



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

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1. Short overview of mBank Group

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

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

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

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

The key highlights of 2015 for mBank Group include:

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

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

1.1. Key financial and business data of mBank Group

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

mBank S.A. Group

Management Board Report on the Performance of mBank Group in 2015

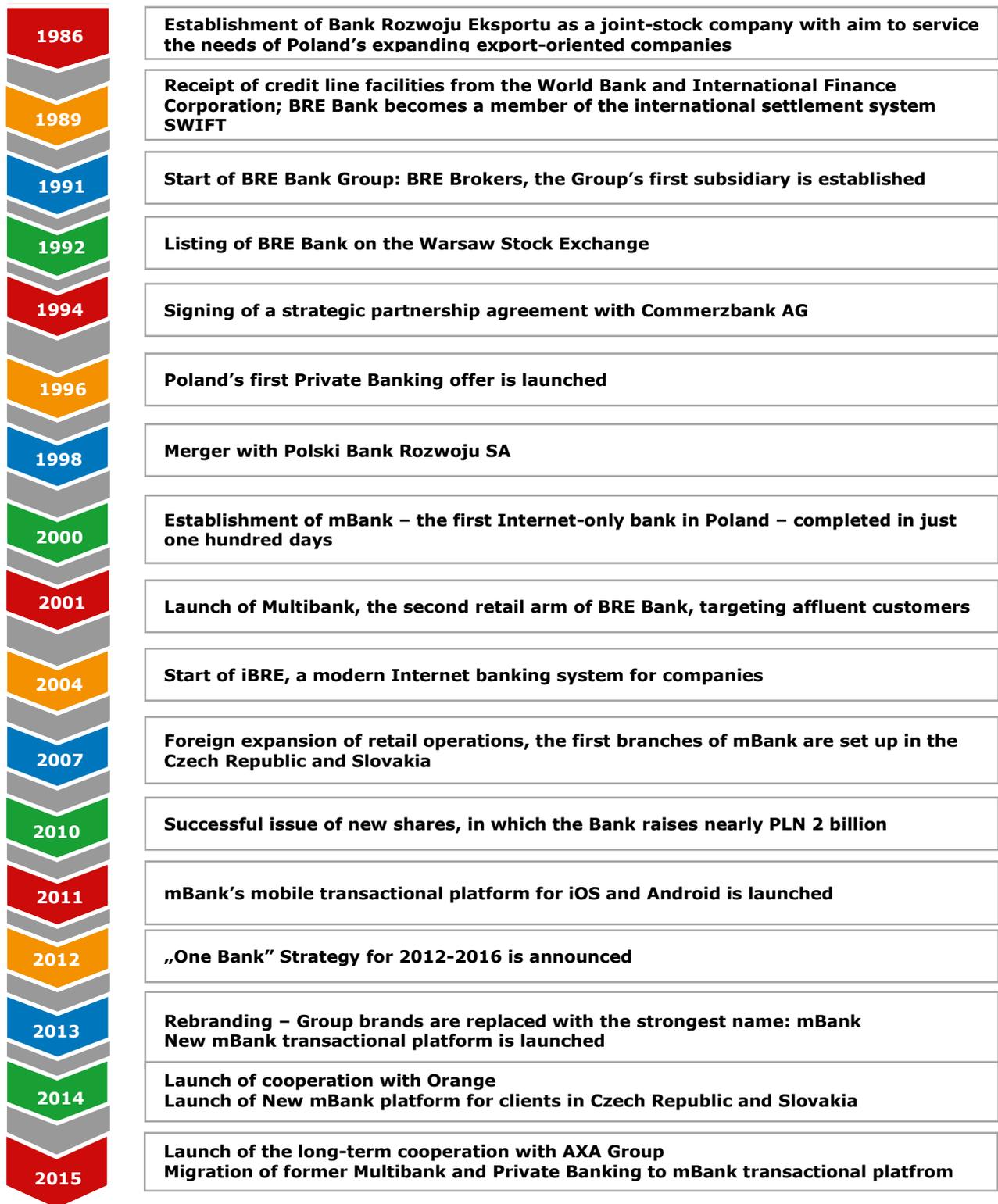
Business Data	2011	2012	2013	2014	2015	YoY change
Retail Banking						
No. of customers (thou.)	3,893	4,134	4,368	4,551	4,947	8.7%
Total loans (PLN M)	38,689	37,704	38,308	41,560	46,259	11.3%
Total deposits (PLN M)	26,701	33,234	34,203	39,285	46,117	17.4%
Corporate Banking						
No. of customers (thou.)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

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

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

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

1.2. History of mBank Group



1.3. mBank Group's business model in a snapshot

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

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

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

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

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

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

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

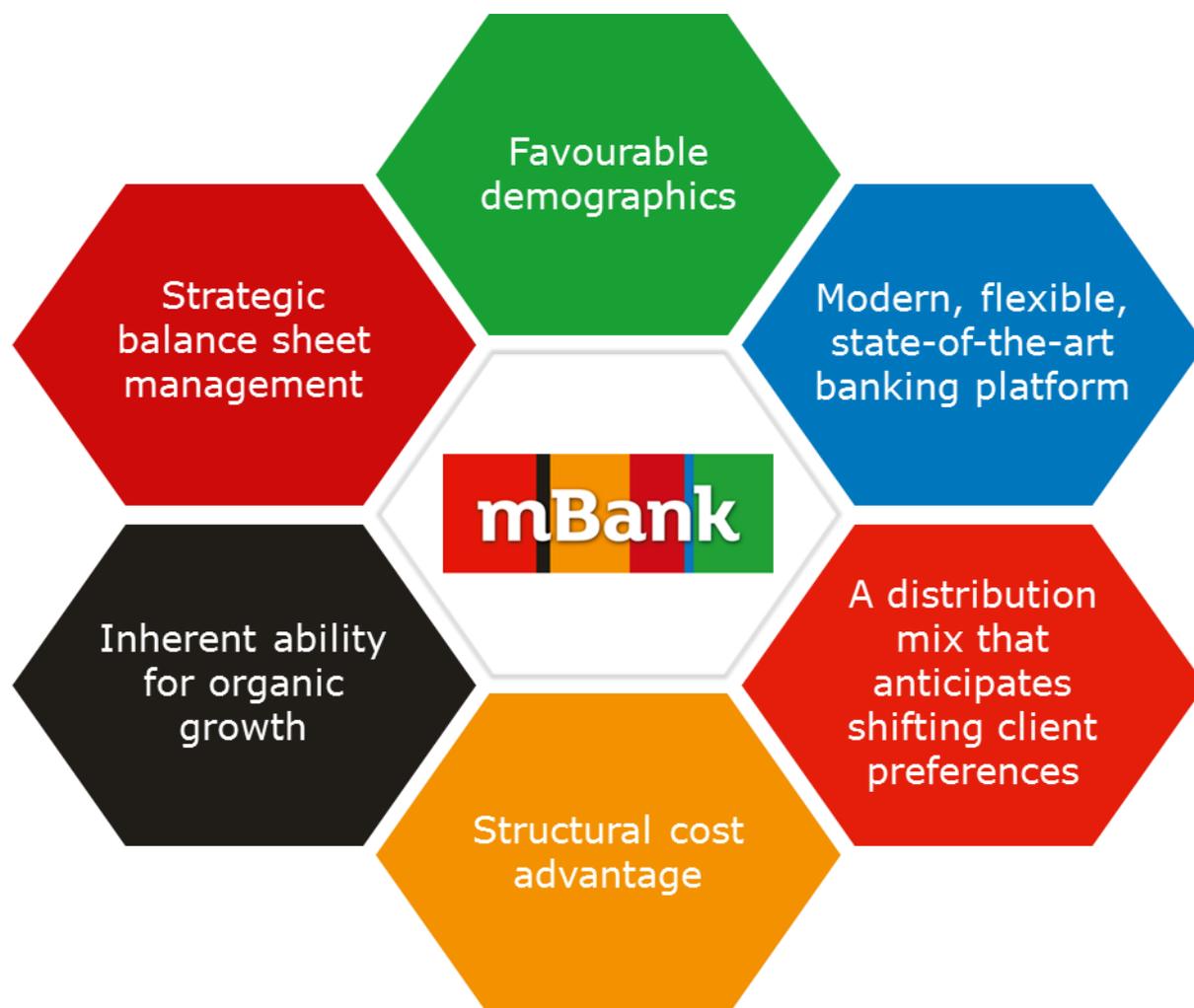
In the corporate and investment banking area, mBank's offer for business clients include a range of fully integrated commercial banking products, services and solutions, with particular emphasis on the advanced transactional banking platform. This comprehensive product offering is complemented by investment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

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

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

1.4. mBank Group's strategic advantages

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



Favourable demographics

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

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

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

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

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

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

A distribution mix that anticipates shifting client preferences

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

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

Structural cost advantage

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

Inherent ability for organic growth

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

Strategic balance sheet management

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

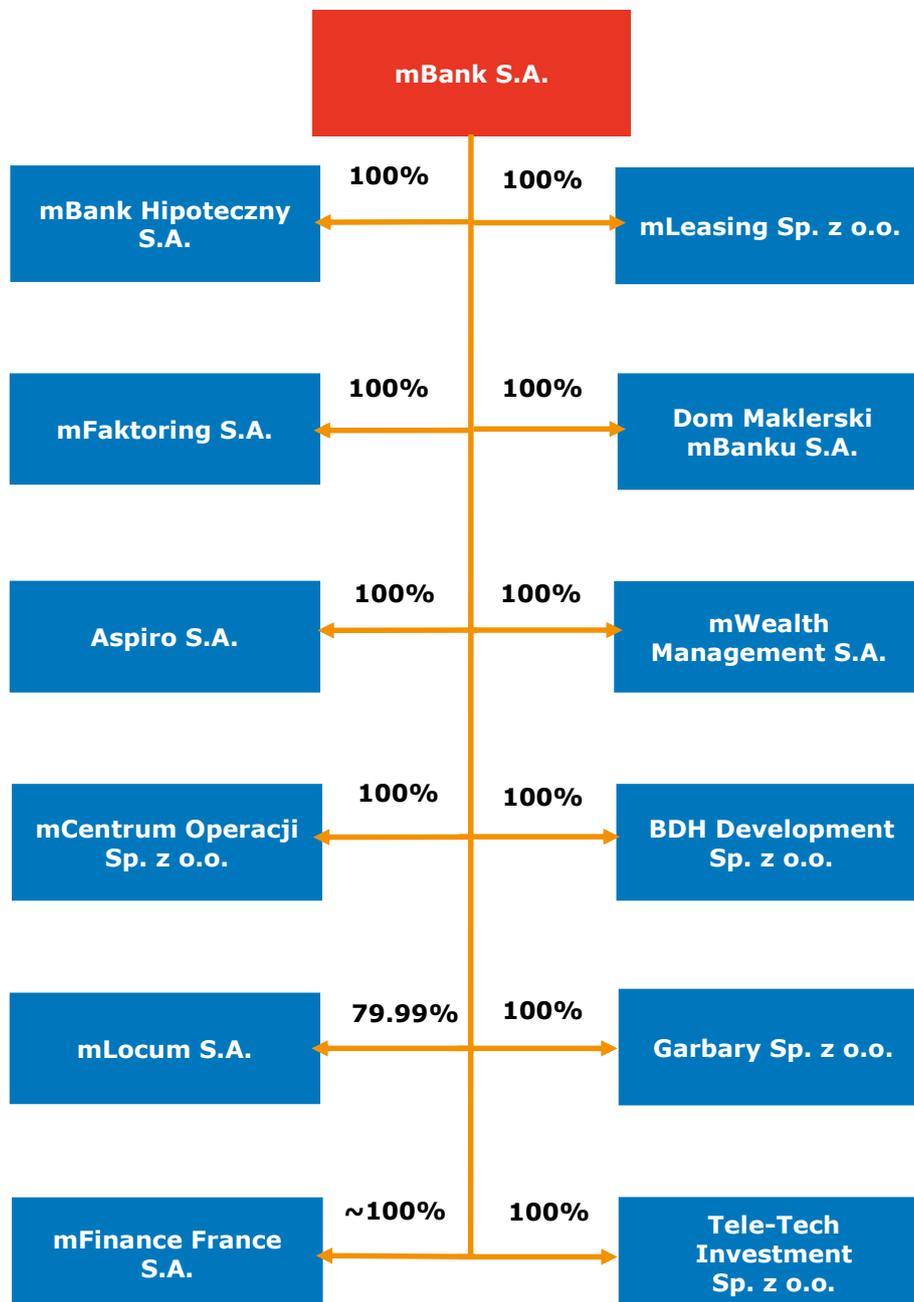
On the asset side, development of balance sheet benefits from the phasing out of the legacy CHF-denominated mortgage loan portfolio and the intended expansion of higher margin lending products, such as retail consumer loans (predominantly cross-selling of non-mortgage loans to existing current account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

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

1.5. Composition of mBank Group and main activities areas

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

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



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

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

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

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

Composition of mBank Group

Segment	Corporates and Financial Markets		
	Retail Banking	Corporate and Investment Banking	Financial Markets
Bank	<ul style="list-style-type: none"> ■ Retail customers and microenterprises ■ Affluent retail customers ■ Private Banking 	<ul style="list-style-type: none"> ■ Corporations and non-banking financial institutions (capital groups) (K1) ■ Large Companies (K2) ■ SME (K3) 	<ul style="list-style-type: none"> ■ Banks ■ Corporate clients in scope of trading and sales ■ Market and Liquidity Risk Management
Consolidated subsidiaries	<ul style="list-style-type: none"> ■ Dom Maklerski mBanku S.A. (brokerage house) - Retail ■ mLeasing Sp. z o.o. - Retail ■ mBank Hipoteczny S.A. - Retail ■ Aspiro S.A. ■ mWealth Management S.A. 	<ul style="list-style-type: none"> ■ Dom Maklerski mBanku S.A. (brokerage house) - Corporate ■ mLeasing Sp. z o.o. - Corporate ■ mBank Hipoteczny S.A. - Corporate ■ mFaktoring S.A. ■ Garbary Sp. z o.o. ■ Tele-Tech Investment Sp. z o. o. 	<ul style="list-style-type: none"> ■ mFinance France S.A. (special purpose entity reserved for financing activities of the Bank) ■ mLeasing Sp. z o.o. - within the scope related to fund raising ■ mBank Hipoteczny S.A. - within the scope related to fund raising
	Other subsidiaries	<ul style="list-style-type: none"> ■ mLocum S.A. (a real estate developer) ■ mCentrum Operacji Sp. z o.o. (outsourcing services provider) ■ BDH Development Sp. z o.o. (a real estate management company) 	

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

Changes in authorities of mBank

Supervisory Board of mBank S.A.

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

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

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

Management Board of mBank S.A.

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

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

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

2. 2015 – key highlights of mBank Group

2.1. 2015 in numbers



Revenues

PLN **4,093**
million

RoE net

11.8%

Increase in total loans excl. FX effect & reverse repo

6.3% 
YoY

Increase in total deposits

12.0% 
YoY

No. of clients retail & corporate

5.0
million

No. of employees

6,540
FTE

No. of mobile application users

More than
1 million

Market positioning

#4
in terms of assets

Business lines – key data

RETAIL BANKING

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

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



Profit before tax: **PLN 1,060.7 million**

No. of branches: **278**

No. of clients: **4.9 million**

Increase in loans excl. FX effect: **6.3%**

Increase in deposits: **17.0%**

CORPORATE AND INVESTMENT BANKING

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

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



Profit before tax: **PLN 537.4 million**

No. of branches and offices: **47**

No. of clients: **19.6 thousand**

Increase in loans excl. FX effect & reverse repo: **11.2%**

Increase in deposits excl. reverse repo: **17.0%**

FINANCIAL MARKETS

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



Profit before tax: **PLN 80.2 million**

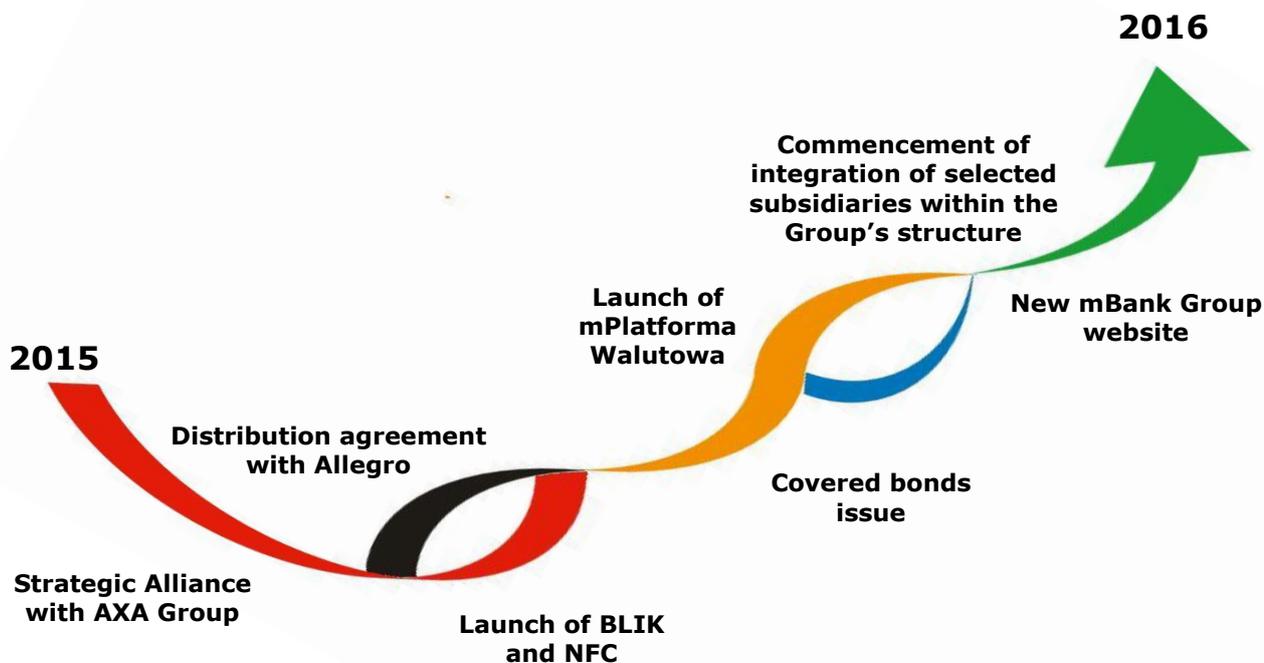
Increased profitability of derivative transactions: **33.6%**

Increase in no. of active clients: **~50%**

Market share of Treasury bills and bonds: **20.5%**

2.2. Summary of 2015

Q1	<ul style="list-style-type: none"> ■ Strategic alliance with AXA Group ■ Distribution agreement signed with Allegro ■ Launch of mobile payments services - BLIK and NFC 	Q2
Q3	<ul style="list-style-type: none"> ■ Issue of over PLN 800 million covered bonds by mBank Hipoteczny ■ mBank again among the top banks in Poland, according to the rankings of Forbes and Newsweek 	Q4



2.3. Key projects of mBank Group in 2015

Migration of Multibank clients to mBank

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

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



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

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

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

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



One Network Project of mBank

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

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

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

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

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

Issue of covered bonds by mBank Hipoteczny

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

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

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

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

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

Project ALM (Asset and Liability Management)

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

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

2.4. Innovations at mBank Group



Mobile application

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

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

According to a report by PR News, at the end of Q3 2015 the number of active users of mobile banking exceeded 5 million. mBank boasts the

greatest number of mobile users, which stood at 1,162,000 in Q3 2015.^a The number of mBank's clients that have already gone mobile is twice the Polish market average.^b

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

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

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

The key new elements of mBank's application include:

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

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

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

^b According to Finalta Research 2015

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

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

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

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

New website

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

NFC service in Orange Finanse

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

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

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

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

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

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



BLIK Service

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

2.5. Strategic partnerships

Strategic cooperation with AXA Group



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

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

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



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

Strategic partnership with Orange

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

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

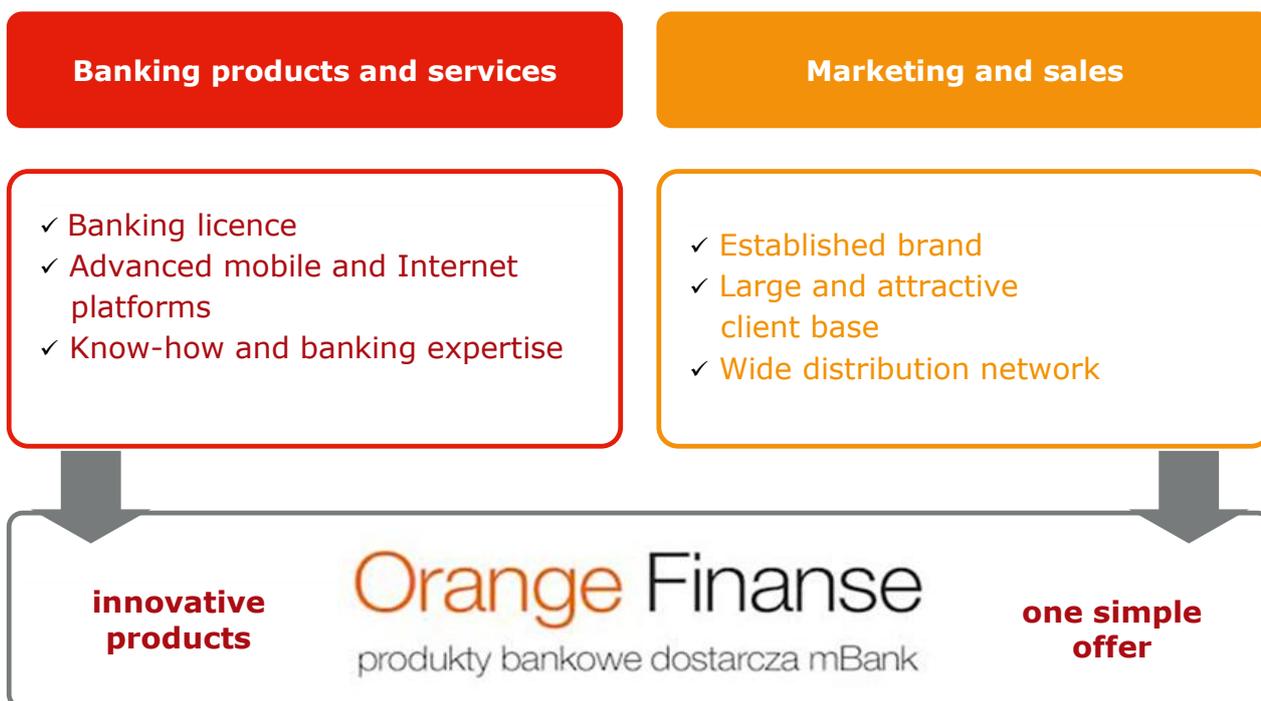


Orange Finance
produkty bankowe dostarcza mBank

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

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

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



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

mBank’s cooperation with Allegro



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

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

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

2.6. Awards and Distinctions

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

Product offer and quality of customer service	
	<p>The Global Finance magazine named mBank the best bank in Poland and ranked it among “World’s Best Corporate/Institutional Digital Banks”. mPlatforma Walutowa (FX mPlatform) was named the best transaction platform for currency exchange dedicated to corporate banking clients in the CEE region (Best Online Treasury Services in CEE).</p>
	<p>In an international contest organised by Efma (organization formed by bankers and insurers, which specialises in financial marketing and distribution) and Accenture for the most innovative banking projects, mBank was once again among the best banks in the world with:</p> <ul style="list-style-type: none"> - marketing banking platform (a tool enabling management of multichannel direct marketing campaigns leading to their better personalization and automation and integrating all the data about the clients) the best in the “Digital Marketing” category - 3rd place in „Global Innovator” category <p>Additionally, Orange Finanse climbed the podium having won second place in the category “Best new product or service”</p>
	<p>In the 6th edition of the Golden Banker ranking organised by Bankier.pl, a financial portal, and PayU, leader of Internet payments in Poland, mBank triumphed for the fifth time, winning awards for the best mobile banking, the best personal account and account for entrepreneurs and winning therefore a major award - the Golden Bank statuette.</p>
	<p>mBank was once again among the winners and received the Service Quality Star award in the "Banks" category in the Service Quality programme. Brands with the highest Customer Satisfaction Index (CSI) that stand out against their competitors were selected on the basis of assessments and opinions of consumers published on the website: jakoscobslugi.pl.</p>

 <p>Jakość na bank</p>	<p>In the 4th edition of the "Quality you can bank on" ranking organised by TNS Polska in cooperation with Dziennik Gazeta Prawna daily mBank came second in terms of the quality of services offered in its branches. As part of this year's edition, the auditors of TNS Polska visited branches of 19 banks offering personal accounts.</p>
	<p>Experts of the consultancy and research institution Celent Research, appreciated mBank's insurance sales model. For the second consecutive time mBank was among the winners of the international Model Bank Awards competition. mBank won in the "Innovation and Emerging Technologies" category.</p>
	<p>At this year's Banking Gala organised by Newsweek and Forbes magazines, mBank was recognized with the largest number of awards among all financial institutions listed in the ranking. In the 14th edition of the "Newsweek's Friendly Bank" contest mBank was ranked:</p> <ul style="list-style-type: none"> - second in the "On-line Banks" category - second in the "Mobile Banking" category - third in the "Bank for Kowalski" category - in which the quality of service is assessed along with the engagement of advisors in acquiring and retaining clients.
	<p>For the seventh time Private Banking of mBank was ranked the best in Poland by Euromoney Magazine, a British financial magazine. Every year, Euromoney Magazine conducts a survey among financial institutions offering specialist banking services to affluent clients. In Poland, mWealth Management has been the winner of this ranking every year since 2007.</p>
<p>Marketing activities and mBank's loyalty programme</p>	
	<p>The design of the mBank Internet marketing platform was recognised as the most innovative technology supporting business development. It won the Financial Cool Business Award competition. It is part of an industrial event Gartner Symposium ITxpo 2015 in Barcelona. The mobile banking application was also ranked high and made it to the finals in its category.</p>
	<p>mBank's loyalty programme mOkazje won in the category "The best loyalty activities in services" in the first edition of the Loyalty Awards, a contest of the best loyalty programmes in Poland in 2014.</p>

Brokerage activities	
	<p>mBank's team of brokerage analysts (mDM) was unrivalled in 2015 in forecasting the key macroeconomic and market indicators among participants of the forecasting contest organised by Parkiet daily. Based on the opinions of investors who evaluate the research departments of brokerage houses, mDM was ranked first.</p>
	<p>Dom Maklerski mBanku won the title of the best broker/investment bank in Central and Eastern Europe in the first edition of the Annual CEE Capital Markets Awards. Moreover, mBank came second in a ranking of "Parkiet" compiled based on readers' votes on 16 largest investments companies maintaining at least 10 thousand investment accounts.</p>

Other awards	
	<p>mBank won the prestigious „The Best of the Best” award for the best 2014 annual report, in „The Best Annual Report” contest for listed companies organised by the Tax and Accounting Institute.</p>
	<p>mBank triumphed in the innovation category of the first edition of the Banking Stars competition organised by Dziennik Gazeta Prawna and PwC. mBank entered three projects in the competition: mobile banking, "light" branches located in shopping malls and cash loan available on line with credit decision in 30 seconds.</p>
	<p>For the second time in a row mBank won the title of the most innovative bank in the Leaders of Banking & Insurance World competition. The jury appreciated the changes introduced in the area of mobile banking and the new, redesigned application offering solutions such as the 30-second loan, i.e. the fastest loan on the market, or mOkazje discount programme with the possibility of geolocation of available offers, made banking simpler and more attuned to the clients' lifestyles.</p>
	<p>mBank Hipoteczny and mBank climbed the podium having won second and third place respectively in the ranking of banks financing real estate developers organised by the Polish Union of Developers.</p>

3. mBank Group Strategy and plans for the coming years

3.1. Implementation of mBank Group Strategy for 2012-2016

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

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

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

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

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

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

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

3.2. Strategy for 2016 - 2020

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

4. Macroeconomic environment

4.1. Economy and the banking sector in 2015

Economy and banking sector in Poland

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

Source: Eurostat, Polish Financial Supervision Authority

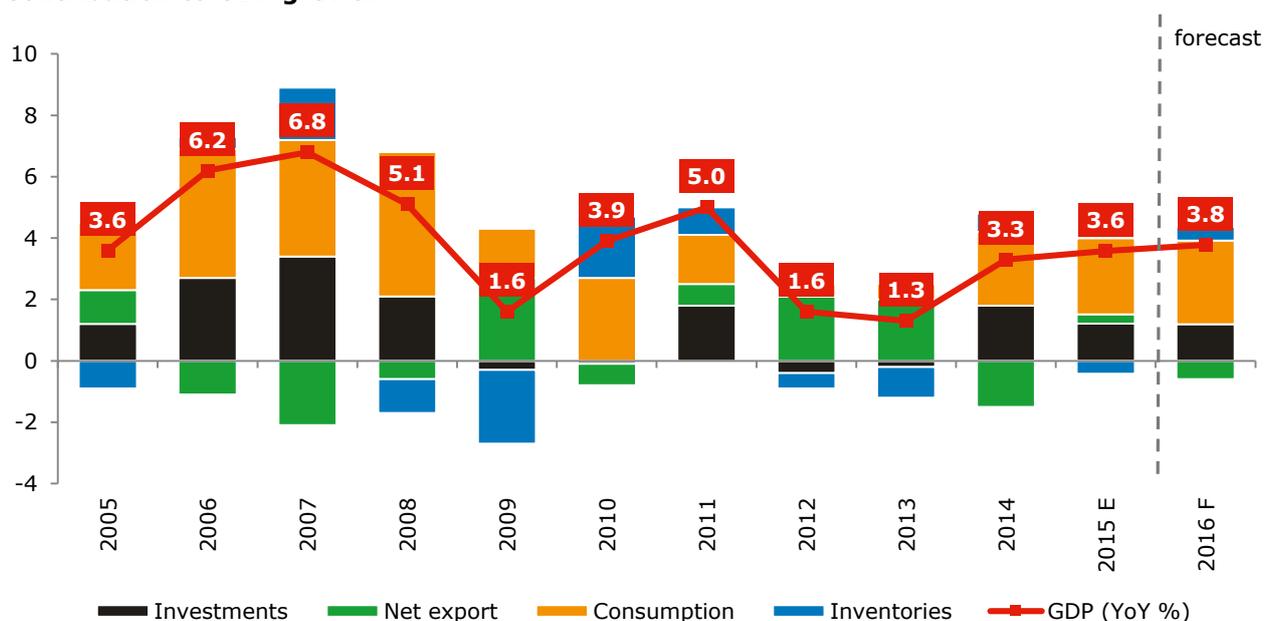
* Data as at December 31, 2015, or latest available

Summary of 2015

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

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

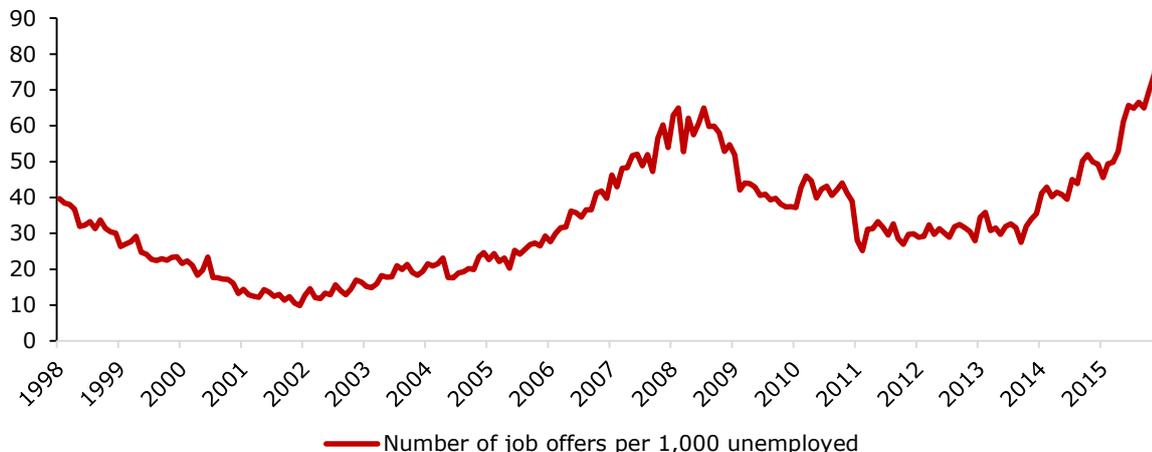
Contribution to GDP growth



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

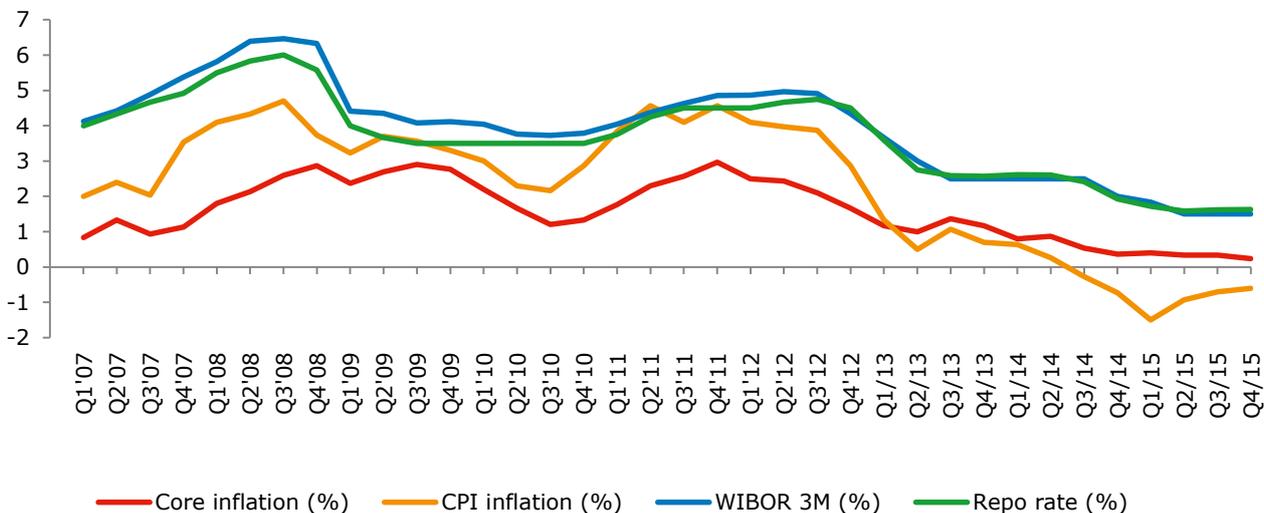
the labour market: by the end of 2015 the number of job vacancies per one unemployed reached a historic high. Additionally, low level of activity was also overcome in the employment statistics. Q4, which saw the number of new jobs created in the corporate sector reach 32 thousand, was the best quarter since 2007.

Number of job offers per 1,000 unemployed

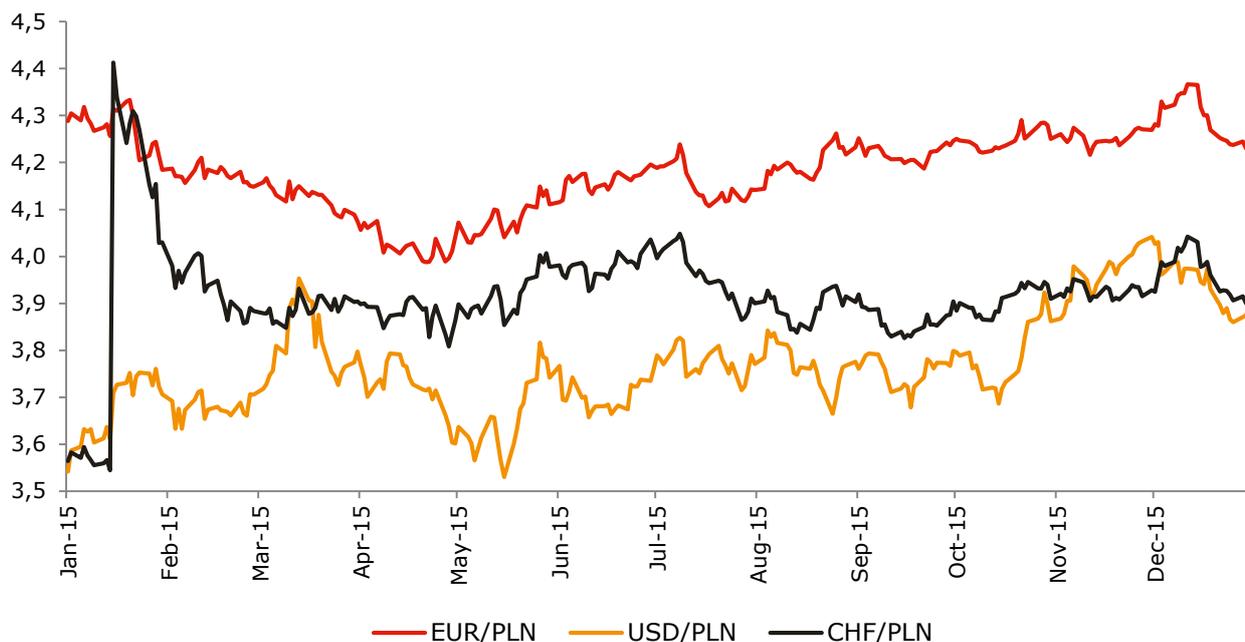


Although the national accounts and the processes observed on the labour market painted a positive picture of the Polish economy, high frequency data (production, sales, construction) turned out to be a source of many negative surprises, especially in the first half of the year, which were seen as signs of an economic downturn. Amid an upward pressure on the Polish zloty observed in Q1 and deflation growing quickly, the Monetary Policy Council (MPC) decided to cut interest rates in March by 50 basis points in one move, bringing the reference rate down to 1.50%. Until the end of the year interest rates remained stable, while the RPP’s rhetoric drifted towards a stabilisation of monetary policy parameters.

CPI inflation and NBP reference rate



After hitting the lowest level in April (3.9650), the Polish zloty continued its depreciation trend until the year’s end amid expectations of a more relaxed monetary policy in the Eurozone, to reach 4.2580 against the Euro at the end of 2015. The depreciation was caused by global factors (weaker sentiment towards emerging markets related to high FX debt burden at a number of developing countries and upcoming increase in interest rates in the United States and weakening global growth) as well as local and political factors connected not only with the uncertainty about a possible change in power (presidential and parliamentary elections) and the economic programme of the new government (banking tax, a rather unfavourable stance on Open-end Pension Funds), but also the previous proposals of converting CHF denominated mortgage loans formulated across the political spectrum during the election campaign.



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

What will 2016 be like for the Polish economy?

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

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

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

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

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

Złoty and Polish bonds

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

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

Banking sector and monetary aggregates

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

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

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

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

A legal act / Recommendation	Date of entry into force and a summary of new challenges	Influence on the main areas of the Bank	
		YES – the regulation has an impact on a given area NO – the regulation has no impact on a given area, or has a limited impact on a given area	
2015			
Basel III (CRD IV/CRR regulatory package)	01.01.2014 ->2019 Defines requirements concerning, among others, capital base, liquidity, leverage ratio, corporate governance and remuneration policy. Transposition of provisions into Polish legislation has been carried out mainly by Act on macroprudential supervision, amending the Banking Law, but accompanying standards and documents are systematically being issued.	<ul style="list-style-type: none"> ▪ Capital Base YES ▪ IT & HR resources NO ▪ Financial result (without IT/HR costs) YES ▪ Client & Offer YES 	
Banking Recovery and Resolution Directive (BRRD)	01.01.2015 The directive introduces framework for managing recovery and resolution of banks. It imposes the need to prepare respective plans (recovery – by banks, resolution – by resolution authority, in Poland – BFG) and establishes a resolution fund to provide for assistance in managing bank’s failure. It also constitutes minimum requirement for own funds and eligible liabilities allowing for effective bail-in of sufficient amount of liabilities and avoiding contagion or a bank run (MREL, binding since beginning of 2016, but delay in implementation on both European and domestic level is observed).	<ul style="list-style-type: none"> ▪ Capital Base YES ▪ IT & HR resources NO ▪ Financial result (without IT/HR costs) YES ▪ Client & Offer NO 	
Act on Foreign Account Compliance Act (FATCA) agreement	01.12.2015 The adopted Act constitutes a legal framework for implementing FATCA provisions, obliging Polish banks to identify, collect, process and transmit information about US citizens and residents’ accounts to America’s Tax Office. An automatic information exchange will be performed on the basis of reciprocity.	<ul style="list-style-type: none"> ▪ Capital Base NO ▪ IT & HR resources YES ▪ Financial result (without IT/HR costs) NO ▪ Client & Offer YES 	

<p>Act on macroprudential supervision over the financial system and crisis management</p>	<p>Q4 2015/01.01.2016</p>	<p>The Act introduces additional capital buffers described in CRD IV to Polish legal framework. It implements also provisions concerning corporate governance, disclosure framework and crisis management principles, establishing the BFG as a resolution authority in Poland equipped with the resolution tools (BRRD partial implementation). The Act influences dividend policy of the banks by setting maximum distributable amount of dividend depending on the joint buffer requirement fulfilment.</p>	<ul style="list-style-type: none"> ▪ Capital Base YES ▪ IT & HR resources NO ▪ Financial result (without IT/HR costs) NO ▪ Client & Offer NO 	
<p>Recommendation P</p>	<p>31.12.2015</p>	<p>Recommendation P issued by KNF aims at updating the standards of liquidity risk management in line with market practice (and EBA guidelines). It provides for defining the acceptable liquidity risk, liquidity measurement and management, especially versus other types of risk, intraday liquidity measurement, stress-testing and disclosures. Additionally, it contains requirements towards liquidity cost allocation within a fund transfer pricing system.</p>	<ul style="list-style-type: none"> ▪ Capital Base NO ▪ IT & HR resources YES ▪ Financial result (without IT/HR costs) NO ▪ Client & Offer NO 	
<p>Banking Law and other Acts</p>	<p>27.11.2015</p>	<p>An amendment to banking law and other acts concerns mainly liquidation of banking enforcement title, which served debt collection process, and regulating procedure of managing accounts of deceased and their takeover by the heirs.</p>	<ul style="list-style-type: none"> ▪ Capital Base NO ▪ IT & HR resources NO ▪ Financial result (without IT/HR costs) NO ▪ Client & Offer YES 	
<p>Recommendation on Internet payments security</p>	<p>December 2015</p>	<p>KNF Recommendation aims at setting uniform minimum requirements concerning security of payment transactions performed via Internet. Its provisions address i.e. process management, control and risk assessment as well as education of customers with this respect.</p>	<ul style="list-style-type: none"> ▪ Capital Base NO ▪ IT & HR resources YES ▪ Financial result (without IT/HR costs) NO ▪ Client & Offer YES 	

<p>Act on payment services</p>	<p>01.02.2015/17.11.2015</p> <p>Amendment to the Act introduces the cap on maximum level of interchange fee of 0.2% for debit cards and 0.3% for credit cards, beginning from February 1, 2015. In Q4 2015, change concerning transitional period until December 8, 2018 for the small (max 3% market share), eligible payment services was made in order to promote development of Polish payment services companies.</p>	<ul style="list-style-type: none"> ▪ Capital Base NO ▪ IT & HR resources YES ▪ Financial result (without IT/HR costs) YES ▪ Client & Offer YES 	   
<p>2016</p>			
<p>European Market Infrastructure Regulation (EMIR)</p>	<p>2016/prolongation of some provisions/</p> <p>Addresses financial markets functioning, in particular risk mitigator. It requires transactions to be cleared centrally through Central Counterparty and sets margining requirements.</p>	<ul style="list-style-type: none"> ▪ Capital Base NO ▪ IT & HR resources YES ▪ Financial result (without IT/HR costs) NO ▪ Client & Offer YES 	   
<p>Act on Bank Guarantee Fund, the deposit guarantee scheme and resolution</p>	<p>2016</p> <p>An amendment to an Act is going to implement the EU Directives: on Deposit Guarantee Scheme (DGS) and the BRRD (in respect to recovery plans, MREL, BRR fund). Main differences compared to these documents concern increased target levels for DGS fund (2.8% instead of 0.8%) and Resolution fund (1.4% instead of 1.0%). Collection period for the target volume of funds is set at 2024. Banks' contributions are going to depend on their market share in the respective calculation and the risk profile of an institution.</p> <p>Under the currently binding regime, the annual contribution rate for 2015 (to be paid in 2016) was set at the level of 0.167% of total risk exposure amount (TREA) (0.189% in 2014) and prudential fee rate at 0.079% of TREA (0.05% in 2014).</p>	<ul style="list-style-type: none"> ▪ Capital Base NO ▪ IT & HR resources NO ▪ Financial result (without IT/HR costs) YES ▪ Client & Offer YES 	   
<p>Act on assistance to borrowers in difficult financial situation</p>	<p>19.02.2016</p> <p>The Act aims at providing financial support to indebted individuals, fulfilling certain requirements who ran into financial difficulties and are not able to repay mortgage on their own. Financial help will be provided from the 'assistance fund', financed by the banks (initial value of PLN 600 million) proportionally to volumes of their portfolios of mortgage loans to households, for which the delay in repayment exceeds 90 days.</p>	<ul style="list-style-type: none"> ▪ Capital Base NO ▪ IT & HR resources NO ▪ Financial result (without IT/HR costs) YES ▪ Client & Offer NO 	   

<p>Recommendation W</p>	<p>30.06.2016</p> <p>Recommendation W, on model risk management was issued by the KNF in July, 2015. It aims at setting the standards of the model risk management process as well as framework for building models and assessing their quality with the aim to ensure appropriate corporate governance.</p>	<ul style="list-style-type: none"> ▪ Capital Base NO ▪ IT & HR resources YES ▪ Financial result (without IT/HR costs) NO ▪ Client & Offer NO 	
<p>Recommendation Z</p>	<p>01.11.2016</p> <p>The draft of Recommendation Z on corporate Governance was submitted to public consultation by the KNF on December 23, 2015. It covers the elements of corporate governance resulting from other regulations, such as Banking Law (implementing majority of CRD IV provisions of corporate governance in banks) in a detailed way, also based on the KNF's observations and BION assessment results. The recommendation is expected to become binding from November 1, 2016.</p>	<ul style="list-style-type: none"> ▪ Capital Base NO ▪ IT & HR resources YES ▪ Financial result (without IT/HR costs) NO ▪ Client & Offer NO 	
<p>Act on tax on financial institutions</p>	<p>01.02.2016</p> <p>The Act imposes monthly tax of 0.0366% (0.44% annually) from selected financial institutions, including banks. Tax will be calculated based on the assets volume subject to several deductions, including own funds and treasury bonds.</p>	<ul style="list-style-type: none"> ▪ Capital Base NO ▪ IT & HR resources NO ▪ Financial result (without IT/HR costs) YES ▪ Client & Offer YES 	
2018			
<p>MIFID II & MIFIR</p>	<p>2018</p> <p>The set of ESMA technical standards on transparency requirements for trading venues and investment firms and on the obligation for investment firms to execute transactions in certain shares on a trading venue or a systematic internaliser has been published in 2015. The implementation date is set for January 1, 2018.</p>	<ul style="list-style-type: none"> ▪ Capital Base NO ▪ IT & HR resources YES ▪ Financial result (without IT/HR costs) NO ▪ Client & Offer NO 	

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

The Polish Banks Association's proposal

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

The package of solutions included:

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

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

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

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

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

Presidential proposal on restructuring of FX loans

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

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

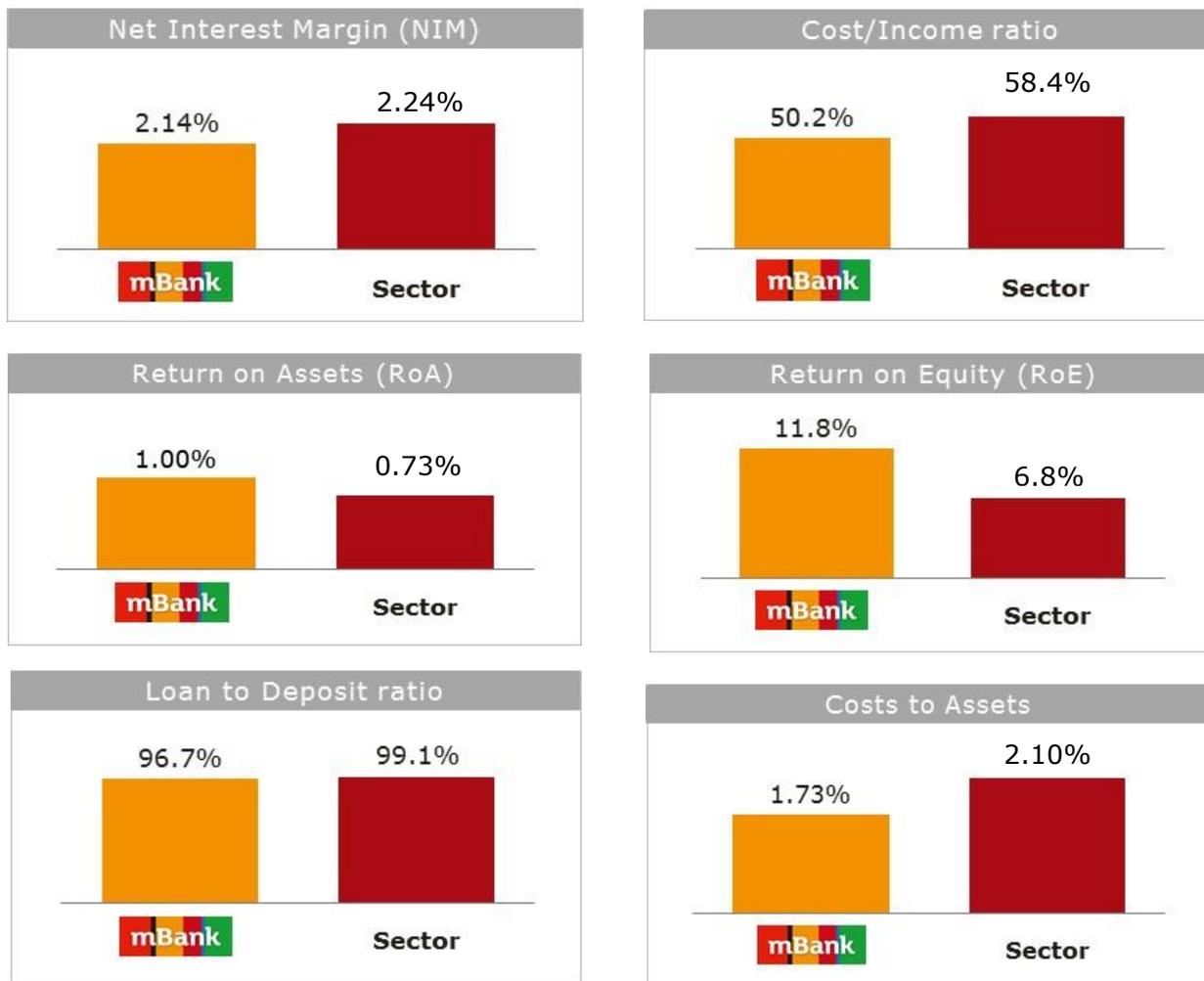
- Voluntary conversion, based on terms agreed between a client and a bank. The loan is converted into PLN and switched to WIBOR.
- Forced conversion of FX mortgage loan at "fair rate". A loan will stay on bank's balance sheet in FX, it will be repaid at fixed fair rate of exchange (calculated individually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

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

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

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

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



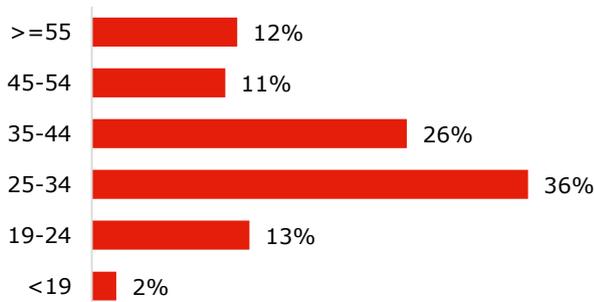
Source: Own calculations, based on statistics published by the Polish Financial Supervision Authority (data as of December 31, 2015)

4.4. Demographic profile of mBank Group clients

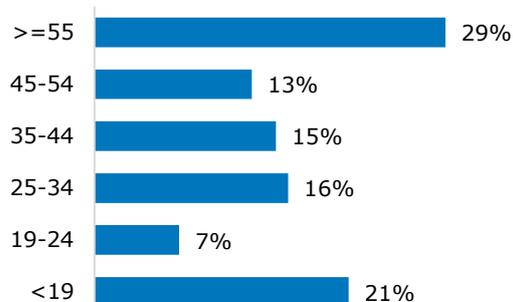
mBank stands out with its favourable demographic profile of clients. As a Bank actively using new technologies, mBank has always had a special appeal for younger people, who have been surrounded by technological innovations from a relatively early age.

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

mBank: demographic structure



Poland: demographic structure



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

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

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

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

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

4.5. Housing market

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

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

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

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

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

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

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

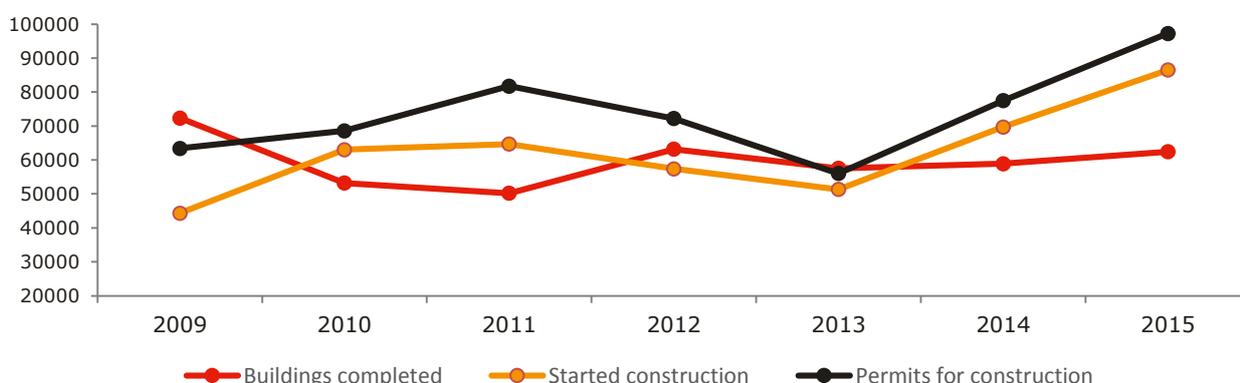
Housing demand was boosted by low interest rates, cash purchases of apartments, improvement on the labour market, rising households' income, higher limits and changes in the government's programme *Mieszkanie dla Młodych* (Apartments for the Young). The biggest change in the programme was the inclusion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

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

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

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

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



*No. of apartments available for sale

Source: Central Statistical Office (GUS), data as at December 31, 2015

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

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

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

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

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

Situation on the commercial property market

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

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

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

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

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

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

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

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

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

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

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

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

5. Financial position of mBank Group in 2015

5.1. Profit and loss account of mBank Group

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

Summary of financial results of mBank Group

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

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

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

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

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

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

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

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

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

Income of mBank Group

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

PLN M	2014	2015	Change in PLN M	Change in %
Interest income	3,956.3	3,660.5	-295.8	-7.5%
Interest expense	-1,465.6	-1,149.1	316.5	-21.6%
Net interest income	2,490.7	2,511.4	20.7	0.8%
Fee and commission income	1,399.6	1,434.0	34.4	2.5%
Fee and commission expense	-497.9	-536.8	-38.9	7.8%
Net fee and commission income	901.7	897.2	-4.5	-0.5%
Dividend income	20.0	17.5	-2.5	-12.5%
Net trading income	369.2	292.9	-76.3	-20.7%
Gains less losses from investment securities, investments in subsidiaries and associates	51.9	314.4	262.5	505.8%
The share in profits (losses) of investments in joint ventures	0.0	-0.1	-0.1	-
Other operating income	346.9	245.9	-101.0	-29.1%
Other operating expenses	-241.2	-185.9	55.3	-22.9%
Total income	3,939.2	4,093.3	154.1	3.9%

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

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

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

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

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

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

The decrease in interest expenses in 2015 was mainly driven by lower costs of settlements with clients (a decrease by PLN 196.1 million, i.e. 22.0%) due to lower interest rates on deposits resulting from a decrease in average annual market interest rates and the consequent changes in the prices of deposit products. Interest expenses paid to banks decreased by PLN 95.3 million, i.e. 50.0% mainly due to the repayment of some of mBank's loans granted by Commerzbank Group for the total amount of CHF 850 million and lower average market interest rates, in particular lower CHF LIBOR. Interest expenses on issued debt

securities increased by PLN 35.7 million, i.e. 15.6% in 2015, mainly driven by diversification of funding sources and increased activity on the covered bond market. Interest expenses on subordinated debt remained almost unchanged compared with the level reported in 2014 (an increase by PLN 1.7 million, i.e. 2.2%).

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

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

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

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

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

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

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

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

Net impairment losses on loans and advances

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

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

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

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

Costs of mBank Group

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

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

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

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

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

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

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

Contribution of business lines and segments to the financial results

Data based on internal management information of mBank Group.

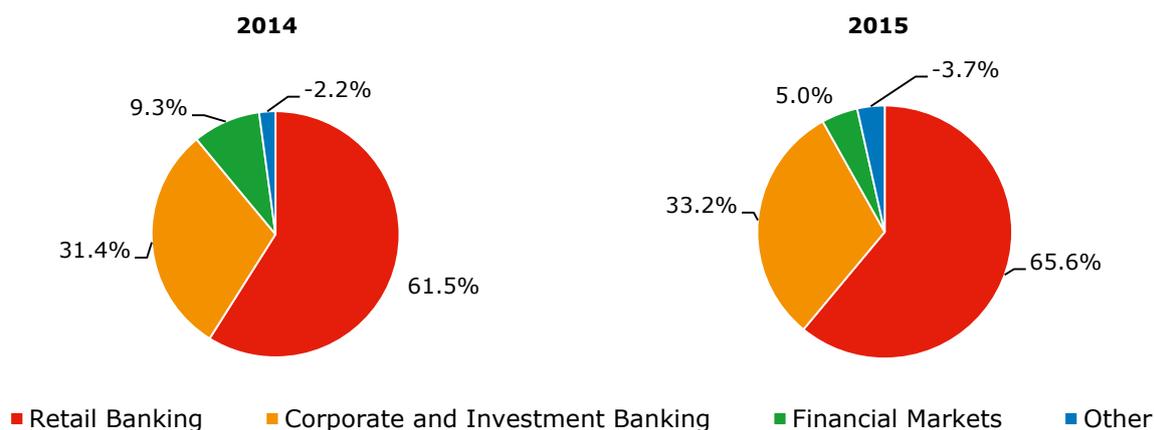
Financial results of mBank Group’s business lines

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

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

The charts below present gross profit contribution by business segments:

Gross profit contribution by business segments



5.2. Changes in the consolidated statement of financial position

Changes in assets of mBank Group

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

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

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

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

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

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

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

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

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

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

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

Changes in liabilities and equity of mBank Group

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

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

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

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

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

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

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

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

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

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

5.3. Prudential consolidation

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

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

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

Basis of the preparation of the consolidated financial data

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

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

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

Consolidation

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

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

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

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

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

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

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

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

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

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

Consolidated prudentially income statement

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

Consolidated prudentially statement of financial position

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

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

mBank S.A. Group

Management Board Report on the Performance of mBank Group in 2015

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

6. mBank Group capital and funding

6.1. mBank Group capital base

Structure of own funds including CET 1 and Tier 2 capital

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

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

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

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

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

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

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

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

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

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

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

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

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

Capital and liquidity norms under Basel 3 and EU regulations

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

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

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

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

Dividend

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

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

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

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

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

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

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

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

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

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

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

MREL and TLAC and their potential impact on mBank

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

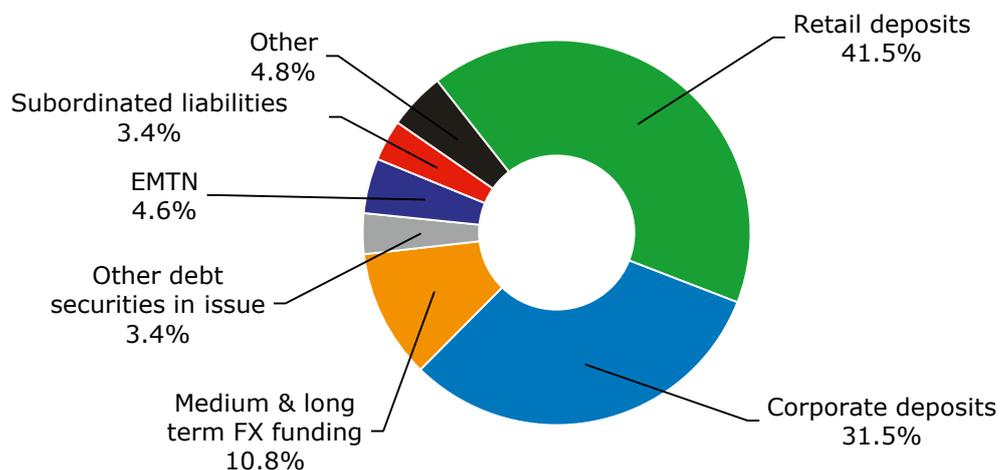
The minimum requirement of own funds and eligible liabilities, MREL, stipulated in the Banking Recovery and Resolution Directive and has been described in details in the respective EBA Technical Standard (EBA/RTS/2015/05). MREL requirement constitutes a regulatory tool aiming at structuring institution's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

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

6.2. mBank Group funding

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

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



Bonds issued under the EMTN Programme

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

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

Following table presents a summary of outstanding tranches:

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

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

Activity on the covered bond market

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

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

It was the best year in the fifteen-year history of mBank Hipoteczny as measured by the scale of issuing activity. It was the best year in the fifteen-year history of mBank Hipoteczny as measured by the scale of

issuing activity. In 2015, mBH conducted a record-breaking single issue of covered bonds worth PLN 500 million (in September), while the value of new and outstanding covered bonds issued by mBH crossed the mark of PLN 4 billion in the end of 2015.

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

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

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

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

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

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

Legislative changes concerning covered bonds

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

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

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

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

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

7. mBank Group in the financial services market in 2015

7.1. Market share of mBank Group segments

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

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

Business category	Market position in 2015*	Market Share	
		2014	2015
Corporate Banking			
Corporate loans		6.3%	6.3%
Corporate deposits		8.8%	9.8%
Leasing	2	7.4%	7.6%
Factoring	7	7.9%	7.8%
Retail Banking in Poland			
Total loans		6.3%	6.5%
Of which mortgage loans		7.4%	7.7%
Non-mortgage loans		4.6%	4.7%
Deposits		5.3%	5.7%
Retail Banking in the Czech Republic			
Total loans		1.2%	1.4%
Of which mortgage loans		1.6%	1.8%
Non-mortgage loans		0.5%	0.6%
Deposits		1.3%	1.4%
Retail Banking in Slovakia			
Total loans		0.7%	0.8%
Of which mortgage loans		0.8%	1.0%
Non-mortgage loans		0.3%	0.4%
Deposits		1.5%	1.4%

Investment Banking			
Financial markets			
Treasury bills and bonds		14.8%	12.8%
IRS/FRA		27.3%	15.4%
FX spot and forward		10.9%	12.1%
Non-Treasury securities			
Short-term debt securities	7	8.1%	6.8%
Corporate bonds	4	12.9%	12.4%
Bank debt securities**	1	34.3%	36.4%
Brokerage			
Equities trading	9	3.9%	5.0%
Futures	2	18.0%	16.1%
Options	3	17.9%	12.8%

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

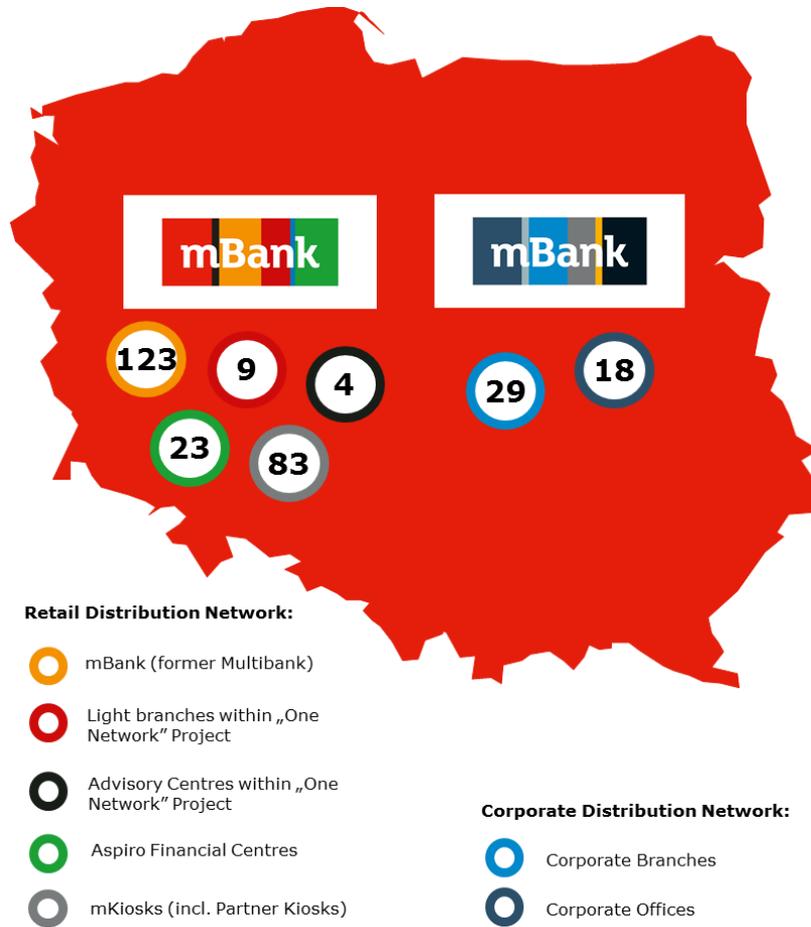
* where determinable

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

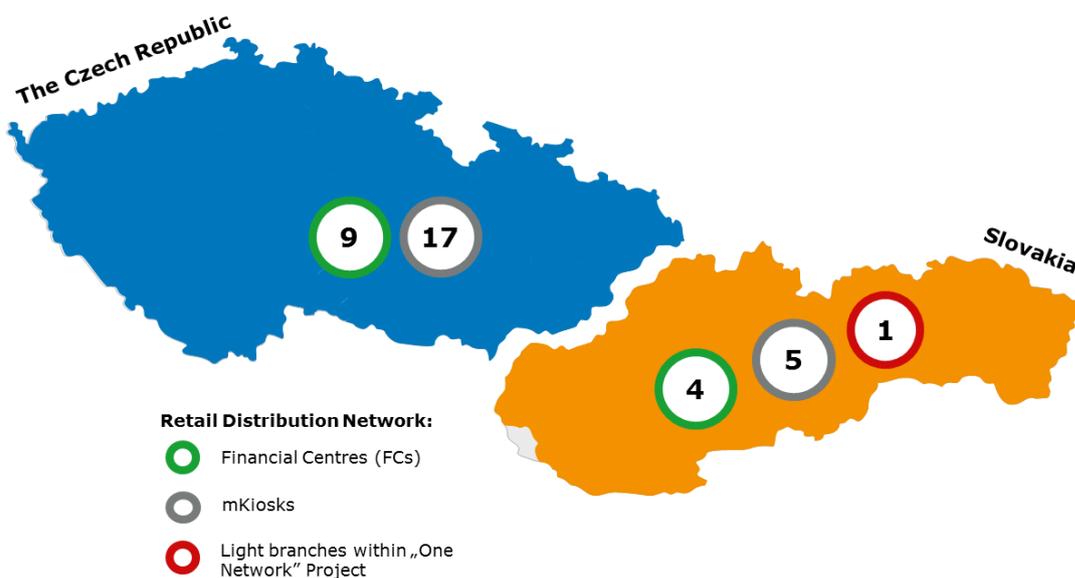
7.2. mBank Group geographical presence

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

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



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



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

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

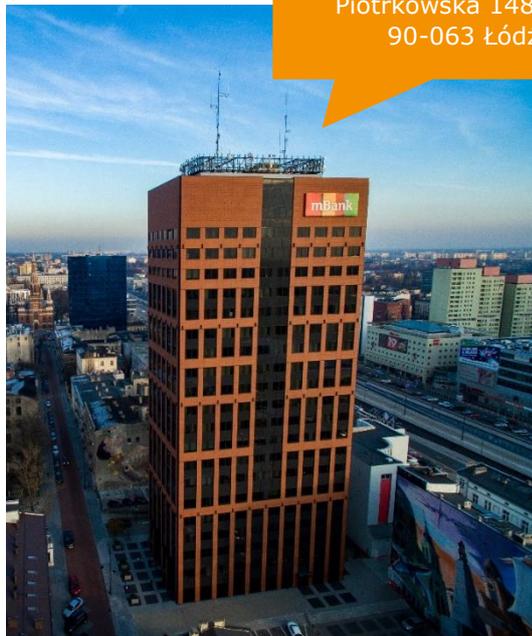
Headquarters and the Management Board of mBank S.A.

Senatorska 18
00-950 Warsaw



Red Tower

Piotrkowska 148/150
90-063 Łódź



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



mBank SK
Pribinova 10
811 09 Bratislava



mBank CZK
Sokolovská 668/136d
186 00 Praha 8

8. Corporates and Financial Markets

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

8.1. Corporate and Investment Banking

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

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

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

Summary of Corporate and Investment Banking segment financial results

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

Corporate and Investment Banking - decomposition of profit before tax

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

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

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

Activity of Corporate and Investment Banking segment in 2015

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

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

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

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

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

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

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

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

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

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

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

Products and services on offer**Corporate loans**

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

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

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

Corporate deposits

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

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

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

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

Structured finance, project finance, syndicated loans

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

BGK guarantee

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

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

European Union financing

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

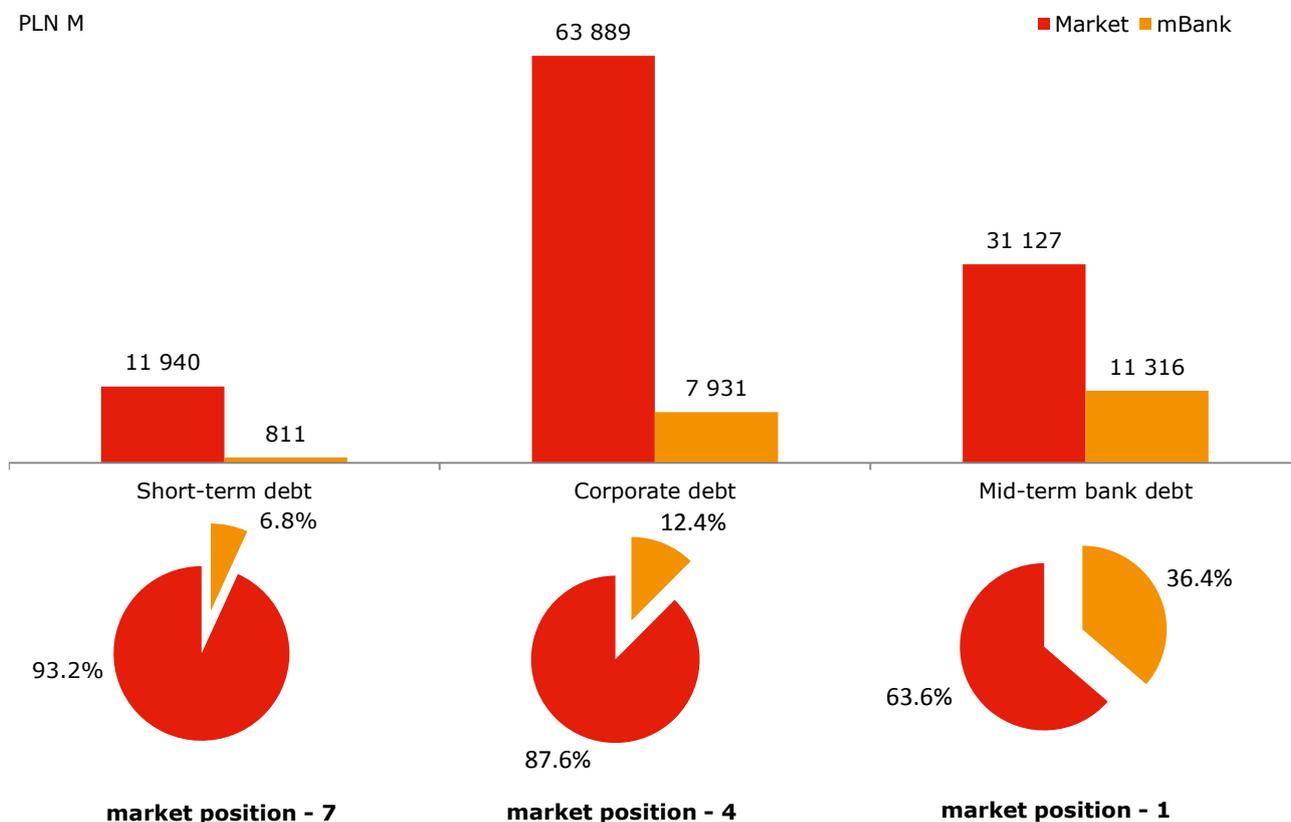
Issuing debt securities for corporate clients

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

mBank in the Non-Treasury Debt Market

as at December 31, 2015

PLN M



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

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

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

Development of transactional banking

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

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

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

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

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

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

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

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

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

■ Offering a new functionality of **outgoing SWIFT MT101 messages** in MultiCash electronic banking system (active role of the Bank). The new service allows mBank to serve global corporate clients having

their accounting and treasury centres in Poland, who need tools enabling them to manage their accounts held with domestic and foreign banks via a single electronic banking system offered by mBank.

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

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

8.2. Financial Markets

Summary of Financial Markets segment results

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

Financial Markets - decomposition of profit before tax

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

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

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

Financial Markets segment activity in 2015

Financial Markets area covers:

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

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

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

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

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

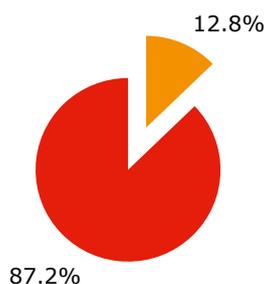
The number of active clients almost doubled, which caused the growth of margins on transactions in 2015.

The individual, biggest derivative transactions include:

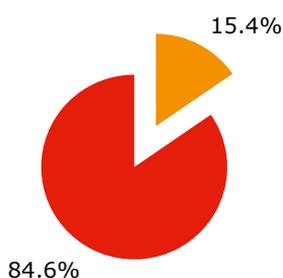
- Transaction with Andels
- Transaction with Wirtualna Polska
- Transaction with Wagony Świdnica

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

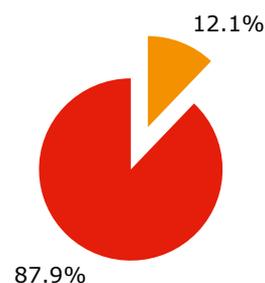
Treasury bills & Bonds



IRS/FRA



FX Spot & Forward



■ mBank ■ Market

Financial Institutions

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

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

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

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

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

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

mBank's Custody Services

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

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

9. Retail Banking

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

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

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

Data in the table based on internal management system.

Summary of Retail Banking segment financial results

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

Retail Banking - decomposition of profit before tax

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

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

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

9.1. Retail Banking in Poland

Retail Banking (including Private Banking) in Poland in 2015

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

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

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

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

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

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

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

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

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

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

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

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

The following products were redesigned and upgraded:

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

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

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

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

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

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

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

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

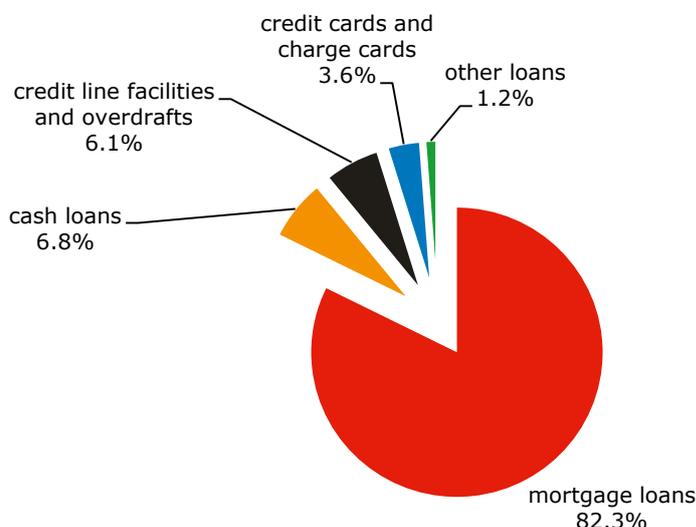
Intensive efforts on forging long-term relations with retail clients were also confirmed by a number of prizes awarded to mBank. In particular, the bank was appreciated by *Forbes* magazine, which named mBank the Best Bank in Poland in the category “direct contact channels” and by Bankier.pl portal,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

Development of the retail banking offer in Poland

Loans

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

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



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

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

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

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

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

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

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

Deposits and investment funds

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

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

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

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

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

Cards

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

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

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

9.2. Retail Banking in the Czech Republic and Slovakia

Economy and banking sector in the Czech Republic

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

Source: Eurostat, Česká národní banka (ČNB).

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

GDP, inflation, interest and FX rates

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

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

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

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

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

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

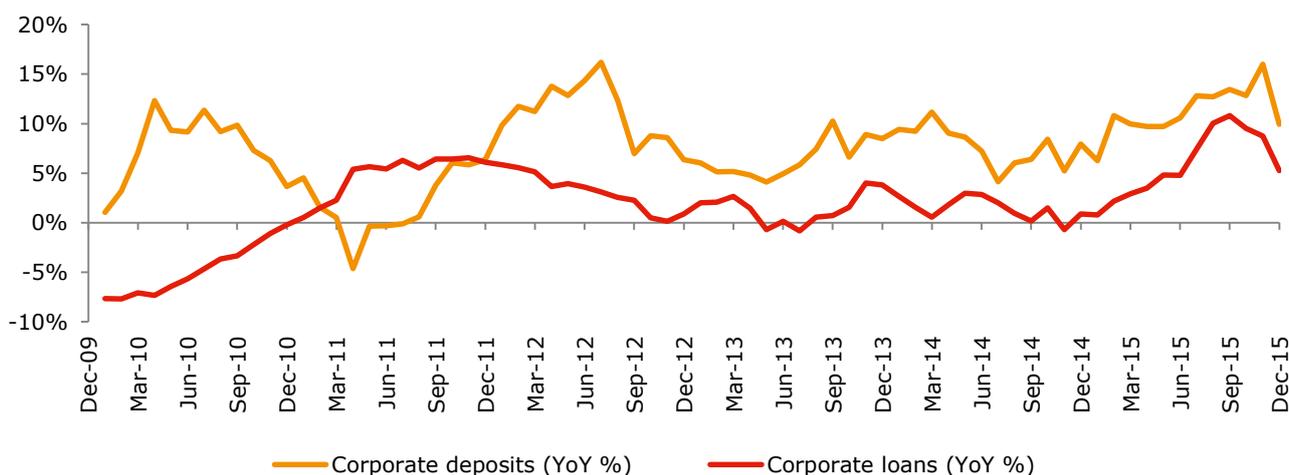
The strengthening of the Czech economy is reflected in improving labour market parameters. The country's unemployment rate has stabilised at the lowest level in the Central and Eastern Europe (CEE) region. The seasonally adjusted unemployment rate reached 5.1% in December 2015 and decreased by 1.0 percentage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

Banking sector

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

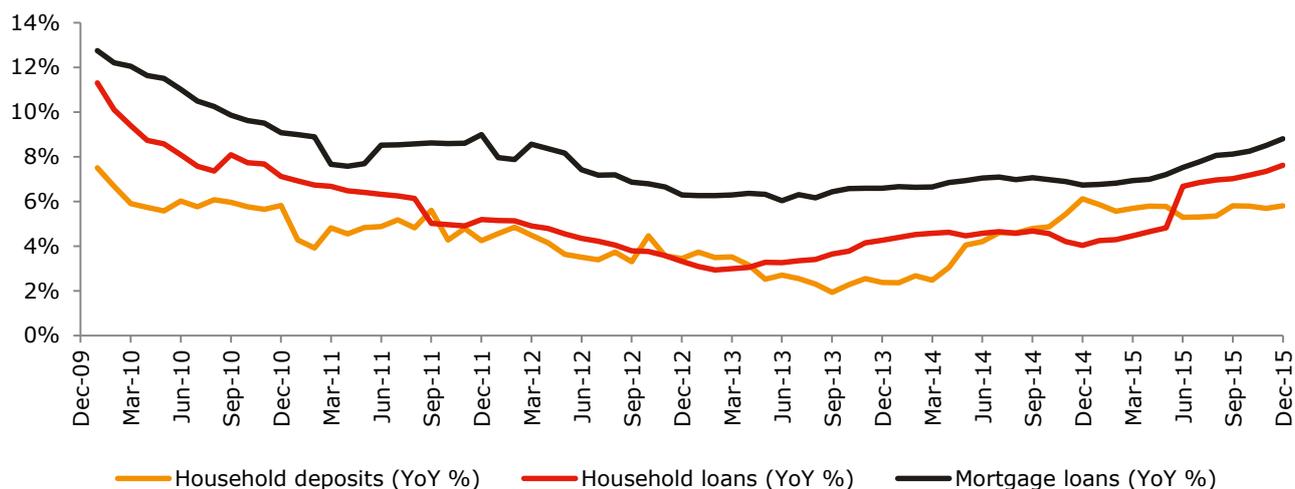
Overall, the profitability of the Czech banking sector is among the highest in the CEE region, as measured by a return on equity of 14.3% and a return on assets of 1.3%. It is expected to stabilise at current levels, as robust capital buffers will enable Czech banks to take advantage of the growth in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

The Czech Republic: Corporate Loans and Deposits



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

The Czech Republic: Household Loans and Deposits



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

Economy and banking sector in Slovakia

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

Source: Eurostat, Národná banka Slovenska (NBS).

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

GDP, inflation and interest rates

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

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

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

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

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

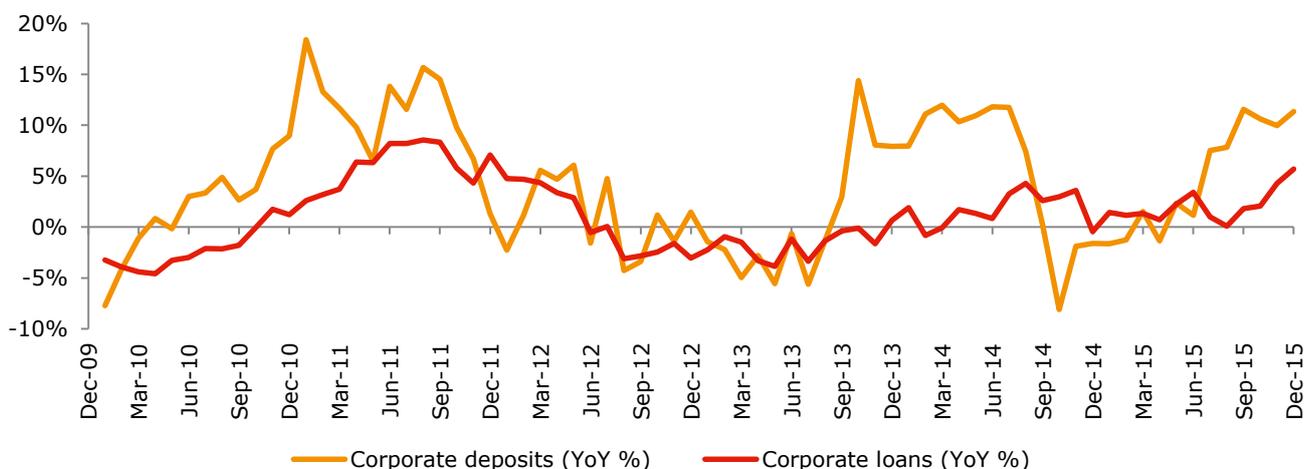
Banking sector

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

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

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

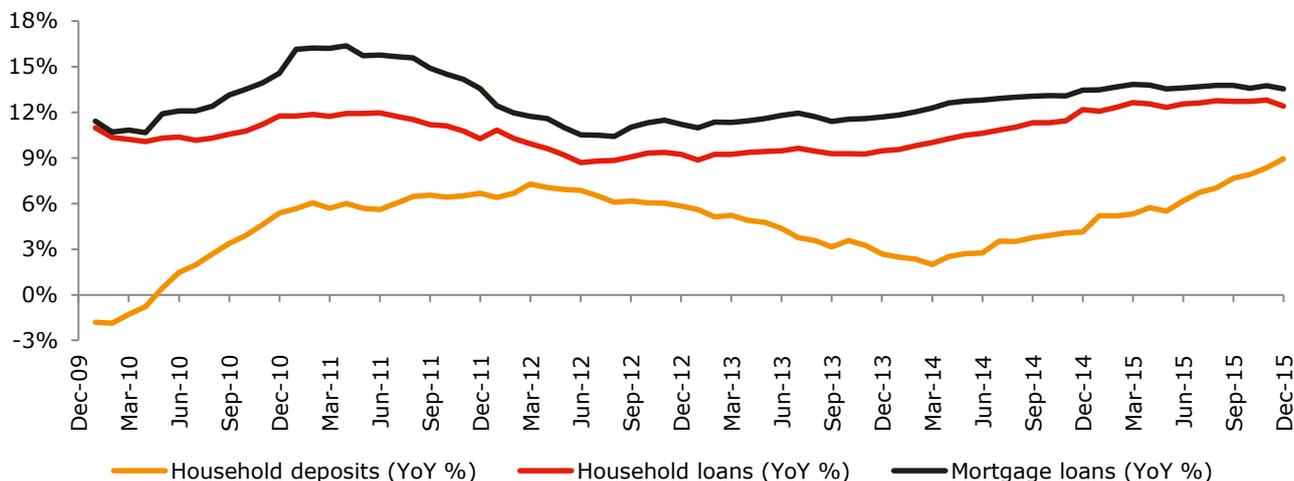
Slovakia: Corporate Loans and Deposits



Accelerating economic recovery and low interest rates provided banks with favourable lending opportunities. Total loans grew by 9.3% in 2015, compared with 7.7% in 2014. After only moderate expansion in corporate loan volume observed in 2014 and until Autumn 2015, the commercial books of banks recorded a higher growth of 5.7% at the end of 2015. The share of non-performing loans in the total volume of loans

to non-financial corporations decreased to 6.9% at the end of 2015 from 7.9% in 2014. The corporate deposit base showed rapid growth in H2 2015 and the annual growth pace accelerated to 11.3% at the end of the year. The negative trends in corporate deposits recorded at the turn of 2014 and 2015 partially resulted from the high base effect.

Slovakia: Household Loans and Deposits



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

Summary of foreign operations of mBank

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

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

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

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

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

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

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

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

10. Business activity of mBank Group subsidiaries

10.1. Summary of financial results of mBank Group subsidiaries

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

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

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

* The company was sold to AXA Group at the end of Q1 2015

Other subsidiaries include mFinanceFrance, MLV-45, mCentrumOperacji, BDH Development, Garbary, and Transfinance in 2014; Tele-Tech Investment has been consolidated since Q3/15

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

10.2. Business activity of selected subsidiaries

Bank Hipoteczny

The largest mortgage bank in Poland
Focusing on financing of commercial projects, the public sector and individual clients, market analysis and advisory services for investors and operators of commercial real estate industry
The largest issuer of covered bonds in Poland – 76% market share; almost PLN 4 billion securities outstanding

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

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

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

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

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

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

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

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

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



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

1st position on the real estate market

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

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

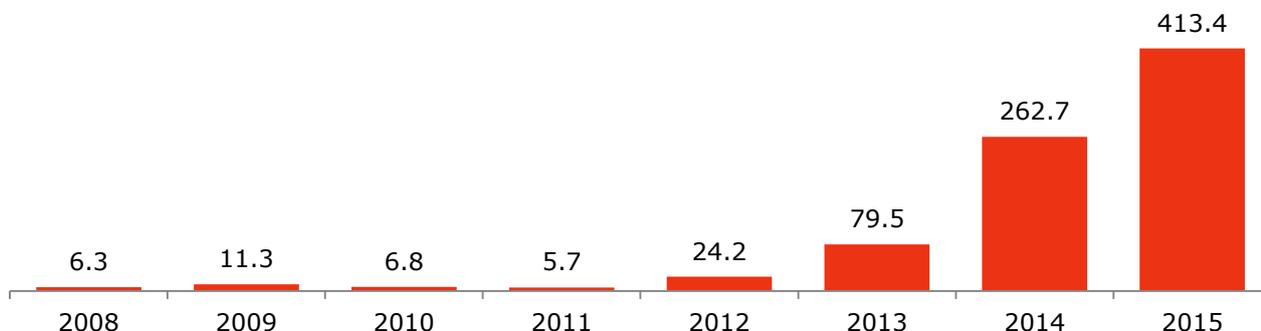
The profit before tax of mLeasing in 2015 was PLN 57.2 million, representing an increase of 24.6% year on year.

The "Leasing in Retail" project continued in 2015 pursuant to the "One Bank" Strategy geared to developing a comprehensive offer for clients. The initiative is dedicated to SME clients who can conclude a leasing

agreement using special leasing processes. Thanks to the combined efforts of Retail Banking and mLeasing, the company financed PLN 413.4 million of fixed assets, estimated by the price of buy.

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

Volume of new contracts as part of "Leasing in Retail Banking" project (PLN million)



m Faktoring

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

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

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

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

m Dom Maklerski

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

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

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

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

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

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



An open platform for financial services sale

The offer comprises loans, account, insurance products, investments and savings for both individual customers and companies

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

mFinance France S.A.

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

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

Garbary Sp. z o.o.

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

BDH Development Sp. z o.o.

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

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

Tele-Tech Investment Sp. z o. o.

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

11. Information for investors

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

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

11.1. mBank shareholders and share prices on the WSE

mBank shareholders

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

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

Performance of mBank shares in 2015

Key characteristics of mBank shares:

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

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

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

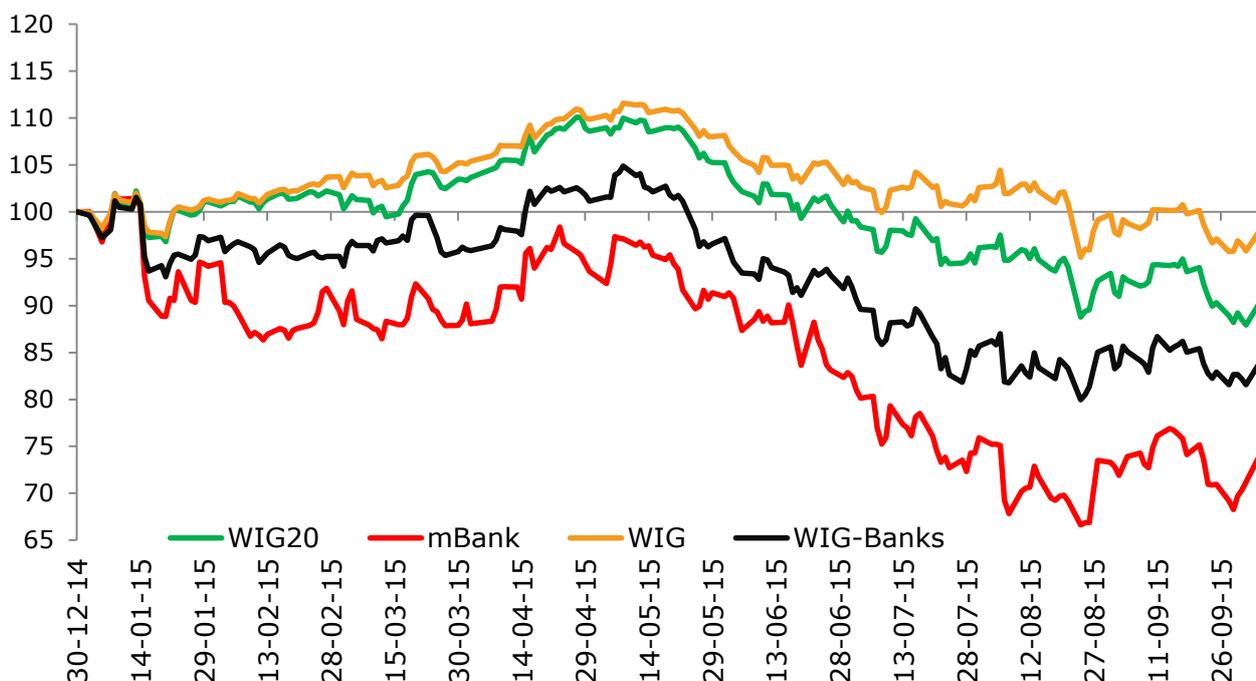
2015 was a difficult year for investors present on the Warsaw Stock Exchange. The share prices of listed companies were badly affected by adverse global and local factors related to the political and economic situation in Poland. Investors' had become less prone to investments on the WSE due to decreasing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

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

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

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

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



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

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

11.2. Ratings of mBank and mBank Hipoteczny

mBank's ratings

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

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

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

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

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

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

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

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

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

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

Moody's - mBank's rating as at December 31, 2015

Long-term deposit rating	Baa2 (stable outlook)
Short-term rating	Prime-2
Unsecured debt rating	Baa3
Counterparty risk assessment	Baa1 (cr)/ P-2 (cr)

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

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

Ratings of mBank Hipoteczny S.A.

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

Fitch Ratings - mBank Hipoteczny's rating as at December 31, 2015

Long-term IDR	BBB- (positive outlook)
Short-term IDR	F3
Support rating	2
<i>Rating for mortgage covered bonds</i>	<i>BBB</i>
<i>Rating for public covered bonds</i>	<i>BBB</i>

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

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

11.3. Ratings of Poland, mBank and Commerzbank – comparison

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

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

Rating outlook in brackets: pos. – positive, stab. – stable, neg. – negative

** "Non-participating issuer", rating based solely on information available in the public domain.*

11.4. Investor Relations at mBank

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

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

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

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

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

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

Research analysts' recommendations

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

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

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

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

12. Risk management

12.1. Risk management foundations and challenges of 2015

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

Lines of defence

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

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

Pillars of risk management

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

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

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

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

Implementation of Customer Focus Integrated Risk initiative

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

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

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

Selected projects implemented in 2015 are described below:

Internal Control System Self-assessment (ICS)

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

- identification of material operational risks,
- inventory of control mechanisms dedicated to mitigate those risks,
- assessment of adequacy and effectiveness of control mechanisms,
- and assessment of the risk level and the development and implementation of the necessary corrective action plans.

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

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

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

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

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

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

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

Basel III regulatory standards

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

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

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

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

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

12.2. Main risks of mBank Group's business

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

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

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

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

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

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

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

Business and Risk Forum of mBank Group

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

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

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

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

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

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

Credit risk

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

Tools and measures

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

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

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

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

as well as related measures including:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- DtI – Debt-to-Income, i.e. monthly credit payments to the net income of a household, used for individual customers.
- DPD – Days-Past-Due, a family of portfolio risk measures based on the number of days past due date (e.g. share of contracts which are from 31 to 90 days past due date in the total portfolio by number or by value).
- Vintage ratios, which represent the quality of cohorts of loans at a different phase of their lifetime taking into account disbursement time (e.g. each quarter), clients' characteristics etc., based on DPD.
- RC LLP – Risk Cost LLP, cost of risk for a loan portfolio (segment), i.e. increment in loan loss provisions to the performing loan portfolio balance,
- Roll-rates, which measure the migration of contracts between days-past-due brackets (1-30, 31-60, 61-90 DPD, etc.).

Strategy

Corporate and Investment Banking

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Retail Banking

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Quality of the loan portfolio

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

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

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

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

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

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

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

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

Market risk

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

Tools and measures

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

measurement at the level of the Bank's internal organisational structures. Market risk measures of the interest positions of the banking book are calculated with the use of net present value (NPV) models. Market risk exposure is quantified by measurement of Value at Risk (VaR) and by use of stress tests.

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

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

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

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

Strategy

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

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

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

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

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

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

Measuring mBank's risk

Value at Risk

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

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

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

VaR IR – interest rate risk

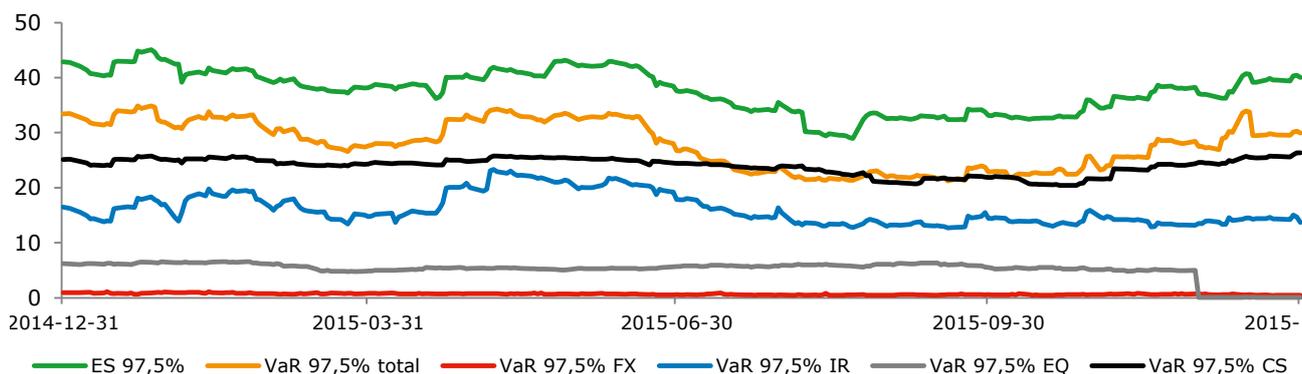
VaR FX – FX risk

VaR EQ – stock price risk

VaR CS – credit spread risk

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

VaR for mBank by risk factors



VaR statistics in deteriorating environment

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

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

Stress testing

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

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

Base stress test – standard stress test

CS stress test – stress test with scenarios including credit spread changes

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

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

Interest rate risk of the banking book

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

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

Measuring mBank Group's market risk

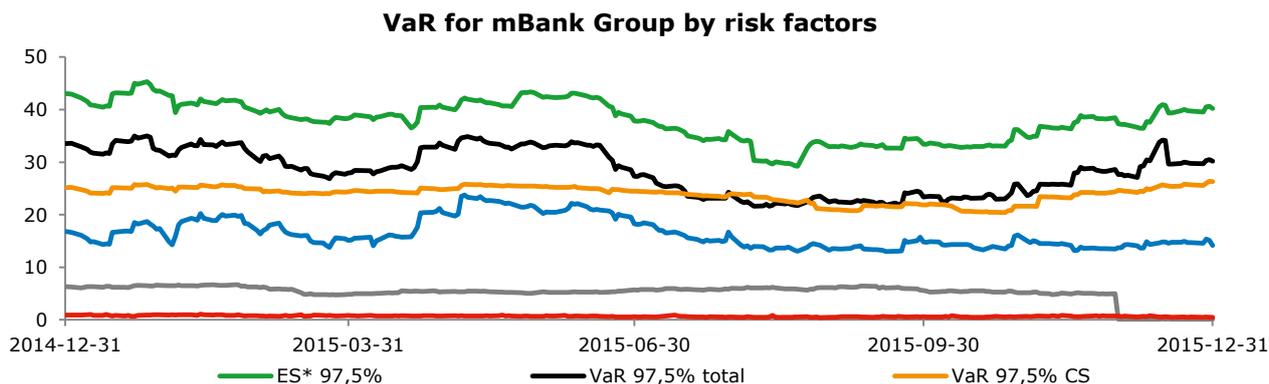
The main sources of market risk of the Group are mBank's positions. The table below shows VaR statistics (VaR at a 97.5% confidence level for a one-day holding period) for mBank Group in 2015 for individual members of the Group in which market risk positions were identified (i.e., portfolios of mBank,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

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

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

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

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



Liquidity risk

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

Tools and measures

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

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

For this purpose, the Bank has defined a set of liquidity risk measures and a system of limits and warning thresholds which protect the Bank's liquidity in the event of unfavourable internal or external conditions. Independent measurement, monitoring and controlling of liquidity risk is performed daily by the Financial Markets Risk Department. The main measures used in liquidity risk management of the Bank include ANL Stress (Available Net Liquidity), the regulatory measures (M1, M2, M3, M4), and LCR and NSFR for analysis only. ANL Stress reflects the projected future cash flow gap of assets, liabilities and off-balance-sheet commitments of the Bank, which represents potential risk of being unable to meet liabilities within a specific time horizon and under a certain scenario. ANL Stress cash flow projections are based on crisis scenarios which include excessive withdrawal of cash by the Bank's clients and being unable to liquidate some assets due to an external crisis.

In order to support the process of liquidity risk management, a system of early warnings indicators (EWI) was developed in the Bank in 2015. It is composed of indicators monitoring the level of regulatory and internal limits and additionally, indicators monitoring significant changes of market factors, as well as changes in the Bank's balance sheet.

In October 2015, came into force the Commission Delegated Regulation (EU) No 2015/61 of 10.10.2014 to supplement Regulation (EU) 575/2013. However, pending the publication of a new, final reporting standard for reporting the LCR ratio, the Bank reports to the NBP according to existing standards. In terms of the NSFR works have been carried out to adapt to the guidelines set out in the document BIS Basel III: the net stable funding.

Strategy

The liquidity strategy is pursued by active management of the balance sheet structure and future cash flows as well as maintenance of liquidity reserves adequate to liquidity needs depending on the activity of the Bank and the current market situation as well as funding needs of the Group subsidiaries.

The Bank manages liquidity risk at two levels: strategic (within committees of the Bank) and operational (Treasury Department).

Liquidity risk limiting covers supervisory and internal measures.

The first category includes four liquidity measures determined by the Polish Financial Supervision Authority: M1, M2, M3 and M4. Liquidity measures required by the CRD IV/CRR: LCR (Liquidity Coverage Ratio) and NSFR (Net Stable Funding Ratio) are monitored, and LCR is additionally reported to the National Bank of Poland.

The liquidity risk internal limit system is based mainly on defining acceptable level of gaps in defined tenors for ANL Stress measure in stress conditions in specific time horizons and for different liquidity risk profiles (for all currencies in aggregate converted to PLN) and for specific foreign currencies. In order to implement the requirements of amended Recommendation P new scenarios have been worked out.

The Bank has introduced a centralised approach to the Group's funding management in order to increase the efficiency of liquidity resources used. According to its principles, mBank Hipoteczny raises additional funding in the market by issuance of covered bonds and from mBank, while mLeasing and other subsidiaries raise almost all of their funding from mBank. Financing of subsidiaries is done via the Treasury Department.

The centralised approach to the financing of the Group subsidiaries enables to ensure better matching of the tenors of funding and a uniform treatment of particular subsidiaries within the unified system of transactional rates.

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

The Contingency Plan in case of the threat of losing financial liquidity is in place in the Bank, that sets the strategy and procedures in the event of a situation related to the threat of loss of liquidity by the Group of mBank to neutralize this. The regulation defines the division of responsibility for monitoring, identifying threats and actions during the emergency. Contingency Plan is tested annually. The testing of Contingency Plan was performed in 2015. The scope of the test covered the functioning of the process and raising funds.

Since early March 2015, a limit of the volume of foreign currency funding of mBank with FX-swaps and CIRS is set in order to determine the relevant risk appetite accepted by the Bank. In addition, the limit is decomposed into individual limits for CIRS and FX-swaps as well as limits for funding in EUR and CHF. The limit structure reflects the Bank's preference for currency funding with long tenors.

Moreover a draft law concerning the conversion of mortgage loans denominated in foreign currencies appeared in H2 2015. As a result the Bank made adjustment in its strategy of liquidity risk management until this issue is ultimately solved. The decision was made not to conclude long-term swap transactions and to replace them with short-term ones. Such strategy allows more flexibility in liquidity risk management as well as minimizes losses occurred in case of unwinds of long-term transactions in case of loans conversion. Adopted strategy is associated with increased risk of short term transactions concentration and their frequent rollovers. For this purpose the monitoring of concentration in fx-swap transactions with maturities below 12 months was introduced with MAT on concentration in particular terms. Moreover the requirement of Liquidity Reserves was increased by the component covering additional need for collateral resulting from unfavorable market factors influencing the valuation of fx-swap and CIRS transactions.

Measuring mBank's liquidity risk

The liquidity of mBank remained safe in 2015, as reflected in the high surplus of liquid assets over short-term liabilities in the ANL Stress tenors and in the regulatory measures.

The table below presents the ANL Stress gap for tenors up to 1M and 1Y in 2015 as well as the regulatory measures M1, M2, M3, M4 and LCR:

Measure *	2015			
	31.12.2015	average	max	min
ANL Stress 1M	8,933	8,355	13,968	3,442
ANL Stress 1Y	10,150	9,752	13,886	4,551
M1	13,388	9,655	14,789	4,657
M2	1.47	1.34	1.59	1.15
M3	4.68	5.22	6.08	4.29
M4	1.33	1.30	1.33	1.25
LCR mBank	144%	132%	154%	111%
LCR mBank Slovakia	338%	385%	428%	338%

* ANL Stress and M1 are shown in PLN million, M2 is a relative measure presented as a decimal.

Measuring the Group's liquidity risk

The Group's liquidity risk measurement includes mBank Hipoteczny, mLeasing and, as of 1 August 2014, also Dom Maklerski mBanku. mBank monitors liquidity risk of the subsidiaries in the ANL Stress tenors so as to protect liquidity also at Group level in the event of adverse events (crises).

The Group's liquidity was safe in 2015, as reflected in the high surplus of liquid assets over short-term liabilities in the ANL Stress tenors calculated at Group level.

The table below presents the ANL Stress gap for tenors up to 1M and 1Y at mBank Group level:

PLN M	2015			
	31.12.2015	average	max	min
ANL Stress 1M	10,749	9,957	15,446	5,288
ANL Stress 1Y	11,901	11,721	15,721	6,963

Operational risk

mBank organises the operational risk management process taking into account the rules and requirements set out in the Resolution No. 76/2010 of the Polish Financial Supervision Authority of 10 March 2010 as well as in the Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013. The abovementioned regulations as well as recommendations of the Polish Financial Supervision Authority (including Recommendations M, H and D, in particular) constitute a starting point for developing the framework of the operational risk control and management system in mBank Group.

Tools and measures

The Bank understands operational risk as the possibility of incurring a loss arising from inadequate or defective internal processes, systems, errors or actions taken by the Bank's employee or from external events. In particular, operational risk includes legal risk.

Operational risk accompanies all processes at banks (inadequate or defective internal processes, systems, human errors or external events) and its consequences can be often very harmful. It is characterized by an asymmetric distribution of losses; overwhelmingly, these are small value losses. Large losses are rare but the size of such a loss may exceed the sum of all the remaining operational losses in a given reporting period.

In order to effectively manage operational risk (identification, monitoring, measurement, assessment, reporting as well as reduction, avoidance, transfer or acceptance of operational risk), the bank applies quantitative and qualitative methods and tools. The tools applied by the Bank intend to cause-oriented operational risk management.

The basic qualitative tool is the self-assessment of internal control system carried out by the Bank's organizational units. The Bank has just completed implementing the Internal Control System Self-assessment, which replaced formerly existing Risk Self-assessment Surveys and the functional control process. The Internal Control System Self-assessment includes assessment of key operational risks and control mechanisms applied for mitigating those risks, and then to develop corrective action plans for identified weaknesses. The process will be repeated periodically, once a year, and its results are accepted by the Management Board, and then presented to the Risk Committee of the Supervisory Board and the Audit Committee of the Supervisory Board. In Q4 2015 Bank starts implementation of ICS in the mBank Group companies.

Another tool - the key risk indicators (KRI) - enables identification and evaluation in particular areas of the Bank's operations, of operational risk factors that have an ongoing impact on that risk level in those areas and, therefore, also in the entire Bank.

The Bank prepares also scenario analyses describing risks associated with rare operational risk events with potentially very serious consequences. Quantitative tools of the operational risk methodology include mainly collection of data on operational incidents and effects. With the use of the database available at the mBank Group, data on operational risk losses are recorded with an emphasis on the cause. Recorded data are analysed by the Integrated Risk and Capital Department and at organizational units, which allows organizational units to carry out ongoing monitoring of their current risk profile.

The implementation of qualitative elements and comprehensive collection of operational loss data is required for both the standard and the advanced measurement method (AMA) for the calculation of regulatory capital in accordance with the requirements of the New Capital Accord and in order to fulfil the relevant Pillar II requirements.

Strategy

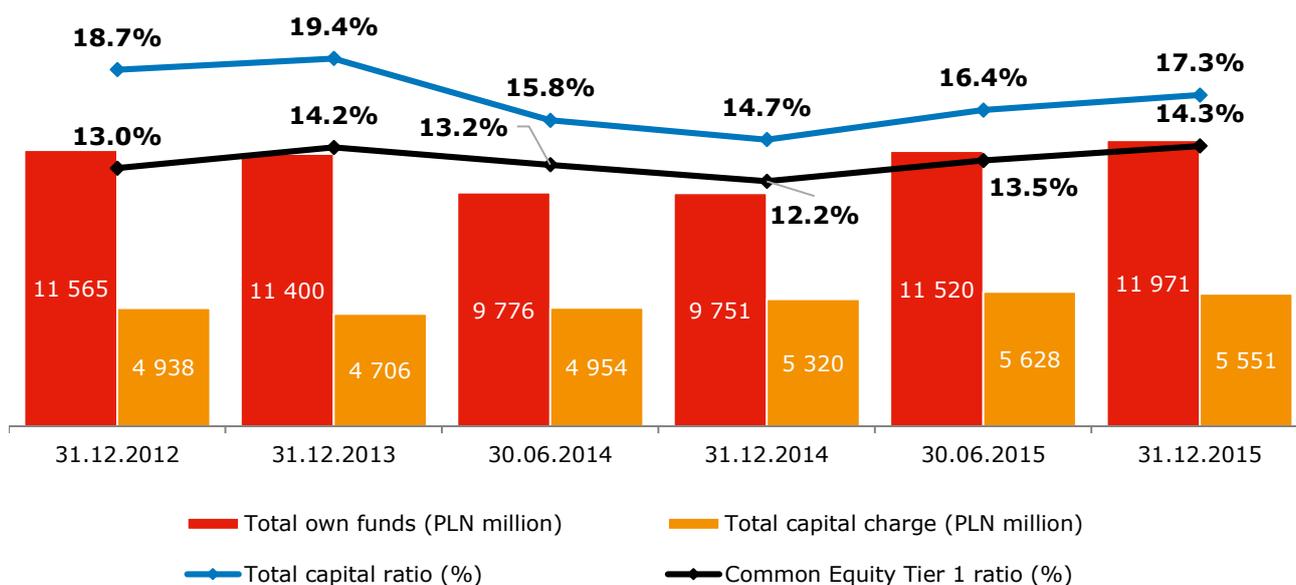
The operational risk control and management system,, forms an organisational basis in order to enable effective control and management of operational risk at every level of mBank's organisational hierarchy. The structure of operational risk control and management covers in particular the role of the Management Board of the Bank, the Business and Risk Forum, the Chief Risk Officer, the Integrated Risk and Capital Management Department, and the tasks assigned to persons managing operational risk in particular organisational units and business areas of the Bank. The operational risk control and management process at mBank is developed and co-ordinated by the central operational risk control function while operational risk management takes place in every organisational unit of the Bank and in every subsidiary of mBank Group. It consists in identifying and monitoring operational risk and taking actions aimed to avoid, mitigate or transfer operational risk.

The entire operational risk control process is supervised by the Supervisory Board of the Bank through its Risk Committee.

12.3. Capital adequacy

Maintaining an adequate level of capital is one of the main tasks of managing the balance sheet of the Bank. The Management Board of mBank ensures consistency of the capital and risk management process by means of a system of strategies, policies, procedures and limits for the management of particular risks which constitute the ICAAP architecture. Furthermore, in line with the Capital Management Policy applicable at mBank, mBank maintains an optimum level and structure of own funds, guaranteeing maintenance of the capital adequacy ratio at a level higher than the statutory minimum, at the same time covering all significant risks identified in the Bank's operations. mBank's capital targets are being set based on the regulatory requirements and simulated capital needs to cover unfavourable changes in the external environment and within the Bank.

Capital Adequacy of mBank Group



The Capital Management Policy at mBank is based on two main pillars:

- Maintenance of an optimal level and structure of own funds, with the use of available methods and means (retained net profit, issue of shares, subordinated bonds, etc.).
- Effective use of the existing capital among others by applying a system of capital utilisation measures resulting in reduction of the activity that is not generating the expected return and development of products with lower capital absorption.

The capital ratios of mBank Group in 2015 were driven by the following factors:

- addition of PLN 750 million to the own funds: it is the Group's subordinated liability following the issuance of subordinated bonds on December 17, 2014, approved by the PFSA on January 8, 2015;
- early repayment of a subordinated loan of CHF 90 million (face value), approved by the PFSA on 8 January 2015, previously partly included in the own funds;
- including in Common Equity Tier 1 capital the net profit of mBank Group for the year 2014, reduced by every foreseeable charges;
- including in Common Equity Tier 1 capital the verified net profit of mBank Group for the 1st half of 2015, reduced by every foreseeable charges, on the basis of the KNF permission from 20 October 2015;
- including subsidiaries: Aspiro (in March 2015), Tele-Tech Investment Sp. z o. o. (in July 2015) and mWealth Management (in December 2015) into the scope of prudential consolidation;

- expanded application of the advanced internal rating based approach to calculation of own funds requirements for credit and counterparty credit risk following the approvals of the PFSA and BaFin (Bundesanstalt für Finanzdienstleistungsaufsicht, the Federal Financial Supervisory Authority) for the Bank's exposures to commercial banks and retail mortgage-secured exposures (micro-companies) obtained in H1 2015;
- changes and recalibrations of AIRB models;
- expansion of mBank Group business activity.

Additionally, as a result of risk assessment carried out by the Polish Supervisory Authority (KNF) within the supervisory review and evaluation process, in particular with regard to evaluation of risk related to portfolio of foreign exchange retail mortgage loans, mBank (on the individual and consolidated level) received an individual recommendation to maintain own funds to cover additional capital requirement of 4,39 basis points in order to mitigate the risk (3.29 p.p. for Tier 1 capital).

High level of additional capital requirement was a result of the Polish Financial Supervision Authority (KNF) applying one methodology to all banks in Poland, which fails to take account of the specificity of individual banks, such as mBank, which use internal models approved by the regulator to calculate capital requirements for credit risk. According to this methodology, the calculation of the additional capital requirement for all banks uses a risk weight under the standardised approach (100%), regardless of the results generated by internal models. Consequently, more than half of the additional capital requirement calculated by the KNF for mBank is a result of "aligning" the capital requirement to the requirement calculated under the standardised approach.

mBank meets the KNF's recommendations: its capital ratios on an individual and consolidated basis were above the target values, i.e. 16.39% at the level of own funds and 12.29% at the level of Tier 1 capital.

As at December 31, 2015, the non-consolidated total capital ratio of mBank stood at 20.18% and the Common Equity Tier 1 ratio at 16.70%.

As at December 31, 2015, the consolidated total capital ratio of mBank Group stood at 17.25% and the Common Equity Tier 1 ratio at 14.29%.

Stress tests

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

The Group and the Bank carry out reverse stress tests, the goal of which is to identify events potentially leading to unviability of the Group and the Bank.

The Group and the Bank take part in regulatory stress tests conducted by the PFSA in order to determine the impact of assumed macroeconomic stress scenarios on the Group's balance sheet and P&L as well as on external supervisory norms.

13. HR development

13.1. Changes in employment

At the end of 2015, the total employment in mBank Group was 6,540 FTEs compared with 6,318 FTEs a year before (+3.5% or +222 FTEs). The increase took place mainly in the area of Retail Banking, due to the implementation of new strategy in foreign branches as well as in call center and IT area.

At the end of 2015, employment at mBank amounted to 5,151 FTEs and rose by 256 FTEs or 5.2% compared with 2014.

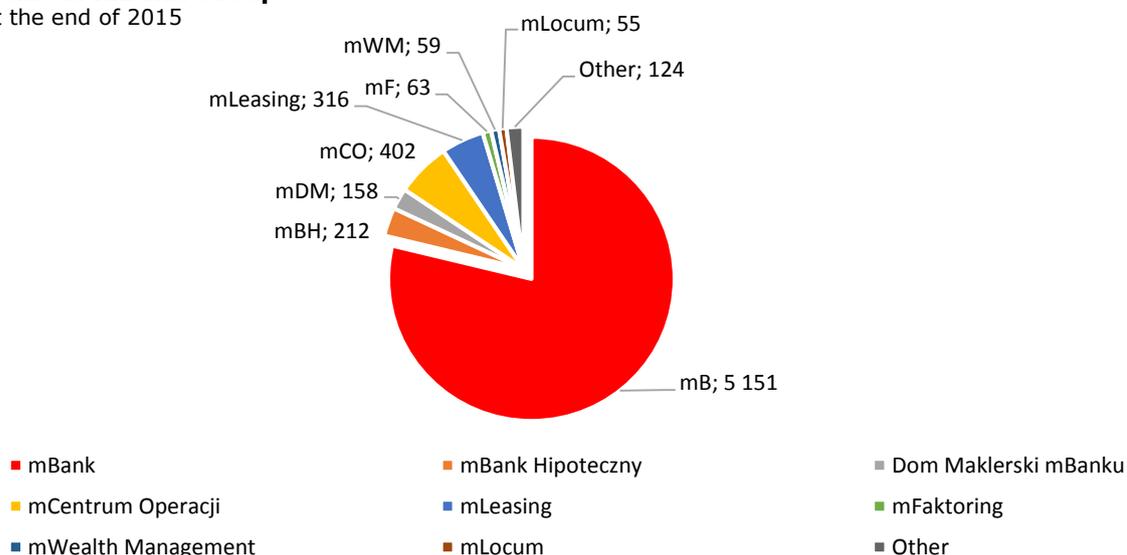
mBank's employees are relatively young: 49% are below the age of 35. They are also well-educated: nearly 83% are graduates of higher education institutions. Many employees undertake post-graduate and MBA studies, thus acquiring new professional qualifications.

At the end of 2015, employment in mBank Group subsidiaries amounted to 1,389 FTEs and decreased by 33 FTEs or 2.4% against 2014, due to the sale of BRE Ubezpieczenia TUiR.

The charts below illustrate the employment structure in mBank Group, by subsidiaries, and in mBank, by areas of operation:

Headcount in mBank Group

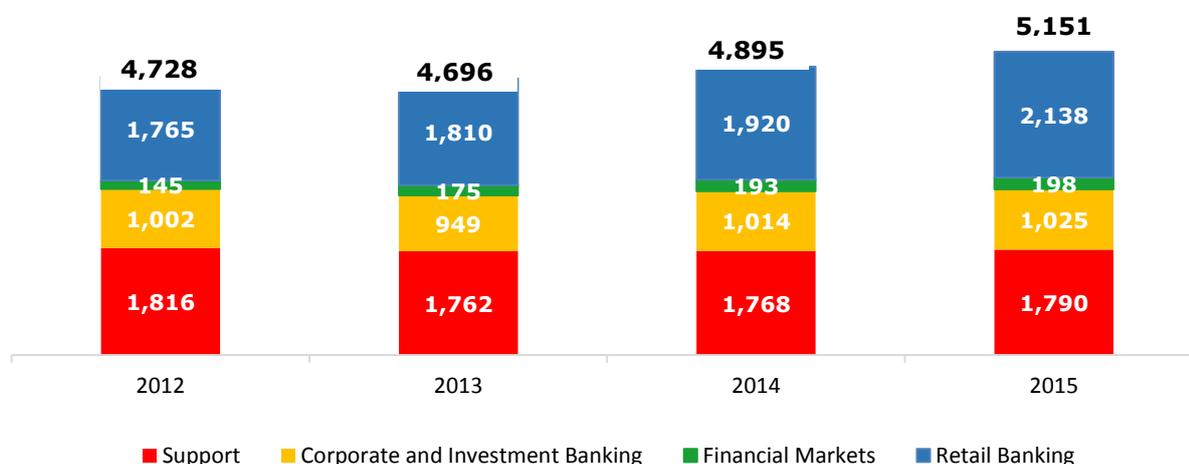
in FTE at the end of 2015



* Other subsidiaries include: Aspiro, BDH Development, Garbary, Tele-Tech Investment i mFinance France

Headcount in mBank by business lines

in FTE at the end of 2015



13.2. Mission and values of mBank Group

mBank, the first fully Internet-based Bank in Poland, for years has been a synonym of innovative solutions in the banking sector. Today it sets standards in the development of mobile and online banking sector. mBank's mission focuses on clients, aspiring to be the Bank which accurately identifies and foresees the needs of its customers being able to meet them precisely.

As a result of unification of the brand policy, which started in 2013, currently all clients are serviced under one brand. At the same time, mBank's team internally developed the model of values and behaviour characterising employees of mBank and targeting the Group's actions at accomplishment of the mission to create a better Bank for its clients.

Specialised banking services dedicated to various groups of clients are constantly improved and adjusted to changing behavioural patterns of clients. Organising around common values shared by employees helps to effectively face market challenges and provide clients with satisfactory experience from cooperation with the Bank.

mBank values

mBank are mainly people who cooperate with the aim to understand and precisely meet the needs of clients and share the responsibility for their satisfaction. Common values form the basis for the development of organisation and trust in customer relations. A clearly specified model of values (the chart below) is an expression of the internal consistency of the organisation, focused on offering the highest standards of service, as well as setting the direction for actions in increasingly challenging market environment.



13.3. Training and development

Development activities

In 2015, development activities were determined by business priorities – they were used to develop skills and enhance knowledge the teams needed in order to effectively achieve their goals. Plans devised jointly by development specialists and managers responsible for particular teams representing all levels of management in the organisation (including the Members of the Management Board supervising the business lines) served as the basis for the activities. Special development programmes supported activities of project teams performing key business initiatives for mBank.

Apart from specialised tailor-made training programmes run by experienced Polish and foreign experts, 2015 was also marked by a number of in-house initiatives. They were a consistent continuation of activities started in previous years under mBank Group's Strategy whose purpose is to fully use the knowledge and skills existing in the organisation.

A wide range of development programmes covering the entire organisation were run in mBank Group. They were characterised by a growing share of non-traditional activities, including *on-the-job training* and feedback from managers and colleagues. In 2015, all managers were trained in order to enhance their employee appraisal skills. The activities were coupled with major changes in employee appraisal process making the appraisal more useful in determining and planning the direction of development activities and making relevant decisions.

The following three programmes implemented in 2015 deserve special attention:

"3P" Project (from Polish: leadership-practice-professionalism)

Further implementation of the **3P** programme (from Polish: leadership-practice-professionalism) set the framework for the development of managerial skills. The version addressed to experienced managers was a cafeteria-style solution enabling managers to freely choose the development path. The only exception was the special module called "Introduction to practice" being a kind of an "entrance ticket" needed to take part in the workshops addressed to experienced managers. The main assumption of the programme was to arouse interest in and desire for continuous enhancement of managerial skills, to help the participants to maintain Personal Mastery, consistently verify knowledge through experience, perseverance and readiness to learn from one's own and other people's mistakes, continuously test their skills in real-life leadership situations, to encourage people to look for inspirations in management, and to teach and help them understand systemic thinking.

The training courses had the form of workshops based on materials and situations the participants have faced before. The workshops were run by consultants and trainers representing a training consortium composed of three specialist training firms. A total of 431 people participating in 38 dedicated training courses were trained in 2015 as part of the 3P programme.

Host, Designer, Coach Project

Young managers taking their first steps in this function were offered a tailor-made programme called Host, Designer, Coach (Polish: GPC), designed to expand their knowledge and skills with regard to: setting employees high-quality goals, getting people involved, delegating tasks effectively, modern motivation and auto-motivation methods, navigation conversations, and coaching oriented at business effects. In addition, the training provided the young managers with information about themselves and their managerial potential; proven, simple and useful tools supporting managerial efforts; and a long list of practical non-financial incentives and best managerial practices from mBank and outside. The 2015 GPC programme encompassed 11 training sessions with 119 young managers trained.

Our people make the difference. Help us find the most outstanding ones.

Another edition of the development programme called "Our people make the difference. Help us find the most outstanding ones." was organised in 2015. All the subsidiaries of mBank Group were invited to join the programme. We rewarded teams and people that are open to cooperation, knowledge sharing, team work, and helping others - people whose attitudes deserve recognition in the organisation. The programme was designed to support the integration of employees, increase their identification with the uniform brand,

build team spirit and develop attitudes essential to achievement of business objectives. The programme is growing every year in terms of both its size and the number of employees reached.

The programme is not only about rewarding individual people. It is the promotion of appropriate behaviour, attitudes, cooperation and sharing of knowledge and experience that matters the most. The social dimension of the initiative is of key importance as well. Entering people for the competition, voting, choosing the winners, the final gala - all these elements bring people together. The programme unites mBank Group's employees around the important objective of building an organisation based on its people in line with the statement "Our people make the difference".

In search of young talents

Banking and Digital Finance - a course at the University of Łódź launched in cooperation with mBank

In October 2015, mBank and Accenture launched a new course at the University of Łódź (Banking and Digital Finance). The course stands for its unique interdisciplinary programme combining the competences from the finance area with digital skills. Among the lecturers are scientists and teachers from the University of Łódź and representatives of partner companies providing the students with an insider perspective. As part of this cooperation, mBank employees may hold some of the classes and lectures. As a result, mBank employees are not only offered a self-development and knowledge sharing opportunity, but are also able to test their knowledge in the university environment and have a real impact on how young people are being trained. The responsibility for the classes lies with the lecturers working at the University. mBank employees offer their know-how, which means that the number of classes/lectures they hold depends on their individual preferences and availability.

The course takes three years. Graduates will be awarded a bachelor's degree. After a year and a half the students will be able to choose from two specialities: *Banking 3.0* and *IT in Finance*. The course comprises such important subjects as: Banking, Company Finance, Financial Markets and Products, Accounting, Financial Analysis, Digital Economy, Information Techniques, Data Structures and Algorithms, and Media Workshops.

Out of 316 candidates, 100 were selected in the course of the recruitment process to start the studies in October.

The programme was developed in a way to provide future graduates with a solid background making them suitable for a wide range of positions in:

- banks and other financial institutions,
- consulting firms,
- entities cooperating with financial institutions.

The Young Talents Programme

The Young Talents Programme, launched 5 years ago, is mBank's response to current and future needs of the organisation and expectations of candidates - students and graduates.

The programme is a part of mBank Group's strategy of creating its image as an employer among students and graduates. It helps the organisation to acquire talented individuals entering the labour market and prepare them to take up independent tasks at the Bank. Consequently, it facilitates access to candidates for entry-level positions, thus optimising recruitment processes and increasing the importance of internal recruitment.

Composed of traineeships and internships, the Young Talent Programme is addressed to students and graduates who intend to work in the banking industry in the future. The programme participants acquire practical skills and knowledge and receive ongoing support from their supervisor. Moreover, interns and trainees work under an employment contract and have access to employee benefits.

The Young Talents Programme consists of the following two sub-programmes:

Traineeship programme, consisting of traineeships with flexible working hours, with trainee positions offered throughout the calendar year so that trainees may easily combine their work at mBank with studies

and other obligations. The trainees become familiar with one area of the Bank's operations. The traineeship contract is signed for three months with a prolongation option. There were approx. 80 trainees at mBank in 2015.

Internship programme of mBank is addressed to people who are open, committed and full of enthusiasm, who have already gained experience as trainees or as members of students' science associations and student organisations. Internship contracts are signed for a term of 9 to 12 months. Interns work full time. The internships in Łódź and Warsaw are conducted on a rotational basis which makes it possible for an intern to become familiar with several areas of the Bank - interns have the opportunity to support three organisational units. Candidates applying for an internship choose one profile determining the leading competence during the internship. Analytical, business, legal, business and investment, business and marketing, corporate banking and risk management profiles were available in 2015 with 18 interns working at mBank.

13.4. mBank Group's incentive system

The incentive system of mBank is based on the remuneration policy and intangible elements (e.g. possibility of career development). The incentive system plays a key role in developing corporate culture and builds a competitive advantage by acquiring and retaining competent employees.

The remuneration policy at mBank covers both the base salary (fixed component) as well as the variable part depending on the objectives achieved by the whole organisation and by individual employees.

In 2015, incentive programmes both for the Management Board Members and Key Managers were implemented at mBank Group.

2008 Incentive Programme for the Management Board Members of the Bank

On March 14, 2008 the Ordinary General Meeting of mBank, by adopting a relevant resolution, expressed consent to carry out an incentive programme for Members of the Bank's Management Board. Under the programme Members of the Bank's Management Board have the right to take up bonds with pre-emptive rights to acquire mBank shares or, as initially planned, shares of the ultimate parent entity, Commerzbank AG. In 2010, the programme was changed in the part concerning shares of Commerzbank, so that Members of the Management Board may obtain the right to receive cash equivalent corresponding to the value of the shares of Commerzbank calculated based on the average share price on the date when the right to receive the equivalent originated.

All the rights under payments settled in cash equivalent based on shares of Commerzbank and all the rights under payments settled in mBank S.A. shares within the framework of the programme have already been granted. Payments are settled in three equal deferred tranches: 12, 24 and 36 months from the date of acquiring the rights for a given year of the programme by the Management Board Member. The last settlements under this programme will take place in 2016.

Cash bonus paid under the programme for 2008-2011 was presented as an obligation to employees and referred to profit and loss account in a given year for which it was awarded.

The bonds may be acquired by the entitled persons over the years 2010 - 2021, provided that their employment continues. The right to take up shares under the conditional capital increase, resulting from the bonds, may be exercised by the entitled persons in the period from acquisition of bonds till 31 December 2021.

Share-Based Payments Settled in Cash

All rights under payments settled as a cash equivalent based on Commerzbank shares under the program have already been granted. Since payments are settled in three equal annual deferred tranches on the lapse of, respectively, 12, 24 and 36 months from the date of the right acquisition by the Management Board Members for a given year of the programme, the cost of Commerzbank share-based payments settled in cash were recognised in the income statement in correspondence with liabilities to employees. The last settlements under this programme are planned in 2016.

Share-Based Payments Settled in mBank S.A. Shares

All rights under payments settled in mBank S.A. shares under the programme have already been granted. Since payments are settled in three equal annual deferred tranches on the lapse of, respectively, 12, 24 and 36 months from the date of the right acquisition by the Management Board Members for a given year of the programme, the cost of share-based payments settled in shares are still recognised in the income statement in correspondence with other reserve capital. The last settlements under the programme are planned in 2016.

This is an equity-settled share-based program.

The table below presents the number and weighted average exercise prices of share options related to the 2008 incentive programme for Management Board Members of the Bank.

	31.12.2015		31.12.2014	
	Number of options	Weighted average exercise price (in PLN)	Number of options	Weighted average exercise price (in PLN)
Outstanding at the beginning of the period	3,650	4	10,293	4
Granted during the period	-	-	-	-
Forfeited during the period	-	-	-	-
Exercised during the period	3,469	4	6,643	4
Expired during the period	0	-	-	-
Outstanding at the end of the period	181	4	3,650	4
Exercisable at the end of the period	-	-	-	-

* In 2015, the weighted average price of the shares at the option exercise date was PLN 399.40 (in 2014 PLN 500.28).

2012 Incentive Programme for the Management Board Members of the Bank

On December 7, 2012, the Supervisory Board on the basis of recommendation of the Remuneration Committee, adopted Rules of the Incentive Programme at mBank S.A. which replaced the Rules of the Incentive Programme at mBank S.A. of March 14, 2008.

Under the programme, Members of the Bank's Management Board have the right to receive a bonus, including non-cash bonus paid in the Bank's shares, including phantom shares.

Cash bonus under the programme was paid for 2012-2013 and presented as an obligation to employees and referred to profit and loss account in a given year for which it was awarded.

Non-cash bonus, in which members of the Board have a right to take up bonds with pre-emptive rights to acquire shares, was granted under the programme for 2012-2013. The right to purchase the bonds will be realized in three equal annual deferred tranches, on the lapse of, respectively, 12, 24 and 36 months from the date of acquiring the right to non-cash bonus by the Management Board Member. Conditions of receiving as well as the amount of deferred tranche not paid out yet under non-cash bonus depend on the assessment of the financial position of the Bank by the Remuneration Committee and the performance evaluation of member of the Board for a period longer than one financial year.

The Supervisory Board on the basis of recommendations issued by the Remuneration Committee can make a decision on suspending in whole or limiting the right to acquire bonds with pre-emptive rights to take up the shares of the Bank relating to the deferred tranche in whole or partially due to the later assessment of the performance of the Member of the Management Board over a period of time longer than one financial year (i.e. for the period of at least 3 years), which takes into account the business cycle of the Bank as well as the risk related to the bank's operation, but only when the acts or omissions of the Member of the Management Board had a direct and adverse impact on the bank's financial result and market position within the assessment period. The Supervisory Board, on the basis of the recommendation of the Remuneration Committee of the Supervisory Board, can make a decision on suspending in whole or decreasing the bonus amount for a given financial year in relation to deferred tranche not paid out yet, in the situation referred to in Article 142 (1) of the Banking Law Act. Suspending in whole or decreasing any deferred tranche by the Remuneration Committee of the Supervisory Board can also apply to the deferred tranche not paid out yet to the Member of the Management Board after termination or expiry of the management contract.

Bonds may be acquired by eligible persons in the years 2014-2021.

The table below presents the number and weighted average exercise prices of share options related to the 2012 incentive programme for Management Board Members of the Bank.

	31.12.2015		31.12.2014	
	Number of options	Weighted average exercise price (in PLN)	Number of options	Weighted average exercise price (in PLN)
Outstanding at the beginning of the period	33,352	-	25,802	-
Granted during the period	-	-	16,153	4
Forfeited during the period	-	-	-	-
Exercised during the period	13,989	4	8,603	4
Expired during the period	-	-	-	-
Outstanding at the end of the period	19,363	4	33,352	4
Exercisable at the end of the period	-	-	-	-

* In 2015, the weighted average price of the shares at the option exercise date was PLN 399.40 (in 2014 PLN 500.28).

Cash Part of the Bonus

40% of the bonus base amount for the year is recognised as a liability to employees and charged to the income statement in the year for which it was granted.

Share-Based Payments Settled in mBank S.A. Shares

60% of the bonus base amount constitutes a payment settled in mBank S.A. shares.

As payments are settled in three equal annual deferred tranches on the lapse of, respectively, 12, 24 and 36 months from the date of acquisition by the member of the Board of the right for a given year of the programme, the cost of payments settled in shares is recognised in the income statement in the correspondence with other reserve capital. The last settlements of this program are planned in 2017.

This is equity-settled share-based program.

2014 Incentive Programme for the Management Board Members of the Bank

On March 31, 2014 the Supervisory Board in accordance with the recommendation of Remuneration Committee adopted a Regulation of the Incentive Programme in mBank S.A., which replaced the Regulation of the Incentive Programme in mBank S.A. dated at December 7, 2012.

Under the program the members of the Board have the right to bonus, including non-cash bonus paid in Bank's shares, including phantom shares.

The net ROE of mBank S.A. Group and the monthly remuneration of the member of the Board as at December 31 form the basis for acquisition by Members of the Management Board of the right to bonus and for calculation of the amount of bonus for a given financial year. Equivalent of 50% of the base amount calculated based on ROE constitutes the so-called first part of the bonus. In regard to the remaining 50% of the base amount, the Remuneration Committee of the Supervisory Board can grant the second part of the bonus if it decides that a given Member of the Management Board achieved the annual/multi-year business and development objective. The decision of granting the second part of the bonus is the sole responsibility of Remuneration Committee of the Supervisory Board, which according to its own judgement and decision confirm MBO achievement taking into account the situation on financial markets in the last/previous financial period.

The sum of the first and the second part of bonus is the base bonus of the member of the Board for a given financial period. 40% of the base bonus constitutes non-deferred bonus and is paid in the year of determination of base bonus as follows: 50% in form of cash payment and 50% in Bank's shares or bonds with pre-emptive rights to acquire shares or phantom shares.

60% of the base bonus is deferred bonus and is paid in three equal tranches in the next three following years after the year of determining the base bonus as follows: 50% of each of the deferred tranches in form of cash payment and 50% of each of the deferred tranches in form of non-cash payment in Bank's shares or bonds with pre-emptive rights to acquire shares or phantom shares.

The Supervisory Board on the basis of recommendation of Remuneration Committee can make a decision to suspend in whole or reduce the amount of deferred tranche due to the later assessment of the performance of the Member of the Management Board over a period of time longer than one financial year (i.e. for the period of at least 3 years), which takes into account the business cycle of the Bank as well as the risk related to the bank's operations, but only when the acts or omissions of the Member of the Management Board had a direct and adverse impact on the Bank's financial result and market position within the assessment period and when at least one of the elements included in the assessment card is not fulfilled.

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

The table below presents the number and weighted average exercise prices of share options related to the 2014 incentive programme for Management Board Members of the Bank.

	31.12.2015		31.12.2014	
	Number of options	Weighted average exercise price (in PLN)	Number of options	Weighted average exercise price (in PLN)
Outstanding at the beginning of the period	-	-	-	-
Granted during the period	16,295	4	-	-
Forfeited during the period	-	-	-	-
Exercised during the period	6,519	4	-	-
Expired during the period	-	-	-	-
Outstanding at the end of the period	9,776	4	-	-
Exercisable at the end of the period	-	-	-	-

* In 2015, the weighted average price of the shares at the option exercise date was PLN 399.40.

Cash Part of the Bonus

50% of the base amount constitutes bonus cash payment. It is recognised as a liability to employees and charged to the income statement in the correspondence to liability to employees.

Share-Based Payments Settled in mBank S.A. Shares

50% of the base amount constitutes bonus payment settled in mBank S.A. shares. The cost of payments settled in shares is recognised in the income statement in the correspondence with other reserve capital.

This is equity-settled share-based program.

On March 2, 2015 the Supervisory Board extended the duration of the program from December 31, 2018 until December 31, 2021 in accordance with the recommendation of the Remuneration Committee.

2008 Incentive Programme for Key Managers of mBank Group

On 27 October 2008 the Extraordinary General Meeting of the Bank adopted an incentive programme for the key management staff of mBank S.A. Group.

The programme participants include:

- Bank Directors;
- Representatives of key management.

They are responsible for taking decisions which have material impact on the implementation of a strategy specified by the Bank's Management Board, the Group's results, stability and security of business and development and creating added value of the organization.

In 2010, the Management Board of the Bank decided to launch the programme and approved the list of participants for Tranche III. Within Tranche III 13,000 options were granted. In 2011 within the Tranche IV and V programme 20,000 options and 19,990 options were granted. The rights started to be exercised

in 2012 for Tranche III, in 2013 for Tranche IV and the process will last till December 31, 2019. The rights under Tranche V can be exercised after meeting specified conditions concerning acquisition of rights in the period from May 1, 2014 to December 31, 2019. The conditions for acquiring rights refer to being in an employment relationship throughout the term of the Tranche, obtaining an economic ratio for mBank S.A. Group specified by the Management Board and obtaining a specific appraisal by the programme participant in each year of the Tranche. In 2011 a decision was taken on suspension of the programme and not activating the remaining tranches.

Share-Based Payments Settled in mBank S.A. Shares

The cost of the programme for key managers is charged to the income statement and recognised in correspondence with other reserve capital.

The cost of payments settled in shares is recognised in the income statement as of the date of award of the program until the acquisition date of rights, i.e.:

- from 23.08.2010 to 30.04.2012 for Tranche III;
- from 1.02.2011 to 30.04.2013 for Tranche IV;
- from 1.02.2011 to 30.04.2014 for Tranche V.

This is equity-settled share-based program.

The table below presents the number and weighted average exercise prices of share options related to the 2008 incentive programme for key managers of mBank Group.

	31.12.2015		31.12.2014	
	Number of options	Weighted average exercise price (in PLN)	Number of options	Weighted average exercise price (in PLN)
Outstanding at the beginning of the period	1,277	4	20,560	4
Granted during the period	-	-	2,460	-
Forfeited during the period	-	-	200	-
Exercised during the period	1,177	4	20,798	4
Expired during the period	-	-	745	-
Outstanding at the end of the period	100	4	1,277	4
Exercisable at the end of the period	-	4	1,277	4

* In 2015, the weighted average price of the shares at the option exercise date was PLN 399.40 (in 2014 PLN 500.28).

Options outstanding at the end of 2015 and 2014 expire on December 31, 2022.

Employee programme for key management staff of mBank Group of 2013

On April 11, 2013, the Extraordinary General Meeting of the Bank adopted a resolution amending the rules of the employee programme, which replaced the incentive programme for key management staff of mBank Group from 2008, whereas in regard to the persons who acquired bonds or were granted right to acquire bonds in Tranches III, IV and V the programme will be carried out under the previous principles.

The aim of the programme is to ensure growth in the value of the Company's shares by linking the interest of the key management staff of mBank S.A. Group with the interest of the Company and its shareholders and implementing in mBank S.A. Group variable components of remuneration of the persons holding managerial positions at mBank S.A. Group in accordance with the Resolution of the Polish Financial Supervision Authority.

The programme applies to the employees having a material impact on the risk profile of mBank S.A. Group, in particular Members of the Management Board of strategic subsidiaries, Bank Directors and key staff of mBank, whose decisions have a significant impact on the implementation of the strategy specified by the Bank's Management Board, results of mBank S.A. Group, growth in the value of the Bank.

During the programme the rights to acquire bonds under Tranche VI have been granted, which may be exercised in three equal parts after 12, 24 and 36 months from the date of granting these rights, in accordance with the internal regulations adopted in mBank S.A. Group specifying rules of variable remuneration of the employees having a material impact on the risk profile at mBank S.A. Group.

The bonds may be acquired by the entitled persons during the programme term, but not later than by December 31, 2022.

The Bank's Management Board/Supervisory Board of the Company, where the Programme is carried out can take a decision on suspending the Programme in whole or decreasing the number of bonds or the number of bonds deferred in a given tranche for the entitled person in the case of occurrence of the situations referred to in Article 142 (1) of the Banking Law Act, occurrence of balance sheet loss or loss of liquidity, meeting the conditions set forth in the agreements with the program participants, forming the basis for provision of work or other services for the Bank and subsidiaries.

Cash Part of the Bonus

The bonus in the amount of 50% of the base amount for the year is recognised as a liability to employees and charged to the income statement in the year for which it was granted.

Share-Based Payments Settled in mBank S.A. Shares

As payments are settled in three equal annual deferred tranches on the lapse of, respectively, 12, 24 and 36 months from the date of acquisition by the programme participants of the right for a given year of the programme, the cost of this part of the programme is charged to the income statement and recognised in correspondence with other reserve capital.

This is equity-settled share-based program.

The table below presents the number and weighted average exercise prices of share options related to the 2013 incentive programme for key managers of mBank Group.

	31.12.2015		31.12.2014	
	Number of options	Weighted average exercise price (in PLN)	Number of options	Weighted average exercise price (in PLN)
Outstanding at the beginning of the period	2,233	-	-	-
Granted during the period	5,288	-	2,233	-
Forfeited during the period	-	-	-	-
Exercised during the period	3,713	4	-	-
Expired during the period	-	-	-	-
Outstanding at the end of the period	3,808	-	2,233	-
Exercisable at the end of the period	-	-	-	-

* In 2015, the weighted average price of the shares at the option exercise date was PLN 399.40.

Employee programme for key management staff of mBank Group of 2014

On March 31, 2014, the Supervisory Board of the Bank adopted on the basis of recommendation of Remuneration Committee a resolution amending the rules of the employee programme, which replaced the incentive programme for key management staff of mBank Group from 2013, whereas in regard to the persons who acquired bonds or were granted right to acquire bonds in Tranches III, IV, V and VI the programme will be carried out under the previous principles.

The aim of the programme is to ensure growth in the value of the Company's shares by linking the interest of the key management staff of mBank S.A. Group with the interest of the Company and its shareholders and implementing in mBank S.A. Group variable components of remuneration of the persons holding managerial positions at mBank S.A. Group.

Beginning with Tranche VII the right to purchase bonds granted to the entitled person will be divided into four parts, which may be realized respectively: I part – non-deferred bonds representing 50% of the 60% of the amount of discretionary bonus granted for a given financial year in the year of granting the right, and then another three equal parts – deferred bonds constituting 50% of the 40% of the amount of discretionary bonus granted for a given financial year on the lapse of 12, 24 and 36 months from the date of granting the rights, in accordance with the internal regulations adopted in mBank S.A. Group specifying rules of variable remuneration of the employees having a material impact on the risk profile at mBank S.A. Group.

The Bank's Management Board/Supervisory Board of the Company, where the Programme is carried out may take a decision on suspending the Programme in whole or decreasing the number of bonds or the number of bonds deferred in a given tranche for the entitled person in case of occurrence of the situations, referred to in Article 142 (1) of the Banking Law Act, occurrence of balance sheet loss or loss of liquidity, meeting the conditions set forth in the agreements with the program participants, forming the basis for provision of work or other services for the Bank and subsidiaries.

Cash Part of the Bonus

The bonus in the amount of 50% of the base amount for the year is cash payment. It is recognised as a liability to employees and charged to the income statement in the correspondence to the liability to employees.

Share-Based Payments Settled in mBank S.A. Shares

The bonus in the amount of 50% of the base amount constitutes a payment settled in mBank S.A. shares.

The cost of payments settled in shares is recognised in the income statement in the correspondence with other reserve capital.

This is equity-settled share-based program.

On March 2, 2015 the Supervisory Board extended the duration of the program from December 31, 2019 until December 31, 2022 in accordance with the recommendation of the Remuneration Committee.

Employee programmes of mBank Group subsidiaries

Starting from the second quarter of 2014 until the sale of BRE Ubezpieczenie TUIR SA in the first quarter of 2015, the Group operated an incentive programme, under which the management and employees of BRE Ubezpieczenia TUIR SA were entitled to potential capital gains concerning 4.99% of the shares of this company. The programme met the definition of share-based payment settled in cash. The incentive programme functioning in mBank Hipoteczny is based on phantom shares of this bank and considered as incentive programme under IAS 19.

Summary of the impact of the Programmes on the Bank's balance sheet and income statement

Share-Based Payments Settled in Shares

The table below presents changes in other reserve capital generated by the above mentioned incentive programmes for share-based payments settled in mBank S.A. shares.

	31.12.2015	31.12.2014
Incentive Programs		
As at the beginning of the period	30 256	29 061
- value of services provided by the employees	14 459	12 616
- settlement of exercised options	(11 739)	(11 421)
As at the end of the period	32 976	30 256

Share-Based Payments Settled in Cash

The incentive programme for the Management Board of the Bank in the part relating to Commerzbank shares has no impact on other reserves as its cost is taken to the income statement in correspondence with liabilities.

The value of provided services associated with this part of the programme amounted to PLN 1,286 thousand in 2015 (December 31, 2014: PLN 3,370 thousand). The value of liabilities under this program amounted to PLN 0 on December 31, 2015 (December 31, 2014: PLN 1,995 thousand).

Cash Payments

On March 2, 2015 Supervisory Board according to the recommendation of the Remuneration Committee extended the duration of the program from December 31, 2019 to December 31, 2022.

According to the opinion of the Management Board of the Bank, remuneration policy is in line with objectives set within the Group improving the stability of the company and long term growth.

13.5. MbO (Management by Objectives) - planning and appraisal system

In the current economic environment, one of the bases for a strong and stable growth as well as a competitive advantage is an effective and efficient Organisation Management System. In 2011, mBank implemented a fully developed, established and, additionally, very flexible System of Management by Objectives (MbO). For a few years now the MbO system has been covering not only mBank employees, but also all the employees of the key subsidiaries of mBank Group, thereby ensuring effective cooperation and communication within the entire mBank Group.

On the basis of more than 5 years of experience, at the end of 2015 the process of setting and cascading objectives for 2016, both in mBank and in selected Group subsidiaries was started — strong emphasis was placed on solidarity and integration objectives as well as those driving cooperation within not only mBank, but also the whole Group. It is a long-term process which will, in effect, provide mBank Group with a lasting competitive advantage and a tool which supports its long-term strategy on an ongoing basis.

The knowledge of strategic goals will allow mBank Group to focus employees' involvement on the most important issues, improving their effectiveness and saving time.

The MbO system has the following functions in the organisation:

- It translates directly into mBank's and mBank Group's performance by imposing discipline and involving the entire organisation in the achievement of results.
- It forms a direct communication platform which enables sharing information on the role and involvement of an individual employee in developing the organisation and achieving the strategic goals of mBank.

14. Investments

In 2015, the Bank spent PLN 230.1 million on investments, compared with PLN 160.5 million a year earlier.

The majority of investment spending at the Bank (PLN 191.9 million) was related to the IT area (salary of IT segment employees working on IT projects). The largest project financed in the IT systems area was the migration of former Multibank clients to mBank.

Spending in the logistics and security area, totalling PLN 38.1 million, was allotted to continued development and modernisation of the branch network and the Head Office as well as additional equipment for retail outlets. Moreover, some part of the spending was connected with new outlets opened as part of the One Network project.

15. mBank and social corporate responsibility

15.1. mBank Foundation

mBank Foundation (mFoundation), established in 1994, strives to support enhancement in education and quality of life of the society through actions coherent with the image and policy of the Bank.

In 2015, mFoundation continued its involvement in the "m for Mathematics" initiative introduced at the end of 2013 and outlined in the strategy for 2012-2016. The strategy is centred around activities aimed at supporting mathematics education in Poland and improving its effectiveness.



Through its three main activities the Foundation supports committed teachers and organisers of social activities in their efforts to show young people the interesting and practical side of mathematics so that they can effectively apply it not only in the classroom, but first of all, in their everyday lives. Subsidies, the grant programme "mPower" ("mPotęga") and the "Masters of Mathematics" ("Mistrzowie matematyki") scholarships allow for offering interesting educational activities to children, teenagers and students. Parents who want to support children in learning mathematics and teachers eager to upgrade their vocational qualifications in teaching of mathematics were invited to take part in projects subsidised by mFoundation.

In the first half of 2015 mFoundation continued to be the partner to the "Mathematics Counts" ("Matematyka się liczy") initiative launched by Gazeta Wyborcza daily. As part of this initiative, competitions

for students and teachers as well as a mathematical picnic with workshops and lectures about modern and effective mathematics education were held.

Apart from its regular programmes, mFoundation was also engaged in supporting the employee volunteering programmes "Let's Do Good Together" and "Let's Run Together for Others".

Actions in support of mathematics education

mFoundation subsidies offer one-time financial support for development projects related to mathematics. Applications for subsidies are accepted throughout the year and are processed on the last Monday of every month. Non-governmental organisations, schools, libraries and other educational and scientific establishments as well as higher education institutions may apply for the support. In 2015, almost 60 thousand direct recipients benefited from the projects subsidised by mFoundation. The funds of mFoundation enabled the development of 48 mathematical projects on a national and regional scale, among others: 11th edition of the Competition of Secondary School Pupils in Mathematics, mathematical meetings as part of the 19th Science Festival in Warsaw, 6th edition of the international photographic competition "Mathematics in Focus", or "General Internet Competition for high school students - Mathematics" organised by the Faculty of Mathematics and Information Science of the Warsaw University of Technology.

Another key initiative of mFoundation is the grant programme "**mPower**". Underlying the programme is a desire to develop mathematical skills in the young generation by inspiring teachers, parents, people with passion for mathematics to look for creative, attractive ways for children and teenagers to get to know the world of numbers. The programme is implemented in cooperation with the Good Network Foundation (Fundacja Dobra Sieć). In 2015, in the second edition of "mPower", schools, social organisations, cultural centres and public libraries from nine voivodeships (mazowieckie, łódzkie, wielkopolskie, kujawsko-pomorskie, pomorskie, zachodniopomorskie, warmińsko-mazurskie, lubuskie and dolnośląskie) were eligible for grants. The applicants could enter their original projects in two categories: addressed to 4-6th grade pupils of primary schools, and to secondary school pupils and high school students. Grants ranging from PLN 2 thousand to PLN 8 thousand were awarded to 61 most interesting initiatives. Consequently, ten thousand pupils, parents and teachers benefited from "mPower".

The programme "**Masters of Mathematics**" is dedicated to non-governmental organisations whose statutory activities include scholarship programmes. As part of the programme, NGOs can raise funds for scholarships awarded to pupils and university students demonstrating outstanding talents for science, e.g. mathematics. In 2015, mFoundation launched ten scholarship programmes "Masters of Mathematics". They were implemented among others by local foundations and associations from Kielce, Solec Kujawski, Wieluń and Nowy Sącz. mFoundation funded scholarships for 160 talented young mathematicians.

Employee volunteering programme

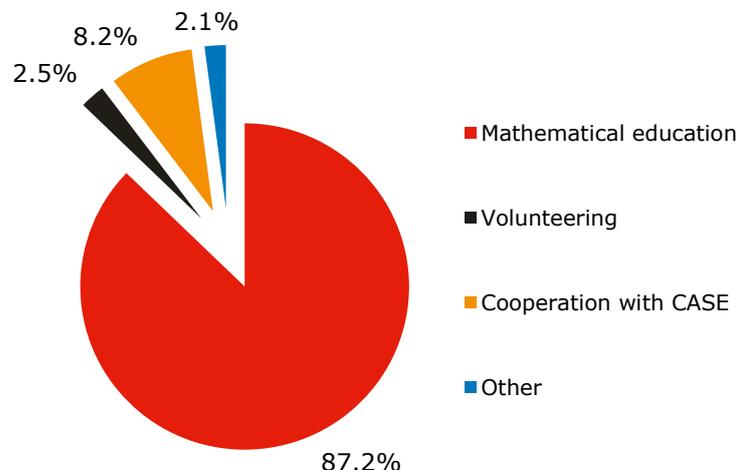
mFoundation helps mBank's employees to take actions for local communities through the support of the employee volunteering programme "Let's Do Good Together" ("Zróbmy razem coś dobrego") and the sports volunteering programme "Let's Run Together for Others" ("Biegnijmy razem dla innych"). In 2015, five projects implemented by 25 volunteers were co-financed by mFoundation as part of the employee volunteering programme "Let's Do Good Together".

Cooperation with the CASE Foundation

Since 2005 mFoundation has been cooperating with the Science Foundation CASE (Center for Social and Economic Research), co-organising cyclical seminars and issuing accompanying publications. CASE is an international, independent research and advisory centre, focusing on the transformation in Central and Eastern Europe, Transcaucasia and Central Asia, the European integration and the world economy. The seminars cover the key issues of the financial sector, public finances, the monetary union and other current, important questions relating to the economic policy in Poland and in the world. There were six seminars organised within the scope of the cooperation in 2015.

The amount of **PLN 2,246,618** was earmarked for the performance of mFoundation's statutory tasks in 2015 with the following structure of expenses:

The costs of the performance of the statutory tasks of mFoundation in 2015



15.2. Other social-oriented activities

“You don’t do it in real life? Don’t do it online!” mBank’s first social campaign promoting online security

In 2015, mBank, an online banking pioneer, launched a social campaign which was not only the first campaign promoting online security in the bank’s history, but the first such campaign in the banking industry. The campaign is addressed to all those who bank using their computers and mobiles. Its aim is to make people aware of the possible threats lurking online.

The campaign covers TV ads based on the concept of moving risky online situations to real life. They are designed to provoke reflection on the way users reveal their data on the Internet and on how and to whom they give access to their devices.

In its next step mBank launched a dedicated service (mbank.pl/uwazniwsieci), explaining in a concise way what may pose a threat to Internet users and why, and how to protect oneself from it.



This website is supplementary to <https://mbank.pl/bezpieczenstwo> which has been administered by mBank for many years, offering guidelines for clients and warnings against cyber-attacks.

“Tomorrow Belongs to Women”

Since 2008 mBank has been organising a series of seminars entitled “Tomorrow Belongs to Women” addressed to the female corporate clients of mBank who manage finances, sit on management boards or own enterprises. As part of the project, mBank organises meetings with experts, networking discussions and other activities making it easier for working women to achieve the work-life balance. The key themes of the meetings were selected based on suggestions from women given in an Internet questionnaire.

In 2015, there were three meetings organised as part of the “Tomorrow Belongs to Women” programme.

16. Statement of mBank S.A. on application of Corporate Governance principles in 2015

16.1. Application of Corporate Governance Principles

In 2015, mBank was subject to corporate governance principles contained in the following documents:

1. "Code of Best Practice for WSE Listed Companies"
2. "Principles of Corporate Governance for Supervised Institutions"

The text of the "Code of Best Practice for WSE Listed Companies" is available on the website of the Warsaw Stock Exchange (<http://www.corp-gov.gpw.pl/>), and the Principles of Corporate Governance for Supervised Institutions are available on the website of the Polish Financial Supervision Authority (<http://www.knf.gov.pl/regulacje/praktyka/index.html>).

On 13 October 2015, the Exchange Supervisory Board adopted a resolution on introduction of the new corporate governance principles entitled "Code of Best Practice for WSE Listed Companies 2016". Before, the draft of new principles was subject to public consultation attended by representatives of issuers, stock exchange investors and institutions and organisations interested in corporate governance of listed companies. The new principles entered into force on January 1, 2016. Some of the current principles have been clarified in the document. With regard to the selected issues being of key importance from the point of view of corporate governance, the current requirements were increased where the adequacy rule was taken into account, which adjusts the particular rules to the possibilities of implementing them by companies of various sizes. This refers in particular to extending the scope of information published by the companies on the website.

The "comply or explain" rule applies to the detailed rules of best practice. Constant non-application of a given principle or its incidental non-application are subject to obligatory reporting by the company in a manner specified in § 29 point 3 of the Stock Exchange Rules. It is worth noting that starting from 1 January 2016, Best Practice within the scope of organising the so-called "e-general meetings" have the nature of recommendations and there is therefore no obligation to publish a current report on refraining from the implementation of those principles in the EIB System.

Code of Best Practice for WSE Listed Companies

The version of the "Code of Best Practice for WSE Listed Companies" including amendments introduced by Resolution No. 19/1307/2012 of the WSE Supervisory Board of 21 November 2012 which came into effect on January 1, 2013 was applicable in 2015. That is why the latest statement refers to this document.

In 2015, similarly as in the two previous years, mBank applied the principles of the "Code of Best Practice for WSE Listed Companies" with the exception of Rule no. 10 point 2 in chapter IV of the "Code of Best Practice for WSE Listed Companies". This rule stipulates the obligation to ensure that shareholders have the possibility to participate in the general meeting with the use of means of electronic communication.

For many years, mBank has broadcast General Meetings in real time, however, without the possibility to engage in two-way on-line communication by allowing shareholders to speak during the General Meeting from a different location. The Bank's By-laws and the Standing Rules of the General Meeting do not provide for the possibility to actively participate in General Meetings with the use of means of electronic communication.

Moreover, in the opinion of the Management Board of the Bank, the organisation of general meetings with the use of means of electronic communication involves additional legal, organisational and technical risks. It should be noted that mBank has a stable majority shareholder while a large part of minority shareholders are represented at each General Meeting even if participation in General Meetings with the use of means of electronic communication is not available.

In the opinion of the Management Board, the rules for participating in General Meetings of the Bank, currently applicable at the Company, allow for adequate protection of the interests of all shareholders, including the minority shareholders, allowing them to exercise all rights attached to shares.

With respect to the Recommendations listed in the "Code of Best Practice for WSE Listed Companies", Point 9 of the Recommendations, which calls for ensuring a balanced proportion of women and men in management and supervisory functions in companies, requires an additional commentary.

mBank ensures equal access of men and women to management positions, which however is not based on a predetermined parity.

The persons recommended and appointed to the Bank's Management Board and Supervisory Board should display the highest competence, be adequately educated and experienced, and have a professional track record. mBank is of the opinion that it would be unjustified to introduce regulations based on pre-established parities, and leaves the decision on selecting members of the Management Board and Supervisory Board in the hands of duly authorised bodies of the Company.

As at the end of 2015, the 12-member Supervisory Board of mBank had two female members: Teresa Mokrysz and Agnieszka Słomka-Gołębiowska. The 7-member Management Board of mBank had one female member: Lidia Jabłonowska-Luba, Chief Risk Officer.

Finally, it is worth mentioning that from among the detailed corporate governance principles ("Code of Best Practice for WSE Listed Companies 2016") applicable as of January 1, 2016, mBank does not apply two rules:

1. The rule II.Z.8. which reads "The chairman of the audit committee meets the independence criteria specified in Rule II.Z.4", Stephan Engels, Member of the Management Board of Commerzbank AG (CFO) is the Chairman of the Audit Committee of the Supervisory Board of mBank S.A. Therefore, Stephan Engels does not meet the criterion of independence, referred to in rule II.Z.4.; however, this does not have an impact on the manner and credibility of tasks performed by the Committee.

2. The rule VI.Z.2. which reads "In order to link the remuneration of members of the management board and key managers with the company's long-term business and financial objectives, the period between granting options or other instruments connected with company shares as part of the incentive programme and the possibility of executing them should be at least 2 years." The conditions for granting variable components of remuneration at mBank S.A. are compliant with Resolution No. 258/2011 of the Polish Financial Supervision Authority of October 4, 2011 drafted in response to EU Directive CRDIII and CEBS guidelines (Committee of European Banking Supervisors; at present, EBA – European Banking Authority) and consistent with EU Directive CRD IV, the provisions of which do not provide for the indication specified in item VI.Z.2. of the Code of Best Practice for WSE Listed Companies 2016 as a condition for awarding the bonus.

Corporate Governance Principles for Supervised Institutions

The "Principles of Corporate Governance for Supervised Institutions" approved by the Polish Financial Supervision Authority on July 22, 2014 are in effect since January 1, 2015. The "Principles of Corporate Governance for Supervised Institutions" cover relations with shareholders and clients, issues relating to the organisational structure, an effective and efficient internal control system, as well as the risks of business activities.

mBank has accepted for application the "Principles of Corporate Governance for Supervised Institutions" excluding the rules defined in § 8 point 4 and § 16 point 1.

The rule in § 8 point 4, which provides as follows: "A supervised institution, when justified by the number of shareholders, should strive for facilitating the participation of all shareholders in the General Meeting of the supervised institution, among others, through ensuring the possibility of electronic active participation in the General Meeting", is similar to rule 10 point 2 in chapter IV of the "Code of Best Practice for WSE Listed Companies". As a large part of mBank's shareholders are represented at General Meetings and with a view to mitigating the risk inherent in active participation in General Meetings with the use of means of electronic communication, mBank has decided that non-compliance with the rule defined in § 8 point 4 was justified.

Likewise, mBank does not comply with the rule defined in § 16 point 1, which provides as follows: "It is proper that meetings of a management body shall be held in Polish. In case of need, necessary assistance of an interpreter should be ensured." The non-compliance derives from the fact that all Members of mBank's Management Board speak fluent English. Communication without an interpreter is more effective as

discussions and decisions can be made without the participation of a third party (interpreter). In some circumstances, the participation of an interpreter could make discussions at Management Board meetings more difficult or prolonged due to the complex nature of issues under discussion as well as the specialised language. Furthermore, given that Management Board meetings review information that constitutes the company's secret, it is legitimate to limit to the bare minimum the participation of non-members of the Management Board in its meetings. At the same time, most of mBank's Management Board Members speak Polish, which implies that the Bank can be represented whenever participation of Management Board Members is required including communications in Polish without an interpreter. Furthermore, minutes of Management Board meetings as well as resolutions of mBank's Management Board are prepared in two language versions, ensuring compliance with the provisions of § 16 point 2 of the "Principles".

The stand of shareholders as regards the Corporate Governance Principles was presented in the resolution of the 28th Annual General Meeting of mBank S.A. of March 30, 2015.

In the above resolution, the shareholders undertook:

- to participate in the performance of the statutory objectives of mBank, ensuring security of its operation and following its interest
- not to violate the competence of other statutory bodies of mBank
- to immediately solve any potential conflicts between shareholders to prevent infringing the interest of mBank and its clients
- not to make decisions resulting in transferring assets from the supervised institution to other entities, and in acquisition or alienation of or in conclusion of other transactions leading to the supervised institution disposing of its assets under conditions other than market conditions or posing a threat to the security or interest of the supervised institution; to grant the individual rights to the given shareholder or shareholders when justified on the grounds of achieving significant objectives of mBank and not causing hindrance to proper functioning of the bodies of mBank or discrimination against other shareholders and reflected in the By-Laws of mBank
- to provide, if needed, additional capital or grant financial support to the Bank to the extent to which it is possible and compliant with authorisations, whereas it will only take place after the analysis of the entirety of reasons which led to such a necessity; the shareholders will take into consideration the possibility of providing support from the point of view of their financial situation, provisions of law and supervisory regulations the shareholders are bound to respect and considering the best interest of mBank and its clients.
- to make decisions with regard to dividend payment depending on the need for maintaining an appropriate level of equity and on the achievement of strategic objectives of mBank and to take into consideration general and individual recommendations issued by the supervisory authorities.
- to implement the recommendations of the the Polish Financial Supervision Authority regarding the election of members of the Supervisory Board of the Bank.

Code of Banking Ethics

Irrespective of the corporate governance principles, mBank has for many years complied with best banking industry practices developed by the Polish Bank Association (ZBP). The currently applicable version of the Code of Banking Ethics was approved at the 25th General Meeting of the Polish Bank Association held on April 18, 2013. The Code of Banking Ethics is a set of principles referring to banks, their employees, and persons acting as intermediaries in banking activities. The Code of Banking Ethics includes two parts: Code of Best Banking Practice and Code of Employee Ethics. The Code of Banking Ethics is available on the website of the Polish Bank Association (<http://zbp.pl/dla-bankow/zespoly-rady-i-komitety/dzialania-w-obszarze-legislacyjno-prawnym/komisja-etyki-bankowej>).

The disclosure policy

mBank pursues an open, transparent, and effective information policy. The main means applied in the disclosure policy are:

- current and periodic reports
- meetings, tele- and video-conferences of representatives of the Management Board and the Investor Relations and Group Strategy Department with investors and analysts on a regular basis, both in Poland and abroad
- quarterly presentations of financial results for investors and analysts provided directly and through interactive webcasts and teleconferences
- ongoing contact by phone or e-mail with analysts and investors, including sending Newsletters and other informational materials
- participation of the domestic and foreign representatives of the Bank in investor conferences and road-shows in the selected European countries and in the United States of America
- website of the company with a big investor relations section where information is published on, among others, the shareholders of mBank, composition of the Management Board and Supervisory Board, General Meetings (including video recordings of the course of the General Meetings), ratings, the Euro Medium Term Note Programme, quotations of mBank's shares on the WSE, analysts' recommendations, the consensus on mBank Group's expected performance, the target share price, yearly, periodical and ongoing presentations, including presentations with the results of the Group for analysts and stock exchange investors as well as presentations for the investors in the Bank's debt securities, online version of the annual report allowing for an interactive access to the audited financial data, investor's calendar, mBank Analyser allowing for making financial and business analyses in different dimension and the Investor's Calendar. In the section dedicated to corporate governance and best practice the following is included: By-laws and rules of the Bank's bodies, statements on the application of corporate governance principles, principles of remunerating the Management Board and the Supervisory Board, information on incentive programmes, information on the diversity policy, rules for changing the entity entitled to audit financial statements, and information on the participation of men and women in statutory bodies of mBank.

In 2015, the Investor Relations team held in total about 140 investor meetings (the majority of them with the participation of the members of the Management Board of the Bank) attended by about 240 investors and analysts. The team took part in three conferences in Poland and six conferences abroad, organised three mini road-shows with OFE, TFI and other financial investors in the Warsaw headquarters of the Bank and two road-shows in the United States.

16.2. Internal control and risk management systems with regard to the process of preparing financial statements of mBank

mBank is equipped with an internal control system which supports Bank management by ensuring the efficiency and effectiveness of the Bank's operation, reliability of financial reports, as well as compliance of the Bank's operation with the provisions of law and internal regulations.

The internal control system includes the following:

- functional control which covers all organisational units and all processes
- risk monitoring and risk control mechanisms
- monitoring compliance of the Bank's operation with the provisions of law and internal regulations
- internal audit.

The adequacy and effectiveness of the internal control system is subject to independent assessment of the Internal Audit Department (DAW). The audit results are reported, among others, to the President of the Management Board, the Chief Risk Officer, and the Chairman of the Supervisory Board of the Bank. Moreover, the Department of Integrated Risk Management and Capital (DKR) manages the process of

integrated risk and capital of the Bank and the Group reporting for the Bank's statutory bodies, the regulators and financial market participants, as well as for consolidated supervision.

The general rules described above are applied also in the process of drafting financial statements.

The process of preparing financial data for reporting is automated and based on the General Ledger of the Bank. Preparation of data in source systems is subject to formalised operational and acceptance procedures. Creating the General Ledger of the Bank takes place within a process covering respective internal controls. Manual adjustments are subject to special controls.

The process of monitoring the operational risk which occurs in the preparation of financial statements in the Bank includes mechanisms which effectively ensure the security of IT systems. mBank has in place a business continuity plan which covers also the IT systems used in the process of preparing financial statements.

Financial statements of mBank and the Group are prepared by the Financial Reporting Department. Consolidated financial statements are based on the data submitted by mBank's subsidiaries. The Financial Reporting Department monitors the reporting packages prepared by the subsidiaries in terms of their correctness, completeness and coherence of data.

The responsibility for keeping accounting books and administering the model chart of accounts lies with the Accounting Department. Both Departments report to the Vice-President of the Management Board, Chief Financial Officer.

Financial statements are submitted to the Management Board of mBank for verification. The Audit Committee of the Supervisory Board receives quarterly financial statements before they are published. After consultations with the Bank's external auditor and the Members of the Management Board of the Bank, the Audit Committee recommends whether the Supervisory Board should approve or reject the annual financial statements.

The annual and semi-annual financial statements of mBank are respectively subject to an independent audit or review by the statutory auditor. The selection of the statutory auditor of the Bank requires a resolution of the General Meeting. The Audit Committee of the Supervisory Board issues an opinion on the selection of the statutory auditor. mBank observes the rule stipulating that the key statutory auditor should change at least once every five years. This is in line with Article 89 of the Act on Statutory Auditors and their Self-Government, Entities Authorised to Audit Financial Statements, and Public Supervision dated 7 May 2009 (Journal of Laws of 2009, No. 77, item 649). According to the above article, the key auditor (the auditor, who signs the opinion and the report) cannot perform auditing activities in the same unit of public interest for a period longer than five years and then can perform such activities only after two years. Furthermore, mBank abides with all recommendations issued by the Polish Financial Supervision Authority regarding the change of statutory auditors.

Pursuant to a resolution no. 32 of the 28th Annual General Meeting of the Bank of March 30, 2015, Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k. was the entity authorised to audit the Bank's financial statements and consolidated financial statements of the Capital Group for 2015. This company was also the auditor in the years 2013-2014.

The amount of fees paid to Ernst & Young is presented in Note 47 to the Consolidated Financial Statements.

The procedures of co-operation of the Bank and the external auditor ensure that all the important issues related to the recognition of economic events in the books and financial statements are being consulted on an on-going basis.

The aspiration to ensure the highest standards of financial statements is reflected in the high quality of reporting. In "The Best Annual Report 2014" contest organised by the Accounting and Tax Institute, the results of which were announced in September 2015, mBank won the title "The Best of the Best" for the third time in a row. Moreover, mBank received a distinction for the annual report on the Internet.

16.3. Significant blocks of shares

Commerzbank AG is the majority shareholder of mBank.

As at December 31, 2015, Commerzbank held directly 29,352,897 shares of mBank, which accounted for 69.49% of the share capital and votes at the General Meeting. 30.51% of mBank shares in free float are held by institutional investors, in particular Polish pension funds and Polish and foreign investment funds as well as individual investors. ING Otwarty Fundusz Emerytalny (ING OFE) exceeded the 5% threshold of shares and votes at the General Meeting. According to the notification sent to the Bank, on 18 March 2015 ING OFE held 5.05% of the share capital entitling it to 5.05% of the total amount of shares and votes at the General Meeting.

The strategic shareholder of mBank, Commerzbank AG, is a leading German bank with a history dating back to 1870, which provides its services to private and corporate customers.

The German government – currently the largest shareholder of Commerzbank – holds more than 15% of stake in the share capital of Commerzbank through Germany's Financial Market Stabilisation Fund (SoFFin). The largest institutional investors are BlackRock and Capital Group – each of them holds a bit more than 5% of the shares of the Bank. The remaining institutional investors hold about 50% of shares in free float.

Commerzbank is one of the leading international commercial banks. Its branches are located in over 50 countries. The basic markets for the Bank are Germany and Poland. There are five segments in the structure of Commerzbank Group: Individual Clients, small and medium-sized enterprises (Mittelstandsbank), Corporations and Financial Markets, Central and Eastern Europe and Non-Core Assets. Commerzbank holds branches and offices in more than 50 countries. With approximately 1,050 branches and more than 90 advisory centres for business customers Commerzbank has one of the densest branch networks among German private banks. In total, Commerzbank boasts more than 16 million private customers, as well as 1 million business and corporate clients. The Bank, which was founded in 1870, is represented at all the world's major stock exchanges. In 2015, it generated gross revenues of EUR 9.8 billion with 51,300 employees. As at 31 December, 2015, Commerzbank Group held assets of EUR 533 billion.

Pursuant to the By-laws of mBank, each share gives the right to one vote at the General Meeting. There are no preferred shares. The control rights of Commerzbank AG as the parent entity of mBank are a result of the number of shares held, their percentage share in the share capital, and the number of votes at the General Meeting of mBank.

The By-laws of mBank do not impose any limitations on the exercise of the voting right. There are no provisions which would separate the equity rights attached to securities from the holding of securities. Furthermore, there are no limitations on the transfer of the property right to securities issued by the Bank.

16.4. Principles of appointing and dismissing Management Board Members

Pursuant to the By-laws of mBank, the Management Board is composed of at least three Members appointed for a joint term of 5 years. At least half of the Members of the Management Board, including the President of the Management Board, must hold Polish citizenship, be habitually resident in Poland, speak Polish and have experience on the Polish market which can be used while managing the Bank.

The President of the Management Board, the Vice-Presidents of the Management Board and the other Members of the Management Board are appointed and dismissed by the Supervisory Board, acting pursuant to the provisions of the Banking Law and considering relevant qualifications for the assigned functions. The Polish Financial Supervision Authority (PFSA) approves two Members of the Management Board of the Bank: The Polish Financial Supervision Authority (PFSA) approves two Members of the Management Board of the Bank: the President of the Management Board and the Chief Risk Officer.

In accordance with the Code of Commercial Partnerships and Companies, a Member of the Management Board may also be dismissed or suspended by the General Meeting.

The mandate of a Member of the Management Board expires at the latest on the day of the General Meeting that approves the financial statements for the last full financial year of the term of that Management Board Member. The mandate of a Member of the Management Board also expires if the Member dies, resigns from his or her position, or is recalled. The mandate of a Member of the Management Board appointed before the end of the term expires on the expiration of mandates of the other Members of the Management Board.

16.5. Amendments to the Company's By-Laws

Amendments to the By-Laws of mBank require adoption of a resolution by the General Meeting of mBank and registration of the adopted amendment in the National Court Register. Before the General Meeting of mBank is presented with a draft resolution concerning amendment to the By-Laws, the Management Board of mBank adopts a resolution on the proposed amendment by approving the draft resolution of the General Meeting, and then the draft is presented to the Supervisory Board of mBank for approval.

In accordance with Article 34.2 of the Banking Law Act of 29 August 1997, any amendment to the Bank's By-laws requires the authorisation of the Polish Financial Supervision Authority where such amendment relates to:

- The Bank's registered business name.
- The Bank's registered office, objects and scope of the Bank's operation.
- The bodies and their competences, including particularly the competences of the Members of the Management Board appointed with the approval of the Polish Financial Supervision Authority and the decision-making principles, the general organisational structure of the Bank, the procedures applicable to making legally binding statements regarding property rights and obligations, the procedures for issuing internal regulations and the procedure for making decisions on assuming obligations or disposing of assets whose total value with regard to a single entity exceeds 5% of the Bank's own funds.
- The principles of functioning of the internal control system.
- The own funds and the financial management principles.
- Shares preferred or limited as to voting rights.

16.6. General Meeting and shareholder rights

General Meeting procedures and powers

The General Meeting is convened pursuant to the provisions of the Code of Commercial Partnerships and Companies, the Bank's By-laws, and the Standing Rules of the General Meeting. Both the By-laws and the Standing Rules of the General Meeting are available on the website of mBank.

The General Meeting convened by the Management Board in the way of an ordinary procedure is held once a year, no later than in June. The Supervisory Board may convene an Annual General Meeting if the Management Board fails to convene it within the time limits set out in the By-laws and an Extraordinary General Meeting, if the Supervisory Board considers it necessary.

In addition, under specific circumstances, the shareholders have the right to convene a General Meeting or to request for a General Meeting to be convened.

Shareholders may participate in the General Meeting and cast their votes either in person or by proxies. One proxy may represent more than one shareholder.

Subject to the cases defined in the Code of Commercial Partnerships and Companies, the General Meeting is valid regardless of the number of shares represented at the General Meeting.

All matters submitted to the General Meeting are previously submitted to the Supervisory Board for consideration.

Subject to specific exceptions, resolutions of the General Meeting are passed in an open ballot by a simple majority of votes, unless the Code of Commercial Partnerships and Companies or the mBank By-laws impose a stricter requirement for the passing of resolutions on specific issues. A secret ballot is required in the case of elections and motions to dismiss members of the Bank's authorities or liquidators, motions to call members of the Bank's authorities or liquidators to account, and motions concerning personal issues. In addition, a secret ballot is required if requested by at least one shareholder present or represented at the General Meeting.

Voting takes place with the use of a computer system, which also counts the votes. The By-laws and Standing Rules of the General Meeting do not provide for the possibility to vote by mail or with the use of electronic means of communication.

The following matters require a resolution of the General Meeting (in addition to other matters set out in the Code of Commercial Partnerships and Companies):

- Examination and approval of the report of the Management Board on the Bank's operation and financial statements for the past financial year.
- Adoption of resolutions on the distribution of profits or coverage of losses.
- Vote of discharge of duties for members of the Bank's authorities.
- Election and dismissal of Members of the Supervisory Board.
- Amendment to the By-laws.
- Increase or reduction of the Bank's share capital.
- Adoption of resolutions concerning the cancellation of shares, which set the rules of acquiring shares by the Bank, in particular the amounts allotted for purchasing the shares for redemption and funding sources, and in particular setting the policy of share cancellation not regulated in the By-laws.
- Creation and winding up of special purpose funds.
- Issue of convertible bonds or preferred bonds.
- Establishment of the principles of remunerating Members of the Supervisory Board.
- Liquidation of the Bank or its merger with another bank.
- Appointment of liquidators.
- Matters submitted by the Supervisory Board.
- Matters submitted by shareholders in accordance with the By-laws.
- Election of an entity authorised to audit financial statements as statutory auditor of the Bank.

The General Meetings of mBank take place on the Bank's premises in Warsaw and are broadcast on-line. The General Meetings may be attended by the representatives of the media.

Shareholder Rights

The shareholders have the right to participate in the profit reported in the audited financial statements and allocated by the General Meeting to be paid to the shareholders.

The shareholders representing at least one-half of the share capital or at least one-half of the total number of votes in the Company may convene an Extraordinary General Meeting. The shareholders appoint the chairman of such meeting. The shareholder(s) representing at least one-twentieth of the share capital may request that the Management Board convene an Extraordinary General Meeting and that specific items be put on the agenda for such meeting.

Only persons who are shareholders of the Bank sixteen days before the date of the General Meeting have the right to participate in the General Meeting of the Bank. The shareholder(s) of the Bank representing at least one-twentieth of the share capital may request that specific items be put on the agenda for the Annual General Meeting. The request should be submitted to the Management Board of the Bank no later than twenty-one days prior to the date of the Annual General Meeting.

Shareholders may participate in the General Meeting and cast their votes either in person or by proxies.

A shareholder has the right to:

- Vote, propose motions and raise objections.
- Justify his or her position briefly.
- Stand for election for Chairman of the General Meeting and propose a candidate for Chairman of the General Meeting to be noted in the minutes.
- Take the floor during the proceedings and make a reply.
- Table draft resolutions concerning the items put on the agenda.

- Propose amendments and additions to draft resolutions on the agenda for the General Meeting before the discussion on the item covering the draft resolution concerned by the proposal is closed.
- Propose formal motions relating to the proceedings and the voting procedure.
- Propose candidates for the Bank's Supervisory Board in writing to the Chairman of the General Meeting or orally to the minutes.
- Review the book of minutes and request a copy of resolutions authenticated by the Management Board.
- Take legal action to have a resolution of the General Meeting annulled where the shareholder voted against a resolution of the General Meeting and after its adoption raised an objection to the minutes or the shareholder was unreasonably prevented from participating in the General Meeting or the shareholder was not present at the General Meeting as a result of it being convened incorrectly or the adopted resolution not being on the agenda.
- Take legal action against the Company to have a resolution of the General Meeting annulled where the resolution is in breach of law.

The Management Board is obliged to provide the shareholder, at the shareholder's request, with information concerning the Company if this is justified by the assessment of an issue on the agenda. The Management Board should refuse information if:

- This could damage the Company or its associated company or subsidiary, in particular due to disclosure of technical, trade or organisational secret of the Company.
- This could expose a Member of the Management Board to criminal, civil or administrative liability.

In justified cases, the Management Board may provide information in writing no later than two weeks after the General Meeting is adjourned.

28th Annual General Meeting in 2015

The 28th Annual General Meeting was held on March 30, 2015 and, after adjourning the session, it was continued on April 29, 2015. The break resulted from receiving on the day of the General Meeting the stand of the Polish Financial Supervision Authority recommending to retain the whole profit generated in the period between January 1 and December 31, 2014 until additional capital requirements are set, while the draft resolution of the General Meeting provided for paying out a dividend of PLN 17 per share, under the condition that the specified minimal levels of the total capital ratio and net profit are presented in the audited financial statements of mBank S.A. for H1 2015.

During the session on March 30, 2015, the General Meeting adopted resolutions concerning:

- approving the financial statements and the reports of the Management Board of mBank and mBank Group for 2014,
- the vote of discharge of duties for members of the Supervisory Board and the Management Board,
- amendments to the By-laws of the Bank,
- stance of shareholders of mBank concerning the Corporate Governance Principles for Supervised Institutions adopted by the Polish Financial Supervision Authority,
- appointment of an auditor to audit the financial statements of mBank and mBank Group, and
- changes concerning the rules of conducting the incentive programme by the Bank and conditional share capital increase by way of issuing shares excluding preemptive rights of the existing shareholders in order to allow the participants of the employee incentive programmes to take up the Bank's shares in connection with the extension of the period of their validity.

On April 29, 2015, the resumed 28th General Meeting of mBank adopted a resolution on dividing the profit, and thus the profit of mBank in the amount of PLN 1,174,096,218.00 was allotted in the following way:

- PLN 50,000,000.00 – for the general risk fund of mBank
- PLN 406,523,549.00 – for the supplementary capital of mBank
- The remaining part of the profit, amounting to PLN 717,572,669.00, remained undistributed.

The resolutions adopted by the 28th Annual General Meeting and the detailed voting results are available on the Bank's website in the section dedicated to General Meetings (<http://www.mbank.pl/relacje-inwestorskie/walne-zgromadzenia/>).

16.7. Composition, powers and procedures of the Management Board and the Supervisory Board

Composition of the Management Board

The Management Board is composed of at least three members appointed for a joint term of 5 years. At least half of the Members of the Management Board, including the President of the Management Board, must hold Polish citizenship, be habitually resident in Poland, speak Polish and have experience on the Polish market which can be used while managing the Bank. The Members of the Management Board manage selected areas of the Bank's operation within the scope determined by the President of the Management Board. The division of powers of the Members of the Management Board has been described in detail in the Management Board's resolutions.

The composition of the Management Board of the Bank did not change in 2015. The composition of the Management Board appointed for a joint term of 5 years by the Supervisory Board on April 11, 2013 is as follows:

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

Detailed information on mBank Management Board Members is presented below:

Cezary Stypułkowski - President of the Management Board, Chief Executive Officer



Cezary Stypułkowski holds a Ph.D. in Law from the University of Warsaw. In the late 1980s, he studied at Columbia University Business School in New York as a participant of the Fulbright Program. Starting in 1991, he chaired the management board of Bank Handlowy S.A. (currently Citibank Group) for nearly thirteen years. Mr Stypułkowski was appointed as president of the management board of the PZU Group in 2003. From 2006 to 2010 he worked for J.P. Morgan in London, and from 2007 as Managing Director of J.P. Morgan Investment Bank in Central and Eastern Europe. Mr Stypułkowski was also a member of the International Advisory Board for Deutsche Bank Management Board, INSEAD International Advisory Board and the Geneva Association. Since 2012 he has been the co-chairman of the Emerging Markets Advisory Council of the Institute of International Finance in Washington (IFF).

Cezary Stypułkowski was appointed President of the Management Board of mBank on August 2, 2010, acting as President of the Management Board of the Bank as of October 1, 2010, approved as President of the Management Board by the Polish Financial Supervision Authority on October 27, 2010.

Przemysław Gdański – Vice-President of the Management Board, Head of Corporate and Investment Banking



Przemysław Gdański graduated from the University of Gdańsk (major: International Trade) and completed a one-year program in international banking and finance at Loughborough University in the UK. In 2012, he completed the Advanced Management Program (AMP) at IESE Business School.

He has over 20 years of experience in corporate and investment banking. From 1993 to 1995 he worked for IBP Bank S.A., then for ABN AMRO Bank in Poland, Romania and in the headquarters in Amsterdam. From 2002 to 2006, he was the Managing Director of the Large Corporates Division in Bank BPH Bank S.A.. From May to November 2006 he was CEO and General Director of Calyon Bank Polska and Calyon S.A. Branch in Poland.

In November 2006, he took the position of Deputy CEO in BPH Bank, responsible for corporate banking and real estate financing. After the merger of part of BPH Bank and Pekao S.A., he became the Deputy CEO of Pekao S.A. responsible for the Corporate Banking, Markets and Investment Banking Division.

Mr Gdański has been a Member of the Management Board since November 19, 2008.

Jörg Hessenmüller – Vice-President of the Management Board, Chief Financial Officer



Jörg Hessenmüller graduated from Hochschule für Bankwirtschaft in Frankfurt am Main in 1997 and was awarded a Master's in Management (Diplom-Betriebswirt (FH)). From 1989 to 2009 he worked for Dresdner Bank, holding the position of, among others, Head of Financial Control responsible for London, New York, Moscow, Sao Paulo and Asia. In 2009

Mr. Hessenmüller was appointed Managing Director in Commerzbank Group and worked as Head of Investment Banking Finance, Group Finance, responsible for controlling and management reporting on: Corporates and Financial Markets, Portfolio Restructuring Unit, Group Treasury and Public Finance.

Member of the Management Board of the Bank since April 16, 2012.

Lidia Jabłonowska-Luba – Vice-President of the Management Board, Chief Risk Officer



Lidia Jabłonowska-Luba graduated from the Mathematics Institute of the University of Gdańsk. From 1994 to 2001, Ms Jabłonowska-Luba was Vice-President of Schroder Salomon Smith Barney Poland, where she advised a number of clients, financial institutions in particular, on M&A and public equity transactions. In 2002, Ms Jabłonowska-Luba joined Citigroup in Poland, first as the Head of the Financial

Institutions & Public Sector Division and from November 2003 as the Member of the Management Board in charge of finance and operational risk management, capital management and the implementation of the New Capital Accord. From 2008 to 2010, she served as Vice-President of the Management Board of Kredyt Bank and Advisor to the CEO of Warta S.A. and TUnŻ Warta S.A., acting as Chief Finance and Risk Officer. From 2010 to 2012 Ms Jabłonowska-Luba was the Senior General Manager at KBC Group in Brussels, where she was responsible for managing all risk types in the group, including model development and valuation, risk policies and procedures, risk support for business decisions, supervision and reporting, ICAAP and ORSA processes, capital adequacy policy and technological support for risk management. Her main task was to implement a new approach to risk management within KBC Group. Additionally, Ms Jabłonowska-Luba held the position of Vice Chairman of the Group Risk Management Committee and also served as a member of the Group Risk and Capital Oversight Committee and ALCO at KBC Group.

Member of the Management Board of the Bank since April 12, 2013.

Hans-Dieter Kemler – Vice-President of the Management Board, Head of Financial Markets

Mr Kemler graduated from the Westphalian Wilhelm University of Münster in 1996. Between 1991 and 1992, worked in Bond Trading Department at Dresdner Bank. Between 1996 and 1998, employed with Sal. Oppenheim jr. & Cie. KGaA, Financial Markets Department in Frankfurt am Main. From 1998 to 2005, Head of the Corporate Risk Advisory in the Head Office of Commerzbank. Since 2005, member of the senior management of Commerzbank responsible for international public finance. He also acted as a managing director at Erste Europäische Pfandbrief- und Kommunalkreditbank AG in Luxemburg.

Member of the Management Board of the Bank since July 10, 2009.

Cezary Kocik - Vice-President of the Management Board, Head of Retail Banking

Cezary Kocik graduated with a degree in Banking and Finance from the University of Łódź. He is a licensed stockbroker. From 1994 to 1996 Mr Kocik was employed with the brokerage house of Bank PBG as a securities broker. Starting in 1996 he worked for Bank PBG in the Investment Banking and Debt Collection and Restructuring divisions. In 1999, Mr Kocik was employed with the Debt Collection and Loan Restructuring Department of Bank Pekao S.A. In 2000 he was appointed director of a Pekao Branch in Łódź.

Since 2004, he has been working for mBank. Until 2006 he was the Director of the Retail Loans Department. In 2007, he was appointed Director of the Sales and Marketing Department responsible for Multibank. From 2008 to 2010 he held the position Managing Director for Multibank and in 2010 he was appointed Managing Director for Retail Banking Sales and Business Processes.

Member of the Management Board of the Bank since April 1, 2012.

Jarosław Mastalerz – Vice-President of the Management Board, Chief Operations Officer

Jarosław Mastalerz (born in 1972) graduated from the University of Łódź, the Economics and Sociology Department (major: Foreign Trade) and the Management Department (major: Management Accounting). He holds a certificate of the Association of Chartered Certified Accountants. From 1996 to 1998 he worked as a consultant in PricewaterhouseCoopers. In 1998 he started to work for the Zurich Group. Initially, he was responsible for the organisation and market strategy of the pension fund, and then he took over the position of Marketing Director and became a member of the Management Board. Starting in 2000, he served as the Member of the Management Board responsible for the retail client segment of the Zurich Group in Poland, and from 2001 - as Financial Director. From January 2003 to the end of June 2006, he was a Member of the Management Board and the Financial Director of Generali T.U. S.A and Generali Życie T.U. S.A. From January 1, 2003, he was responsible for the financial department, the actuarial office, controlling and bancassurance. In 2002, he participated in the process of merging Zurich companies with Generali companies. On July 20, 2006, he was appointed Chief Executive Officer of BRE Ubezpieczenia, then as Chief Executive Officer of BRE Ubezpieczenia Towarzystwo Ubezpieczeń S.A. He was responsible for developing and integrating insurance programmes offered within the BRE Bank Group as well as providing process management services in distributing insurance to external partners.

In August 2007, Jarosław Mastalerz was appointed by the Supervisory Board as member of the Management Board of BRE Bank SA (currently mBank S.A.), Head of Retail Banking, responsible for the coordination of all the business and communication activities of mBank in Poland, Czech Republic and Slovakia, as well as Multibank, Private Banking and Aspiro S.A., a subsidiary set up during his term of office. In April 2012 Mr Mastalerz was appointed Member of the Management Board, Chief Operations Officer responsible for IT and logistics area.

Powers and procedures of the Management Board

The Members of the Management Board are jointly liable for the overall operation of the Bank. They work collegially and inform each other about the most important matters concerning the Bank for which particular Members of the Management Board are responsible. The Management Board may appoint standing committees or teams to perform specific functions or to co-ordinate the work of organisational units of the Bank or to perform specific tasks.

The following committees led by Members of the Management Board operate at mBank:

- Resource Management Committee (chairperson: Cezary Stypułkowski)
- Capital Management Committee (chairperson: Jörg Hessenmüller)
- Data Quality and IT Systems Development Committee (chairperson: Jörg Hessenmüller)
- Assets and Liabilities Management Committee of mBank Group (chairperson: Hans-Dieter Kemler)
- Foreign Branch Supervision Committee of mBank S.A. (chairperson: Cezary Kocik)
- The Credit Committee of the mBank Group (chairperson: Lidia Jabłonowska-Luba)
- Retail Banking Risk Committee (chairperson: Lidia Jabłonowska-Luba)
- Corporate and Investment Banking Risk Committee (chairperson: Lidia Jabłonowska-Luba)
- Financial Markets Risk Committee (chairperson: Lidia Jabłonowska-Luba)
- IT Architecture Committee of mBank S.A. (chairperson: Jarosław Mastalerz)
- IT Projects Committee of mBank S.A. (chairperson: Jarosław Mastalerz).

The Management Board manages the Bank's business, represents the Bank and defines the guidelines for the Bank's operation, especially for the areas subject to risks, including the credit policy, the investment policy, the Bank's assets and liabilities management policy, and the guarantee policy. The Management Board presents to the Supervisory Board on a regular basis comprehensive information on all significant aspects of the Bank's operation and risks related to its operation as well as risk management methods.

The Management Board operates pursuant to its Rules approved by the Supervisory Board (available on the Bank's website). The Rules determine among others the issues which require consideration of the Management Board as a collegial body and adoption of a resolution of the Management Board.

All resolutions are adopted by a majority of votes of the Management Board Members present at the meeting, and in the case of an equal number of opposing votes, the President of the Management Board has the casting vote. The Members of the Management Board strive to adopt resolutions by consensus.

Rules and levels of remuneration of Members of the Management Board are determined by the Remuneration Committee of the Supervisory Board.

The rules of the incentive programme for the Management Board as well as the principles of allocating bonuses to Management Board Members are defined in Resolutions of the Supervisory Board.

Total remuneration of the Members of the Management Board includes a fixed and a variable part.

For more information on the incentive system for the Management Board please see section Reports of the Management Board entitled "mBank Group's incentive system".

The section below presents a brief description of the 2014 incentive programme for the Management Board which replaced the Incentive Programme Rules of December 7, 2012.

Under the programme, the Members of the Bank's Management Board have the right to receive a bonus, including a non-cash bonus paid in the Bank's shares, including phantom shares (i.e. virtual shares).

The net ROE of mBank Group and the monthly remuneration as at the end of the financial year for which the bonus is to be awarded constitute the basis for the acquisition of the right to a bonus and for the calculation of the amount of the bonus for a given financial year. One part of the base bonus is the equivalent of 50% of the base amount calculated depending on the ROE. The other part of the bonus may be granted by the Remuneration Committee of the Supervisory Board on the basis of its appraisal of the Management Board Member and achievement of the MbO objectives. The two parts of the bonus constitute the base bonus. 40% of the base bonus is paid in the year when it is determined: 50% in cash and 50% in Bank shares, or bonds with a pre-emptive right to take up shares, or phantom shares. The remaining 60% of the base bonus is deferred and paid in three equal tranches in three subsequent years: 50% in cash and 50% in Bank shares, or bonds with a pre-emptive right to take up shares, or phantom shares.

A detailed description of the rules of the incentive programme for the Management Board based on shares is presented in Note 44 of the Consolidated Financial Statements.

The remuneration of the current Management Board in 2015 and in 2014 is presented below.

		Remuneration paid in 2015 (in PLN)			
		Basic remuneration	Other benefits	Bonus for 2014	Cash settlement of the incentive programme based on Commerzbank shares
1.	Cezary Stypułkowski	2,092,108	174,833	650,000	827,941
2.	Lidia Jabłonowska-Luba	1,219,483	228,872	360,000	-
3.	Przemysław Gdański	1,200,000	143,184	360,000	658,950
4.	Joerg Hessenmueller	1,263,000	166,535	380,000	-
5.	Hans-Dieter Kemler	1,218,561	366,354	360,000	688,900
6.	Cezary Kocik	1,200,000	156,825	400,000	-
7.	Jarosław Mastalerz	1,200,000	125,670	360,000	778,749
	Total:	9,393,152	1,362,273	2,870,000	2,954,540

		Remuneration paid in 2014 (in PLN)			
		Basic remuneration	Other benefits	Bonus for 2013	Cash settlement of the incentive programme based on Commerzbank shares
1.	Cezary Stypułkowski	2,091,963	155,478	1,294,010	279,935
2.	Lidia Jabłonowska-Luba	1,200,000	131,749	520,000	-
3.	Przemysław Gdański	1,200,000	127,515	720,000	860,734
4.	Joerg Hessenmueller	1,263,000	161,860	720,000	-
5.	Hans-Dieter Kemler	1,217,190	372,506	600,000	891,308
6.	Cezary Kocik	1,200,000	91,772	760,000	-
7.	Jarosław Mastalerz	1,200,000	109,274	760,000	983,029
	Total:	9,372,153	1,150,154	5,374,010	3,015,006

Composition of the Supervisory Board

The Supervisory Board acts on the basis of adopted Rules and performs the functions provided for in the By-laws of the Bank, the Code of Commercial Partnerships and Companies, and the Banking Law. The By-laws of mBank provide that the Supervisory Board consists of no less than five Members elected by the General Meeting for a joint term of three years. The number of the Supervisory Board Members is defined by the General Meeting. A Member of the Supervisory Board whose mandate expired in the course of the joint term of the Supervisory Board may be replaced with another person, elected by the Supervisory Board.

At least half of all Supervisory Board Members, including the Chairman, shall have Polish citizenship. Pursuant to the statutory requirement, at least two Supervisory Board Members are independent, unless the General Meeting decides otherwise. The independence criteria of the Supervisory Board Members are stipulated in the Rules of the Supervisory Board.

In 2015, the Supervisory Board consisted of the following members:

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

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

More detailed information on mBank Supervisory Board Members is presented in the table below.

Maciej Leśny – Chairman of the Supervisory Board

In 1969 Maciej Leśny completed his studies at the Faculty of Economic Sciences at the Warsaw University. During his professional career, Mr Leśny worked for 6 years in the shipbuilding industry in Gdańsk and 8 years for Zakłady Elektronicznej Techniki Obliczeniowej. For more than 22 years he had worked in the central state administration, including 8 years in the position of Undersecretary of State: in the Ministry of Foreign Economic Co-operation; the Ministry of Economy, Labour and Social Policy; and finally in the Ministry of Infrastructure.

He completed post-graduate studies and training at universities in the USA: He completed post-graduate studies and training in the United States at the Michigan University (Business School of Administration) and De Paul University (Chicago). In 1992-1993, as a scholarship holder of the US government, Mr Leśny studied at the American University in Washington, DC. During his scholarship he served a four-month internship at the World Bank and completed a privatization training course in the International Monetary Fund.

From March 1994 to 1998, Mr Leśny was the Chairman of the Supervisory Board of BRE Bank (currently mBank). By December 2001, he had become a Member of the Supervisory Board. In 2004, Mr Leśny was re-elected Chairman of the Supervisory Board.

Martin Zielke - Deputy Chairman of the Supervisory Board

Mr Zielke studied at Göttingen University in 1985-1990, Master's degree (Diplom-Kaufmann) in Economics graduated in 1990.

In 1983-1985 he worked for Deutsche Bank AG, Kassel Branch. In 1990-2000 he worked for Dresdner Bank AG in Frankfurt am Main. In 1990-1995, Mr Zielke was the manager of sub-project relating to retail customer strategy. In 1997, he was the head of new market positioning project. In 1997-1999, Mr Zielke was the Regional Head of Retail Banking, Northern Region. In 1999-2000, Mr Zielke was the Head of special project on retail banking /Area Head of Business Development.

Later, until May 2001 he was a Regional Head of Portfolio Investment, Member of Operative Management Team in Deutsche Bank 24. In June-December 2001, Mr Zielke was the Regional Head of Financing Retail Banking with Deutsche Hyp, Frankfurt am Main. In January 2002-December 2004, he was the Group Manager, Retail Banking, Commerzbank AG, Frankfurt am Main. In January 2005-March 2006, Mr Zielke was the Group Manager Corporate Banking Commerzbank AG, Frankfurt am Main. From April 2006 to December 2007, Mr Zielke was the Member of the Board of Managing Directors of Eurohypo Aktiengesellschaft, Eschborn.

From February 2008 to November 2010, Mr Zielke was the Group Manager, Group Finance Division, Commerzbank AG, Frankfurt am Main.

Since November 2010 he has been a Member of the Board of Managing Directors of Commerzbank AG, responsible for the Private Clients Segment. Mr Zielke is a member of Supervisory Boards of Comdirect Bank AG, Commerz Real AG and Commerz Real Investmentgesellschaft mbH.

Martin Blessing – Member of the Supervisory Board

A graduate of business administration in Frankfurt and St. Gallen. In 1988 he was awarded an MBA from the University of Chicago.

Between 1989 and 1996, Mr Blessing worked for McKinsey in Frankfurt am Main and New York, becoming a Partner in 1994. He became a partner in 1994. In 1997, he joined Dresdner Bank AG, where he was Manager of the Department for Private Customers. From 2000 to 2001, Mr Blessing was Chairman of the Board of Advance Bank AG in Munich.

Mr Blessing was appointed to the Board of Managing Directors of Commerzbank AG in 2001 and became the Chairman of the Board of Managing Directors in 2008. He held his initial position as a Member of the Supervisory Board of BRE Bank from 2005 until 2008.

Andre Carls - Member of the Supervisory Board

Having studied business economics and completed a doctorate at the University of Cologne, Dr Carls joined Commerzbank through an international trainee programme in 1990.

He subsequently held various positions in Corporate Finance and Capital Markets in Frankfurt and from 1998 to 2000 was Executive Director of the Investment Banking Division of Commerzbank in London. From 2000 to 2008, Dr Carls was a member of the Board of Managing Directors of comdirect bank AG, from September 2002 to November 2004 as CFO and from November 2004 to March 2008 as CEO. From March 2008, to September 2008 he held the position of Vice-President of the Management Board and CFO of BRE Bank S.A. (currently mBank S.A.).

From March 2008 to December 2013, Dr Carls has been CEO of Commerzbank Auslandsbanken Holding AG and CEO of Central & Eastern Europe-Holding of Commerzbank AG. In January 2014, Dr Carls became a Divisional Board Member in the "Mittelstandsbank" of Commerzbank AG.

Marcus Chromik – Member of the Supervisory Board

Marcus Chromik studied in Munich, Göttingen, and Kiel. He also spent time in the US, engaged in scientific research in Michigan. Mr Chromik holds a PhD in nuclear physics. He started his professional career with McKinsey in 2001. In 2004 he joined Postbank Group, where he held various executive positions, including new issues and syndication, liquidity management, and Credit Treasury. Then he served as Chief Market Risk Officer for Commerzbank more than three years and was responsible for the Bank's market and liquidity risk management.

Dr Marcus Chromik has been a Divisional Board Member and Chief Credit Risk Officer for the Core Bank since 2012. On November 4, 2015, the Supervisory Board of Commerzbank appointed him to the Board of Managing Directors. He took up his post as Chief Risk Officer on January 1, 2016.

Stephan Engels – Member of the Supervisory Board

Stephan Engels studied Business Administration at the University of St. Gallen. Between 1988 and 1993 he worked at Daimler-Benz AG's internal audit department. Afterwards he headed the Regional Controlling Europe at debis AG for three years. From 1996 to 2000 he served as Chief Financial Officer at debis AirFinance B.V. In 2000, he joined DaimlerChrysler Bank AG, as Member of the Board for Credit then Chief Financial Officer & IT.

From 2003 he worked at DaimlerChrysler Services AG, lastly as a Member of the Board for Finance, Controlling, Risk Management & Strategy. From 2007 to 2012 he was a Member of the Executive Committee of Mercedes-Benz Car Group for Finance & Controlling and Head of Management Group Controlling at Daimler AG.

Thorsten Kanzler - Member of the Supervisory Board

Thorsten Kanzler studied mechanical engineering and economics at the University of Technology in Darmstadt (Germany), where he obtained the Diplom-Wirtschaftsingenieur (M.Sc. Eng.).

From 1991 to 2004 he was employed at Deutsche Bank AG on various positions in the treasury and risk management area in Frankfurt, New York, Sydney and London. Between 2004 and 2007, Mr. Kanzler was Group Treasurer and Divisional Board Member of Corporate & Investment Banking in WestLB AG in Düsseldorf.

From May 2007, Mr. Kanzler was Head of Group Treasury & Capital Management at Dresdner Bank AG in Frankfurt am Main. Since the beginning of 2009, Mr. Kanzler has been Divisional Board Member for Group Treasury at Commerzbank AG. Mr. Kanzler is responsible for assets and liabilities management, risk management of the banking books, capital management and funding.

Teresa Mokrysz – Member of the Supervisory Board

A graduate of the Academy of Economics (now the University of Economics) in Katowice (1978).

In 1990, Teresa Mokrysz created the brand "Mokate", one of the most recognizable Polish brands in the world. She transformed a small family-run company into a group of international companies with worldwide operations. As a co-owner, she directs nine Mokate companies with their business seats in Poland and Central Europe. She has built from scratch production plants in Żory and Ustroń and expanded a production facility near Prague (production of coffee, tea, confectionary, ingredients for the food industry). She has successfully launched her products in several dozen countries on all continents.

In 2000, the International Association of Women Entrepreneurs from Los Angeles awarded her with the title "The Leading Women Entrepreneurs of the World". Teresa Mokrysz has been the recipient of numerous prestigious awards in Poland and abroad. She has been awarded Commander's Cross of Polonia Restituta by the President of the Republic of Poland. She funds scholarships for talented and less well-off young people and provides financial support to health care institutions, nursing care homes, orphanages and schools.

Stefan Schmittmann - Member of the Supervisory Board till 31 December 2015

Mr Schmittmann is a graduate of business administration, doctorate in economics at the University of St. Gallen in Switzerland. In 1986-2003, he was employed at Bayerische Vereinsbank AG and, as of 1998, with Bayerische Hypo- und Vereinsbank AG.

In 2004-2005 he was a Chairman of the Board of Directors of Vereins- und Westbank AG, Hamburg. In 2005, Member of the Divisional Board of Directors in Munich and 2006-2008, Member of the Management Board of Bayerische Hypo- und Vereinsbank AG in Munich, where he was responsible for the Corporate Customer and Commercial Real Estate Customer Division, and Member of the Executive Committee UniCredit Corporate Division.

Between November 2008 and December 31, 2015 he was a Member of the Board of Managing Directors of Commerzbank AG, currently he is holding the position of Chief Risk Officer.

Agnieszka Słomka-Gołębiowska – Member of the Supervisory Board

Agnieszka Słomka-Gołębiowska has got a PhD in economics. She is a graduate of Warsaw School of Economics of faculty: finance and banking and MBA in the French Management Institute (IFG). She obtained a PhD degree at the Warsaw School of Economics (SGH), with a dissertation on bank's corporate governance over an enterprise. Currently she is working as a lecturer at Warsaw School of Economics and she is conducting research into corporate governance.

Previously, Director in the Industrial Development Agency responsible for corporate governance (2006-2009) and later consultant for private and public companies at Arthur Andersen. Since 2006, she sits on supervisory boards. She completed the Alexander von Humboldt Fellowship at the University of Muenster (2003-2004) and the Polish-American Fulbright Fellowship at the University of California, Berkeley (2001-2002). She was a visiting scholar at universities in Cambridge (MIT), Tucson (UOA), Munster, Copenhagen (CBS), Birmingham (BBS), Berlin (HSoG), Genoa (UoG - Law School) and Vienna (WU). She is the author of many publications on corporate governance.

Waldemar Stawski – Member of the Supervisory Board

Graduate of the Gdańsk Technical University and post-graduate studies in: Accounting and Finance (2009-2010), Financial Analysis in Business Management (1992-1993), Microprocessors in Ergoelectronics and Propulsions (1986-1987), Didactics and Pedagogy (1984-1985).

In 1991-2011 he underwent domestic and foreign training on banking, finance and banks' organisation. Mr Stawski holds the Accounting Certificate issued by the Minister of Finance and is authorised to provide bookkeeping services. He passed the exam for the candidates for members of supervisory boards at state-owned companies (certificate MPW 8 April 1995).

In 1983-1991, Mr Stawski was a member of the teaching staff of the Maritime University of Gdynia. In 1991, he became an employee of Pomorski Bank Kredytowy. In 1993, Mr Stawski became a branch director in Gdynia. In 1995-2000, he was Director of the Regional Branch of PKO BP in Gdańsk. In 2000, Mr Stawski was appointed Vice-President of the Management Board of PKO BP S.A. responsible for managing the treasury, corporate clients, capital market and corporate governance areas. From June 2002 to February 2003, Mr Stawski was Chairman of the Team of Receivers for Wschodni Bank Cukrownictwa S.A. He then served as a Member of the Management Board of CTL Logistics S.A. and General Director of the Polish Association of Transport and Logistics Employers. From 2006 to 2015, Mr Stawski was a consultant of ALDAZ Sp. z o.o. Mr Stawski currently acts as Director at Zarzecki, Lasota i Wspólnicy Sp. z o.o.

From 2012 to 2014, Mr Stawski was a member of the Management Board of Gdańsk Business Club, of which he has been a member since 1995. In 2012, he was appointed to the Council of the Maritime University of Gdynia. From November 2014 to February 2015, Waldemar Stawski was special administrator of SKOK Wołomin appointed by the KNF.

Wiesław Thor – Member of the Supervisory Board

Wiesław Thor graduated from the Central School of Planning and Statistics (currently Warsaw School of Economics - SGH), training program "Train the Trainer" organised by KPMG and the South Carolina Business School, and summer school of banking at McIntire University Business School. Employed with BRE Bank since 1990 in the following positions: Specialist, Division Head, Deputy Director of the Warsaw Branch, Director of the Credit Department, and Chief Risk Officer from May 2000. From August 1, 2002, Country Risk Manager at Bank Handlowy S.A. in Warsaw.

On 2 November 2002, Mr Thor was appointed Member of the Management Board of BRE Bank, Chief Risk Officer. He was Deputy President of the Management Board of BRE Bank from March 15, 2008 to April 11, 2013.

Lecturer at the Warsaw Institute of Banking and SGH. Long-time Member of the Steering Committee of the Risk Management Association (formerly: Robert Morris Association European Credit & Risk Management Round Table) and Member of PRMIA Polska.

Marek Wierzbowski – Member of the Supervisory Board

Mr Wierzbowski is a professor ordinarius at the University of Warsaw School of Law, an attorney at law, the partner of the law firm "Prof. Marek Wierzbowski & Partners – Advocates and Legal Counsellors", the President of the Arbitration Court of the Chamber of Brokerage Houses, a member of the Board of Directors of the Polish-U.S. Fulbright Commission, and a member of the Council of the European Law Institute based in Vienna. Former member of the Board of Supreme Chamber of Control (NIK) and a member of the Public Procurement Council, deputy Chairman and Chairman of the Supervisory Board of the Warsaw Stock Exchange and chairman of the Construction Law Codification Committee. He also served as the deputy dean of the Faculty of Law and Administration, as well as vice-chancellor of the University of Warsaw.

For many years, he was a partner at the law firms of Weil Gotshal & Manges and later Linklaters. He was an adviser to the Minister of Privatisation, the Minister of the Treasury and the President of the Energy Regulatory Office. He was also the vice-president of the Court of Arbitration at the Polish Chamber of Commerce.

In his legal career, he managed legal teams and advised on numerous transactions, including sales of shares in connection with the privatisation of large enterprises and is also the editor and co-author of numerous commentaries and handbooks.

The composition of the Supervisory Board reflects the care exercised to achieve the greatest possible diversification of members both in terms of their professional experience, as well as their knowledge and skills. The Supervisory Board is composed of representatives of mBank's main shareholder, representatives of science and business, and persons having vast legal knowledge and banking expertise.

The five independent members of the Supervisory Board are: Maciej Leśny, Teresa Mokrysz, Agnieszka Słomka-Gołębiowska, Waldemar Stawski, and Marek Wierzbowski. Wiesław Thor is not an independent member as he was a Member of the Management Board at mBank, and holding the function of Member of the Management Board at the Bank in the past five years is one of the reasons why a Member of the Supervisory Board cannot be considered an independent member.

Martin Blessing, Andre Carls, Marcus Chromik, Stephan Engels, Thorsten Kanzler, and Martin Zielke are not independent members due to their relationship with the main shareholder of mBank.

Powers and procedures of the Supervisory Board

The responsibilities of the Supervisory Board specifically include the following matters:

- Advising and supervising the Management Board in defining internal guidelines for the activity of the Bank, especially for the areas subject to risks, including the Bank's credit policy, investment policy, guarantee policy, compliance policy, and approving the Management Board's proposals concerning the general organisational structure of the Bank.

- Supervising compliance of the Bank's risk-taking regulations with the strategy and financial plan of the Bank.
- Approving the disclosure policy rules concerning risk management and capital adequacy, as proposed by the Management Board.
- Approving strategies and procedures for the internal control system, the risk management system, the internal capital assessment process, capital management and capital planning, as proposed by the Management Board.
- Assessing the adequacy and effectiveness of the risk management system.
- Reviewing regular and exhaustive reports presented by the Management Board on all relevant issues related to the activity of the Bank, the risks of its activity, and the means and effectiveness of risk management.
- Preparing a concise assessment of the position of the Bank to be presented to the Ordinary General Meeting and attached to the annual report of the Bank for the previous financial year.
- Approving annual financial plans of the Bank, multi-annual growth plans, as well as the strategy of the Bank and the rules of prudent and stable management of the Bank.
- To review any motions and matters which are subject to resolutions of the General Meeting, including draft resolutions of the General Meeting. The Supervisory Board shall draw up grounds for draft resolutions to be tabled for approval of the General Meeting.
- Issuing or approving rules provided for in the By-laws of the Bank.
- Appointing and dismissing the President of the Management Board, the Deputy Presidents of the Management Board and other Members of the Management Board subject to the procedures laid down in the Banking Law and taking into account relevant qualifications for the functions assigned to them.
- Defining the terms of contracts and remuneration of the Management Board.
- Authorising the Chairman of the Supervisory Board to represent the Bank in agreements with Management Board Members, including the conclusion of management contracts with Management Board Members.
- Approving conclusion or amendment of any significant contract or agreement with Members of the Management Board or the Supervisory Board.
- Approving conclusion, amendment or termination of any significant alliance or co-operation agreements.
- Analysing reports of the Internal Audit Department Director received at least once per year.

Meetings of the Supervisory Board are convened by the Chairman of the Supervisory Board on his or her own initiative or on request of the Management Board or on request of the Supervisory Board Member at least three times a year. All the Management Board Members participate in meetings of the Supervisory Board except for those agenda items which directly concern the Management Board or its Members.

Resolutions of the Supervisory Board are adopted by a simple majority of votes. In the case of an equal number of opposing votes, the Chairman of the Supervisory Board has the casting vote.

No resolution should be passed without the consent of the majority of the Independent Members of the Supervisory Board on the following matters:

- Any benefits provided by the Bank or any entities associated with the Bank to the Members of the Management Board.
- Consent for the Bank to enter into a significant agreement with an entity associated with the Bank, a Member of the Supervisory Board or the Management Board, or entities associated with them.

The Supervisory Board has got 4 committees: the Executive Committee, the Risk Committee, the Audit Committee, and the Remuneration Committee. Members of individual committees are presented below (first – chairmen of the committees).

Executive Committee	Risk Committee	Audit Committee	Remuneration Committee
<u>Maciej Leśny</u>	<u>Marcus Chromik*</u>	<u>Stephan Engels</u>	<u>Andre Carls</u>
Martin Blessing	Thorsten Kanzler	Andre Carls	Maciej Leśny
Andre Carls	Maciej Leśny	Maciej Leśny	Marek Wierzbowski
Teresa Mokrysz	Agnieszka Słomka-Gołębiowska	Waldemar Stawski	Martin Zielke

**from January 2016; in 2015 the position of Chairman of the Risk Committee was held by Stefan Schmittmann*

The tasks of the Executive Committee involve, in particular, exercising regular supervision over the Bank's operation in the periods between meetings of the Supervisory Board. The Executive Committee authorises the Management Board to acquire, encumber or dispose of real estate, perpetual leasehold, or interests in real estate, shares or equity interests in companies, and other fixed assets if the value of the transaction exceeds 1% of the Bank's own funds. Such authorisation is not required if the aforesaid acquisition took place as part of enforcement or bankruptcy proceedings, including the bankruptcy proceeding with the possibility to make an arrangement or other settlement with the Bank's debtor or in the case of the sale of assets so acquired.

The Audit Committee issues opinions about the selection of the Bank's statutory auditor by the General Meeting, recommends whether the Supervisory Board should approve or reject financial statements, exercises regular supervision over the internal control system at the Bank, and approves changes proposed by the Management Board of the Bank as regards the head of the Internal Audit Department. The Audit Committee must have at least one independent Supervisory Board Member with qualifications and experience in accounting and finance.

The Risk Committee has among others the following tasks: exercising permanent supervision over credit risk, market risk, operational risk, and liquidity risk. Moreover, the Risk Committee issues recommendations for approval or rejection of exposures posing single entity risk, in accordance with the parameters defined by the Supervisory Board at the time. Moreover, the Risk Committee issues recommendations for approval or rejection of the transactions, provided for in the Banking Law, between the Bank and Members of the Bank's authorities, and recommendations for approval or rejection of the Bank's disclosure policy regarding risk management.

The tasks of the Remuneration Committee include: reviewing the remuneration principles and amounts of remuneration paid to Members of the Management Board, setting the remuneration levels, presenting opinions concerning approval for Members of the Management Board of mBank to engage in competitive activity, issuing recommendations to the Supervisory Board regarding the general guidelines for the Management Board on the level and structure of remuneration for the Bank's senior management and the policy of variable components of remuneration paid to persons holding managerial positions at the Bank. Moreover, the Committee monitors the level and structure of the remuneration paid to senior managers.

All standing committees of the Supervisory Board make reports pertaining to their performance in the past reporting period available to shareholders. The aforesaid reports are appended to the set of materials for the Ordinary General Meeting.

The amount of monthly remuneration of the Members of the Supervisory Board was set in Resolution No. 26 adopted by the 25th Ordinary General Meeting held on March 30, 2012. The Chairperson of the Supervisory Board earns PLN 17,000 monthly, the Deputy Chairperson – PLN 14,500 monthly, while members of the Supervisory Board earn PLN 12,000 monthly each.

Additional monthly remuneration is granted for participation in standing committees: 50% of the monthly basic remuneration for the first committee and 25% for participating in every other committee. Total remuneration for the participation in committees cannot exceed 75% of the basic remuneration.

The total remuneration of the Supervisory Board in 2015 and in 2014 is presented in the table below:

		Remuneration paid in 2015 (PLN)	Remuneration paid in 2014 (PLN)
1.	Maciej Leśny	367 235	366 006
2.	Martin Zielke	-	-
3.	Andre Carls	252 000	252 000
4.	Stephan Engels	-	216 000
5.	Stefan Schmittmann	-	-
6.	Martin Blessing	-	-
7.	Thorsten Kanzler	216 000	216 000
8.	Teresa Mokrysz	220 225	220 202
9.	Agnieszka Słomka- Gołębiowska	221 435	54 906
10.	Waldemar Stawski	221 435	221 406
11.	Wiesław Thor	149 435	138 522
12.	Marek Wierzbowski	216 000	198 000
	Jan Szomburg*		184 500
	Dirk Wilhelm Schuh**		54 000
	Total:	1 863 765	2 121 542

*On October 27, 2014 Mr Jan Szomburg resigned from his position

** Mr Dirk Wilhelm Schuh held his position from March 31, 2014

Activity of the Supervisory Board and its Committees in 2015

The Supervisory Board and 4 Standing Committees of the Supervisory Board, i.e. the Executive Committee, the Audit Committee, the Remuneration Committee and the Risk Committee perform their functions in line with the requirements set forth in the Bank's By-laws, the Rules of the Supervisory Board and the Rules of particular Committees.

In 2015, the Supervisory Board held 6 meetings and adopted 51 resolutions. The resolutions covered all areas of the Bank's operation and were consistent with the scope of supervisory functions specified in laws, recommendations of the Polish Financial Supervision Authority and the Bank's By-laws and the Rules of the Supervisory Board.

The adopted resolutions concerned among others:

- Acceptance of financial statements of mBank and mBank Group and other materials for the Annual General Meeting.
- Adoption of the Financial Plan for 2016 and the Mid-Term Plan for 2016-2019.
- Adoption of the Capital Management Policy at mBank Group.
- Approval of the documentation and the report on a review of the Internal Capital Adequacy Assessment Process (ICAAP) at mBank Group.
- Allocation of funds to the mBank Foundation.
- Approval of the general organisational structure of mBank and the division of competence among Members of the Management Board of mBank.
- Approval of the Remuneration Policy and Rules and the Risk-takers Identification Policy.

- Approval of the Rules of the Employee Incentive Programme and the Information Memorandum drawn up to implement the Employee Incentive Programme.
- Approval of Rules of the Management Board Incentive Programme, approval of the terms of bonds issue and setting the dates of acquisition of mBank S.A. shares by Members of the Management Board under the Programme.
- Approval of the Rules of investing in financial instruments by persons linked to mBank S.A. or on their account and principles of maintaining the register of transactions on own account.
- Approval of the MbO results and Individual MbO Cards for Management Board Members.
- Approval of the new consolidated text of mBank S.A. By-laws and the Rules of the Management Board of mBank S.A.
- Approval of the Audit Plan of the Internal Audit Department for 2015.
- Adoption of the Policy of Managing Conflicts of Interest, the Compliance Policy and approval of the report on compliance risk management.
- Approval of the reports on the performance of outsourcing tasks and supervision over the processes of handling claims and complaints.
- Approval of the strategies and policies requiring approval of the Risk Committee and the Supervisory Board including: the mBank Group Risk Management Strategy; the Market, Operational, and Liquidity Risk Management Strategy; the Corporate and Retail Credit Risk Management Strategy.
- Approval of the Limit Book – Limit Rules and the levels of limits for mBank Group.
- Approval of the Contingency Plan in the event of a threat of losing financial liquidity by mBank S.A.
- Approval of the Reputation Risk Management Strategy of mBank Group.
- Approval of the Bancassurance Policy at mBank S.A.

In 2015, current results of mBank Group and its particular business areas were discussed and evaluated in a systematic, regular manner at the meetings of the Supervisory Board with reference to the financial plan. Attendance of the Supervisory Board Members at Supervisory Board meetings in 2015 is presented in the table below.

	Attendance*
Martin Blessing	6/6
Andre Carls	6/6
Stephan Engels	5/6
Thorsten Kanzler	5/6
Maciej Leśny	6/6
Teresa Mokrysz	6/6
Stefan Schmittmann	5/6
Agnieszka Słomka-Gołębiowska	6/6
Waldemar Stawski	6/6
Wiesław Thor	6/6
Marek Wierzbowski	6/6
Martin Zielke	5/6

* Attendance at meetings/ number of meetings during the term of office

In 2015, the Executive Committee performing its function of ongoing supervision over the Bank's operation in the periods between meetings of the Supervisory Board co-operated closely with the Management Board and was informed about the situation in the Bank on an ongoing basis. Apart from the meetings of the Supervisory Board, Members of the Committee had regular meetings with Members of the Management

Board discussing the most important current issues of the Bank. According to its powers, the Executive Committee took decisions on transactions exceeding 1% of the Bank's own funds. In a decision, the Executive Committee approved the report on its activity for the previous year which is presented to the Annual General Meeting.

The Audit Committee was receiving regular information about the results and the financial standing of the Bank and the Group and was analysing information on actions taken in the key risk areas.

The Audit Committee held four meetings in 2015 and discussed, among others, the following:

- Compliance of the process of preparing financial statements with the applicable law.
- Co-operation with the external auditor.
- Conclusions from the audit of the annual financial statements of mBank Group for 2014.
- Scope of the audit of the financial statements for 2015.
- Assessment of the internal control system at mBank in 2015.
- Ongoing supervision over the proposed changes to the internal control system at mBank in 2015.
- Ongoing supervision over the activity of the Internal Audit Department.
- Approval of reports of the Compliance Department.

The Audit Committee recommended that the Supervisory Board approve the following:

- Reports of the Management Board on the activity of mBank and mBank Group in 2014, and the financial statements for 2014.
- Annual report on compliance risk management at mBank in 2014.
- Report of the Outsourcing Coordinator in respect to the implementation of the Outsourcing Policy at mBank in 2014.
- Annual report on supervising the processes of handling claims and complaints at mBank S.A. in 2014.
- Audit Plan of the Internal Audit Department for 2015.
- Amendments to the Rules of the Audit Committee.

In 2015, the Risk Committee held 7 meetings during which it regularly discussed the quarterly risk reports (capital adequacy, liquidity risk, credit risk, operational risk, market risk, interest rate risk and key events in the risk area), and a range of issues related to the credit portfolio, including dedicated presentations on corporate, financial markets, and retail portfolio risks. Other major issues considered by the Committee included the largest exposures, development of risk parameters, and loan loss provisions at the Bank and in the Group. Furthermore, in accordance with the plan of works the Committee discussed in detail the effectiveness of particular portfolios of the bank, analysing risk parameters, change directions and forecasts. In 2015, the Risk Committee issued 17 recommendations concerning exposures posing single entity risk in accordance with the parameters defined by the Supervisory Board and took 18 decisions approving a range of risk strategies and policies to be approved by the Supervisory Board.

The Remuneration Committee held 5 meetings in 2015 and discussed issues including:

- Rules of the mBank Management Board Incentive Programme,
- Rules of the Employee Incentive Programme.
- MbO objectives for Members of the Management Board of mBank.
- Identification of risk takers at mBank and rules for their remuneration.
- Terms and conditions for the issue of bonds with pre-emptive right to acquire the shares offered in the Incentive Programme.

In 2015, the Remuneration Committee took 15 decisions and submitted recommendations on the above issues to the Supervisory Board.

17. Glossary

AIRB - Advanced Internal Rating-Based

ALM – Asset and Liability Management

BaFin – Bundesanstalt für Finanzdienstleistungsaufsicht, the Federal Financial Supervisory Authority

BFG – Bank Guarantee Fund

BGK - Bank Gospodarstwa Krajowego; it is a Poland's only state-owned bank which primary business covers providing banking services for the public finance sector

BRRD – Banking Recovery and Resolution Directive

CATI - Computer Assisted Telephone Interview (survey)

CEE – Central and Eastern Europe

CET 1 - Core Tier 1 ratio, core equity capital ratio, calculated as: core funds after deductions / total risk exposure amount (from the end of March 2014, capital ratios are calculated in line with Basel III principles)

C/I ratio – Cost to Income; calculated as: (overhead costs + amortisation) / total income (including net other operating income/costs)

CNB – Czech National Bank

CRD IV – Capital Requirement Directive, a part of regulatory package CRD IV / CRR, which forms a part of Basel III

Cross-selling – a trade technique of selling a product or service combined with purchase of another product to an existing customer

CRR – Capital Requirement Regulation, EU regulation

ECB - European Central Bank

EIB – European Investment Bank

ESMA – European Securities and Markets Authority

EURIBOR – Euro Interbank Offer Rate – a daily reference rate, published by the European Money Market Institute; European equivalent of LIBOR

Fed – US Federal Reserve

FTE – Full Time Equivalent

GDP – Gross Domestic Product – a monetary measure of the value of all final goods and services produced in a country or region over a given period

Guarantee de minimis – A form of security of a loan, which dedicates funds to guaranteeing the repayment of loans in case of non-timely repayment

GUS – Polish Central Statistical Office

IBNI –Incured but Not Identified Losses

ICAAP - Internal Capital Adequacy Assessment Process

IPO – Initial Public Offering, shares of stock in a company are sold to the general public on stock exchange market for the first time

K1 - Large enterprises (annual sales exceeding PLN 500 million)

K2 - Mid-sized enterprises (annual sales of PLN 30 – 500 million)

K3 - Small enterprises (annual sales below PLN 30 million)

KNF – Polish Financial Supervision Authority (eng. PFSA – Polish Financial Supervision Authority)

KSF – Financial Stability Committee

KUKE – Medium-term lending insured in Export Credit Insurance Corporation

LIBOR - London Interbank Offered Rate – the reference rate of interest on deposits and loans in the interbank market in London. Libor rates are set for the following currencies: USD, EUR, CHF, GBP, JPY, for 1 day, 1 week, 2 months, 3 months, 6 months and 1 year loans

LtV ratio – Loan to Value ratio, expressing a relation between an amount of a loan and a value of its collateral (usually mortgage)

M&A – Mergers and Acquisitions

MBA studies – Executive Master of Business Administration postgraduate studies offered in Polish and addressed to working professionals with higher education who have several years of experience in business, mainly occupying middle and higher management positions

MbO – Management by Objectives

„Mieszkanie dla Młodych” program – „Flats for Youth”, the government’s support program for people up to 35 years old in the process of purchase of their first, new flat

ML - Mortgage Loans - mortgage-secured products

MPC – Monetary Policy Council

NBP – National Bank of Poland

NBS – National Bank of Slovakia

Net interest margin – Net interest income / Average interest earning assets

NFC - Near Field Communication - technology that allows to pay using mobile phones

NFSR – Net Stable Funding Ratio

NML - Non-Mortgage Loans - unsecured products or products with collateral other than mortgage

NPL ratio – Non-Performing Loans ratio – a ratio of loans in default or close to being in default to total loans

„On-the-job” learning – Learning of new skills during work, i.e. through participation in projects, workshops, etc.

P/BV ratio – Price / Book value

PD – Probability of Default

P/E ratio – Price / Earnings

PPS – purchasing power standards

ROA net – Net profit attributable to owners of the Bank / average total assets

ROE gross – Profit before income tax/ average total equity net of the year’s result

ROE net - Net profit attributable to owners of the Bank / average total equity net of the year’s result

RWA – Risk Weighted Assets

RWD – Responsive Web Design – a technology enabling to adapt website layouts to the screen of a device displaying the content

SME – Small and Medium Enterprises

SoFFin - Germany's Financial Market Stabilisation Fund

SREP Guideline – Guidelines on Supervisory Review and Evaluation

Total income - Net interest income + Net fee and commission income + Dividend income + Net trading income + Gains less losses from investment securities, investments in subsidiaries and associates + The share in profits (losses) of joint ventures + Other operating income - Other operating expenses

TREA – Total Risk Exposure Amount

WIBOR - Warsaw Interbank Offered Rate; Polish equivalent of LIBOR

WIG – Warsaw Stock Exchange Index

WSE – Warsaw Stock Exchange

ZBP – The Polish Bank Association

18. Statements of the Management Board

True and fair picture in the presented reports

The Management Board of mBank S.A. declares that according to their best knowledge:

- The annual consolidated financial statements and the comparative figures were prepared in compliance with the binding accounting principles and present a true, fair and clear picture of the financial position and the condition of the assets of mBank S.A. Group as well as its financial performance.
- The report of the Management Board on the business of mBank Group in 2015 presents a true picture of the developments, achievements, and situation of the mBank S.A. Group, including a description of the main risks and threats.

Appointment of the auditor

The Auditor authorised to audit financial statements and performing the audit of the annual financial statements of mBank S.A. Group for 2015 – Ernst & Young Audyt Polska Spółka z ograniczoną odpowiedzialnością Sp. k. - was appointed in compliance with legal regulations. The audit company and its auditors fulfilled the conditions necessary for an impartial and independent audit report in compliance with respective provisions of Polish law and professional standards.

Signatures of the Management Board of mBank S.A.

Date	First and last name	Position	Signature
25.02.2016	Cezary Stypułkowski	President of the Management Board	
25.02.2016	Lidia Jabłonowska-Luba	Deputy President of the Management Board, Chief Risk Officer	
25.02.2016	Przemysław Gdański	Deputy President of the Management Board, Head of Corporate and Investment Banking	
25.02.2016	Jörg Hessenmüller	Deputy President of the Management Board, Chief Financial Officer	
25.02.2016	Hans-Dieter Kemler	Deputy President of the Management Board, Head of Financial Markets	
25.02.2016	Cezary Kocik	Deputy President of the Management Board, Head of Retail Banking	
25.02.2016	Jarosław Mastalerz	Deputy President of the Management Board, Head of Operations and Information Technology	