated financial statements of mBank S.A. Group for the years 2013 and 2014 had been made on 11 April 2013 by XXVI Annual General Meeting of mBank S.A., acting under section 11 letter. n) of the By-Lows of the Bank.

The total gross amount of Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k. remuneration related to the audit and review of stand-alone financial statements and consolidated financial statements of mBank S.A. was PLN 2 893 thousand in 2014 (2013: PLN 2 558 thousand).

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In 2014, the total gross amount of remaining remuneration paid to Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k. in respect of other services for mBank S.A. was PLN 1 700 thousand (2013: PLN 95 thousand).

In addition, in 2013 the company PricewaterhouseCoopers Sp. z o.o., the previous auditor of mBank S.A., was paid the gross remuneration in the amount of PLN 332 thousand for the audit and review of financial statements and consolidated financial statements of mBank S.A. and the gross remuneration for other services to mBank S.A. in the amount of PLN 1 046 thousand.

48. Prudential consolidation

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

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

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

Basis of the preparation of the consolidated financial data

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

The consolidated prudentially financial data have been prepared according to the provisions of CRR Regulation, based on the rules of prudential consolidation stipulated in the CRR Regulation. The consolidated interim profit presented in the consolidated prudentially financial data may be included in consolidated Common Equity Tier 1 for the purpose of the calculation of consolidated Common Equity Tier 1 capital ratio, consolidated Tier 1 capital ratio and consolidated total capital ratio with the prior permission of the Polish Financial Supervisory Authority or after approval by the General Meeting of shareholders.

The accounting policies applied for the preparation of the Group consolidated prudentially financial data are identical to those, which have been applied to the mBank S.A Group consolidated financial data for the year 2014, prepared in compliance with International Financial Reporting Standard ("IFRS"), except for the consolidation standards presented below.

Consolidation

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

Company	31.12.2014		31.12.2013	
	Share in voting rights (directly and indirectly)	Consolidation method	Share in voting rights (directly and indirectly)	Consolidation method
Dom Maklerski mBanku S.A.	100%	full	100%	full
mBank Hipoteczny S.A.	100%	full	100%	full
mCentrum Operacji Sp. z o.o.	100%	full	100%	full
mFaktoring S.A.	100%	full	100%	full
mLeasing Sp. z o.o.	100%	full	100%	full
MLV 45 Sp. z o.o. spółka komandytowa	100%	full	100%	full
Transfinance a.s.	100%	full	100%	full
mFinance France S.A.	99.98%	full	99.98%	full

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

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

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

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

Consolidated prudentially income statement

	Period from 01.01.2014 to 31.12.2014	Period from 01.01.2013 to 31.12.2013
Interest income	3 930 574	3 933 430
Interest expense	(1 468 315)	(1 723 667)
Net interest income	**2 462 259**	**2 209 763**
Fee and commission income	1 358 468	1 263 563
Fee and commission expense	(482 126)	(464 578)
Net fee and commission income	**876 342**	**798 985**
Dividend income	30 133	34 045
Net trading income, including:	366 232	340 614
Foreign exchange result	*233 341*	*281 780*
Other net trading income and result on hedge accounting	*132 891*	*58 834*
Gains less losses from investment securities, investments in subsidiaries and associates	29 205	78 816
Other operating income	137 734	177 019
Net impairment losses on loans and advances	(515 903)	(477 778)
Overhead costs	(1 500 946)	(1 419 426)
Amortisation	(186 251)	(184 569)
Other operating expenses	(141 986)	(119 161)
Operating profit	**1 556 819**	**1 438 308**
Profit before income tax	**1 556 819**	**1 438 308**
Income tax expense	**(333 587)**	**(294 953)**
Net profit	**1 223 232**	**1 143 355**
Net profit attributable to:		
- Owners of mBank S.A.	1 223 232	1 143 355
- Non-controlling interests	-	-

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Consolidated prudentially statement of financial position

ASSETS	31.12.2014	31.12.2013
Cash and balances with the Central Bank	3 054 548	1 650 466
Loans and advances to banks	3 727 309	3 452 330
Trading securities	1 156 450	680 902
Derivative financial instruments	4 865 517	2 349 585
Loans and advances to customers	74 697 423	68 298 858
Hedge accounting adjustments related to fair value of hedged items	461	970
Investment securities	27 906 260	25 589 670
Non-current assets held for sale	291 829	-
Intangible assets, including:	456 522	445 202
- goodwill	-	*1 196*
Tangible assets	708 103	700 646
Current income tax assets	61 336	7 332
Deferred income tax assets	238 980	336 999
Other assets	509 114	620 400
Total assets	**117 673 852**	**104 133 360**

LIABILITIES AND EQUITY		
Liabilities		
Amounts due to the Central Bank	-	-
Amounts due to other banks	13 383 829	19 224 182
Derivative financial instruments	4 719 056	2 459 715
Amounts due to customers	72 615 316	61 892 621
Debt securities in issue	10 341 742	5 430 524
Hedge accounting adjustments related to fair value of hedged items	103 382	(4 349)
Liabilities held for sale	91 793	-
Other liabilities	1 301 051	1 161 826
Current income tax liabilities	1 441	2 877
Provisions for deferred income tax	1 980	2 954
Provisions	176 881	141 060
Subordinated liabilities	4 127 724	3 762 757
Total liabilities	**106 864 195**	**94 074 167**
Equity		
Equity attributable to Owners of mBank S.A.	**10 809 655**	**10 059 191**
Share capital:	**3 523 903**	**3 512 338**
- Registered share capital	168 840	168 696
- Share premium	3 355 063	3 343 642
Retained earnings:	**6 736 229**	**6 228 786**
- Profit from the previous years	5 512 997	5 085 431
- Profit for the current year	1 223 232	1 143 355
Other components of equity	**549 523**	**318 067**
Non-controlling interests	**2**	**2**
Total equity	**10 809 657**	**10 059 193**
Total liabilities and equity	**117 673 852**	**104 133 360**

49. Capital adequacy

One of the main tasks of the balance sheet management is to ensure an appropriate level of capital. Within the framework of the capital management policy of mBank Group, mBank prepares the guidelines for the most effective planning and use of capital basis which:

- are compliant with external and internal regulations in force,
- guarantee a continuity of financial targets achievement, which render an appropriate rate of return for shareholders,
- ensure the maintenance of a strong capital basis being a fundamental support for business development.

The capital management policy in mBank Group is based on:

- maintenance of an optimal level and structure of own funds with the application of available methods and means, like among others retention of net profit, subordinated loan or issue of shares,
- effective use of existing capital, among others through application of a set of measures of effective use of the capital, limitation of activities that do not provide an expected rate of return and development of products with lower capital absorption.

Effective use of capital is an integral part of the capital management policy oriented at reaching an optimal rate of return on capital and as a result forming a stable fundament of reinforcement of the capital basis in future periods. This enables to maintain the Common Equity Tier 1 capital ratio (calculated as a quotient of Common Equity Tier 1 capital to the total risk exposure amount) and the total capital ratio (calculated as a quotient of own funds to the total risk exposure amount) at least on the level required by the supervision authority.

The strategic goals of mBank Group are aimed at maintaining the consolidated total capital ratio as well as the consolidated Common Equity Tier 1 capital ratio above the level required by the supervision authority. It allows to maintain safe business development meeting the supervisory requirements in the long perspective.

Capital ratios / Capital adequacy ratio

Till the 31 December 2013 the calculation of the consolidated capital adequacy ratio, the consolidated own funds and the consolidated total capital requirement in mBank Group was made according to the following regulations:

- Banking Act of 29 August 1997 (Dz.U. from the year 2002 No 72, item 665) with further amendments,
- Resolution No. 325/2011 of the KNF of 20 December 2011 (Dz. Urz. KNF from 2011 No 13 item 49),
- Resolution No. 76/2010 of the KNF of 10 March 2010 (Dz. Urz. KNF from 2010 No 2 item 11) with further amendments,
- Resolution No. 258/2011 of the KNF of 4 October 2011 (Dz. Urz. KNF from 2011 No 11 item 42),
- Resolution No. 208/2011 of the KNF of 22 August 2011 (Dz. Urz. KNF from 2011 No 9 item 34) with further amendments,
- Resolution No. 384/2008 of the KNF of 17 December 2008 (Dz. Urz. KNF from 2008 No 8 item 38) with further amendments,
- Resolution No. 387/2008 of the KNF of 17 December 2008 (Dz. Urz. KNF from 2008 No 8 item 41).

Beginning from 1 January 2014 the calculation of the consolidated capital ratios, the consolidated own funds and the consolidated total risk exposure amount in mBank Group is made according to 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 other Commission (UE) implementing regulations to the CRR Regulation.

Entities included in prudential consolidation according to the rules of the CRR Regulation are taken into account in the process of calculation own funds and own funds requirements.

The capital ratios of the Group in 2014 were driven by the following factors:

- implementation of changes in calculation process of own funds and own funds requirements as a result of entry into force the CRR Regulation,
- including in Tier 2 capital an amount of PLN 500 million from the subordinated bonds issue on the basis of the KNF consent from 14 February 2014,
- including in Common Equity Tier 1 capital the net profit of mBank Group for the year 2013, reduced by every foreseeable charges, as a result of decision of the General Meeting regarding net profit division for the year 2013,
- including in Common Equity Tier 1 capital the verified net profit of mBank Group for the 1st half of 2014, reduced by every foreseeable charges, on the basis of the KNF permission from 9 October 2014,
- expansion of the application of the advanced internal rating based approach (AIRB approach) to calculation of own funds requirement for credit and counterparty credit risk resulting from supervisory AIRB decisions obtained in 2014,
- expansion of mBank Group business activity.

Detailed information on calculation of the consolidated total capital ratio, the consolidated Common Equity Tier 1 ratio, the consolidated own funds and the consolidated total risk exposure amount of mBank Group were described in document *Disclosures regarding capital adequacy of the mBank Group as at 31 December 2014*, published on the mBank website.

The consolidated total capital ratio of mBank Group as of 31 December 2014 amounted to 14.66%. Additionally the consolidated Common Equity Tier 1 capital ratio of mBank Group amounted to 12.24%.

Own Funds

In accordance with the CRR Regulation, consolidated own funds consist of consolidated Common Equity Tier 1 capital, consolidated Additional Tier 1 capital and consolidated Tier 2 capital, however items that could be treated as Additional Tier I capital are not identified in the mBank Group.

Common Equity Tier 1 capital contains:

- capital instruments and the related share premium accounts,
- retained earnings,
- accumulated other comprehensive income,
- funds for general banking risk,
- independently reviewed interim profits net of any foreseeable charge or dividend,
- items deducted from a Common Equity Tier 1 capital (including: additional value adjustments, intangible assets, fair value gains and losses arising from the institution's own credit risk related to derivative liabilities, negative amount resulting from the calculation of expected loss amounts, direct and indirect holdings by an institution of own CET1 instruments, net impairment losses, regulatory adjustments relating to unrealised gains and losses).

Tier 2 capital contains:

- capital instruments and the related share premium accounts (including subordinated liabilities),
- amount of qualifying items referred to in Article 484 (5) and the related share premium accounts subject to phase out from Tier 2 capital (including liabilities resulting from securities of unspecified maturity).

The consolidated own funds of mBank Group as of 31 December 2014 amounted to PLN 9 750 540 thousand.

Total risk exposure amount

The total risk exposure amount contains:

- risk weighted exposure amounts for credit risk, counterparty credit risk, dilution risk and free deliveries,
- risk exposure amount for market risk, including position risk, foreign exchange risk and commodities risk,
- risk exposure amount for operational risk,

- risk exposure amount for credit valuation adjustment,
- other risk exposure amounts, including supervisory floor and regulatory floor.

In 2014 mBank Group obtained consent to the application of AIRB approach to the calculation of own funds requirement relating to credit risk for further credit portfolios and as a result the coverage of the credit portfolio by AIRB approach increased to 82% till the end of 2014.

As at 31 December 2014 the AIRB approach was applied to the calculation of own funds requirements relating to credit and counterparty credit risk for the following portfolios:

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

In case of portfolios with conditional consent to the application of AIRB approach, mBank Group applies supervisory floor, which means that where the own funds requirement for credit risk calculated under AIRB approach is lower than the own funds requirement for credit risk calculated under standardised approach, it is necessary to supplement it up to the level of the own funds requirement for credit risk calculated under standardised approach.

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

Moreover, mBank Group applied regulatory floor in calculation of consolidated total risk exposure amount and capital ratios as at 31 December 2014 in accordance with provisions of the CRR Regulation. It means that when total risk exposure amount (AIRB driven) is lower than 80% of the comparable total risk exposure amount (standardized driven), the Bank includes the difference in the calculation.

The total risk exposure amount of mBank Group as at 31 December 2014 amounted to PLN 66 499 897 thousand, including PLN 56 601 711 thousand of risk exposure amount for credit risk.

Internal capital

The ICAAP process (Internal Capital Adequacy Assessment Process) was prepared and implemented in mBank Group to adjust the own funds to the level and type of business risk.

The internal capital is the amount of capital estimated for mBank Group to cover all material risks identified in the activity of mBank Group. The internal capital is the total sum of the economic capital to cover the kinds of risk included in the process of the economic capital calculation and the capital required to cover other kinds of risk (including difficult to measure kinds of risk).

Due to the fact that both, the total capital requirement of mBank Group calculated according to the CRR Regulation and the internal capital estimated for mBank Group according to the Resolution No. 258/2011 are lower than consolidated own funds, the consolidated own funds as at 31 December 2014 were maintained on the level consistent with the requirements of the CRR Regulation.

The internal capital of mBank Group as at 31 December 2014 amounted to PLN 4 353 360 thousand.

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Capital adequacy	31.12.2014	31.12.2013
Common Equity Tier 1 Capital	**8 142 307**	**8 358 690**
Total Own Funds	**9 750 540**	**11 399 535**
Risk weighted exposure amounts for credit, counterparty credit, dilution risk and free deliveries:	56 601 711	51 714 063
- under standardised approach	12 987 810	21 457 712
- under AIRB approach	43 613 901	30 256 351
Settlement / delivery risk exposure amount	-	-
Total risk exposure amount for position, foreign exchange and commodities risks	1 002 192	856 387
Total risk exposure amount for operational risks	6 413 869	6 055 263
Additional risk exposure amount due to fixed overheads	-	-
Total risk exposure amount for credit valuation adjustments	266 809	-
Total risk exposure amount for large exposures in the trading book	-	-
Other risk exposure amounts	2 215 316	196 612
Total risk exposure amount	**66 499 897**	**58 822 325**
Comon Equity Tier 1 capital ratio	**12.24%**	**14.21%**
Total capital ratio	**14.66%**	**19.38%**
Internal capital	**4 353 360**	**4 111 126**

OWN FUNDS	31.12.2014	31.12.2013
Own funds	**9 750 540**	**11 399 535**
TIER 1 CAPITAL	**8 142 307**	**8 358 690**
Common Equity Tier 1 Capital	**8 142 307**	**8 358 690**
Capital instruments eligible as CET1 Capital	3 522 891	3 512 338
Paid up capital instruments	168 840	168 696
Share premium	3 355 063	3 343 642
(-) Own CET1 instruments	(1 012)	-
Retained earnings	303 925	268 403
Previous years retained earnings	79 623	-
Profit or loss eligible	224 302	268 403
Accumulated other comprehensive income	549 523	-
Other reserves	4 391 421	4 202 609
Funds for general banking risk	1 041 953	989 953
Adjustments to CET1 due to prudential filters	(124 299)	(26 487)
Fair value gains and losses arising from the institution's own credit risk related to derivative liabilities	(3 777)	-
(-) Value adjustments due to the requirements for prudent valuation	(120 522)	(26 487)
(-) Intangible assets	(424 832)	(455 345)
(-) Other intangible assets gross amount	(456 522)	(455 345)
Deferred tax liabilities associated to other intangible assets	31 690	-
(-) IRB shortfall of credit risk adjustments to expected losses	(288 660)	(115 705)
Other transitional adjustments to CET1 Capital	(559 059)	-
CET1 capital elements or deductions - other	(270 556)	(17 076)
Additional Tier 1 capital	**-**	**-**
TIER 2 CAPITAL	**1 608 233**	**3 040 845**
Capital instruments and subordinated loans eligible as T2 capital	722 058	2 860 834
Tier 2 capital elements or deductions - other	-	180 011
Transitional adjustments due to grandfathered T2 capital instruments and subordinated loans	886 175	-

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Credit risk	31.12.2014	31.12.2013
Risk weighted exposure amounts for credit risk, counterparty credit risk, dilution risk and free deliveries	**56 601 711**	**51 714 063**
Standardised approach	**12 987 810**	**21 457 712**
SA exposure classes excluding securitisation positions	12 987 810	21 457 712
Central governments or central banks	53 237	71 473
Regional governments or local authorities	387 325	437 107
Public sector entities	39 287	31 425
Multilateral Development Banks	-	-
International Organisations	-	-
Institutions	1 595 957	1 136 852
Corporates	5 118 708	7 090 542
Retail	1 080 009	7 274 961
Secured by mortgages on immovable property	3 555 432	4 286 870
Exposures in default	444 814	838 460
Items associated with particular high risk	15 695	55 285
Covered bonds	-	-
Claims on institutions and corporates with a short-term credit assessment	-	-
Collective investments undertakings (CIU)	-	-
Equity	654 245	-
Other items	43 101	234 737
AIRB approach	**43 613 901**	**30 256 351**
AIRB approaches when neither own estimates of LGD nor Conversion Factors are used	-	-
AIRB approaches when own estimates of LGD and/or Conversion Factors are used	40 679 146	27 748 059
Central governments and central banks	-	-
Institutions	-	-
Corporates - SME	4 325 250	8 065 590
Corporates - Specialised Lending	4 998 130	2 338 277
Corporates - Other	15 020 128	7 932 618
Retail - Secured by real estate SME	-	-
Retail - Secured by real estate non-SME	9 031 991	9 411 574
Retail - Qualifying revolving	-	-
Retail - Other SME	2 148 907	-
Retail - Other non-SME	5 154 740	-
Equity AIRB	-	-
Securitisation positions IRB	-	-
Other non credit-obligation assets	2 934 755	2 508 292

50. Events after the balance sheet date

- Change of the CHF to PLN exchange rate in 2015

An unexpected decision of the Swiss Central Bank taken on 15 January 2015 to discontinue maintaining a minimum exchange rate of CHF to EUR at the level of 1.20 resulted in significant appreciation of CHF against PLN. The official average exchange rate of NBP as of 14 January 2015 was PLN 3.5712 for 1CHF, while as of 27 February 2015 the average exchange rate of NBP was PLN 3.8919 for 1CHF.

As the Group has a substantial portfolio of mortgage loans denominated in CHF, the weakening of PLN against CHF as described above will cause an increase in risk-weighted assets and consequently decrease of the total capital ratios and Common Equity Tier 1 capital ratios of the Bank and the Group.

The Group estimates that having exchange rate 1 CHF = PLN 4.20:

- Consolidated Common Equity Tier 1 capital ratio would fall by 0.41 pp,
- Consolidated total capital ratio would fall by 0.36 pp,
- Stand-alone Common Equity Tier 1 capital ratio would fall by 0.54 pp,
- Stand-alone total capital ratio would fall by 0.50 pp.

Above estimates are based on financial data as of 31 December 2014.

With regard to the capital ratios of the Bank and the Group, a negative impact of weakening of PLN against CHF will be offset by recognizing PLN 750 000 thousand of subordinated bonds into supplementary capital in accordance with the decision of the Polish Financial Supervision Authority from 8 January 2015 as described in Note 31.

In addition, an increase of the PLN value of mortgage loans denominated in CHF, together with unchanged value of collaterals, will have a one-off moderately negative impact on the profit and loss account due to the necessity to create additional provisions for a part of this loan portfolio that is impaired.