mBank Hipoteczny

Financial statements of mBank Hipoteczny S.A. according to the International Financial Reporting Standards (IFRS) for 2015

Selected financial data

The selected financial data presented below are supplementary information to the Financial Statements of mBank Hipoteczny S.A. for 2015.

Selected financial data		in PLN `000		in EUR `000	
		Year ended 31.12.2015	Year ended 31.12.2014	Year ended 31.12.2015	Year ended 31.12.2014
I.	Interest income	256 317	218 996	61 250	52 275
II.	Fee and commission income	12 636	9 632	3 019	2 299
III.	Net trading income	(434)	12 292	(104)	2 934
IV.	Operating result	26 797	29 475	6 403	7 036
V.	Profit before income tax	26 797	29 475	6 403	7 036
VI.	Net profit attributable to shareholders of mBank Hipoteczny S.A.	18 791	22 371	4 490	5 340
VII.	Net cash flows from operating activities	(1 270 880)	(1 289 687)	(303 690)	(307 853)
VIII.	Net cash flows from investment activities	(8 086)	(3 938)	(1 932)	(940)
IX.	Net cash flows from financing activities	1 442 916	1 267 056	344 799	302 451
X.	Total net cash flows	163 950	(26 569)	39 177	(6 342)
XI.	Earnings per ordinary share / Diluted earnings per ordinary share (in PLN/EUR)	6.46	8.11	1.54	1.94

Selected financial data		in PLN `000		in EUR`000	
		as at		as at	
		31.12.2015	31.12.2014	31.12.2015	31.12.2014
I.	Total assets	8 419 125	6 176 326	1 975 625	1 449 059
II.	Amounts due to other banks	2 959 741	1 980 634	694 530	464 687
III.	Amounts due to clients	265 509	250 012	62 304	58 657
IV.	Equity attributable to shareholders of mBank Hipoteczny S.A.	782 336	624 541	183 582	146 527
V.	Share capital	299 000	285 000	70 163	66 865
VI.	Number of shares	2 990 000	2 850 000	2 990 000	2 850 000
VII.	Book value per share / Diluted book value per share (in PLN/EUR)	261.65	219.14	61.40	51.41
VIII.	Total capital ratio	13.81	13.31	13.81	13.31

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

- <u>for items of the statement of financial position</u> – exchange rate announced by the National Bank of Poland as at 31 December 2015: EUR 1 = 4.2615 and 31 December 2014: EUR 1 = PLN 4.2623.
- <u>for items of the income statement and statement of cash flow</u> – exchange rate calculated as the arithmetic mean of exchange rates announced by the National Bank of Poland as at the end of each month of 2015 and 2014: 1 EUR = 4.1848 PLN and 1 EUR = 4.1893 PLN.

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for 2015 (in PLN thousand)

Income statement

		Year ended 31 December	
	Note	2015	2014
Interest income	7	256 317	218 996
Interest expense	7	(145 555)	(132 813)
Net interest income		**110 762**	**86 183**
Fee and commission income	8	12 636	9 632
Fee and commission expenses	8	(6 107)	(5 586)
Net fee and commission income		**6 529**	**4 046**
Net trading income, including:	9	(434)	12 292
foreign exchange result		*2 036*	*3 862*
Other net trading income and result on hege accounting		*(2 470)*	*8 430*
Other operating income	10	763	1 143
Net impairment write-downs on loans and advances	11	(24 775)	(20 945)
Overhead costs	12	(57 876)	(46 839)
Amortisation and depreciation	23,24	(4 699)	(4 310)
Other operating expenses	13	(3 473)	(2 095)
Operating result		**26 797**	**29 475**
Profit before income tax		**26 797**	**29 475**
Income tax	14	(8 006)	(7 104)
Net profit		**18 791**	**22 371**
Net profit attributable to shareholders of the Bank	15	**18 791**	**22 371**
Weighted average number of ordinary shares / Diluted weighted average number of ordinary shares	15	**2 909 068**	**2 759 589**
Earnings per ordinary share / Diluted earnings per ordinary share (in PLN)	15	**6.46**	**8.11**

The entire profit of mBank Hipoteczny S.A. for the 2015 and 2014 pertains to the performance of continuing operations.

Notes presented on pages 8 to 97 constitute an integral part of these Financial Statements.

for 2015 (in PLN thousand)

Statement of comprehensive incomes

		Year ended 31 December	
	Note	2015	2014
Net profit		**18 791**	**22 371**
Other comprehensive income net of tax	16, 17	**(914)**	**269**
Items that may be reclassified to the income statement		**(917)**	**283**
Available-for-sale financial assets (gross)		(1 132)	349
Deferred tax on valuation available-for-sale financial assets		215	(66)
Available-for-sale financial assets (net)		(917)	283
Items that will not be reclassified to the income statement		**3**	**(14)**
Actuarial gains and losses on post-employment benefits (gross)	30.2	4	(17)
Deferred tax on actuarial gains and losses on post-employment benefits		(1)	3
Actuarial gains and losses on post-employment benefits (net)		3	(14)
Total comprehensive income net of tax		**17 877**	**22 640**

Net comprehensive income attributable to shareholders of the Bank		**17 877**	**22 640**
Weighted average number of ordinary shares / Diluted weighted average number of ordinary shares		**2 909 068**	**2 759 589**
Net comprehensive income per ordinary share / Diluted net comprehensive income per ordinary share (in PLN)		**6.15**	**8.20**

for 2015 (in PLN thousand)

Statement of financial position

ASSETS	Note	31.12.2015	31.12.2014
Cash and balances with the central bank	18	7 521	7 669
Amounts due from other banks	19	205 180	30 972
Derivative financial instruments	20	32 212	37 291
Loans and advances to clients	21	7 391 743	5 325 741
Investment securities available for sale	22	748 505	735 220
Intangible assets	23	8 152	5 074
Tangible fixed assets	24	7 523	7 241
Current income tax assets		1 597	1 002
Deferred income tax assets	31	7 213	11 426
Other assets, including:	25	9 479	14 690
- inventories	3.1.6	6 768	8 192
TOTAL ASSETS		**8 419 125**	**6 176 326**
LIABILITIES AND EQUITY			
LIABILITIES			
Amounts due to other banks	26	2 959 741	1 980 634
Derivative financial instruments	20	3 770	9 442
Amounts due to clients	27	265 509	250 012
Debt securities in issue	28	4 164 902	3 171 588
Hedge accounting adjustments related to fair value of hedged items	3.3.	21 530	25 763
Subordinated liabilities	29	200 899	100 257
Other liabilities and provisions	30	20 438	14 089
TOTAL LIABILITIES		**7 636 789**	**5 551 785**
EQUITY			
Share capital:		**514 856**	**374 938**
- Registered share capital	36	299 000	285 000
- Share premium	37	215 856	89 938
Retained earnings	38	**266 631**	**247 840**
- Profit from the previous years		247 840	225 469
- Profit for the current year		18 791	22 371
Other components of equity	39	**849**	**1 763**
TOTAL EQUITY		**782 336**	**624 541**
TOTAL LIABILITIES AND EQUITY		**8 419 125**	**6 176 326**
Total capital ratio	45	**13.81**	**13.31**

Notes presented on pages 8 to 97 constitute an integral part of these Financial Statements.

for 2015 (in PLN thousand)

Statement of changes in equity

Changes in equity from 1 January 2015 to 31 December 2015

	Note	Share capital		Retained earnings				Other components of equity		Total
		Registered share capital	Share premium	Other supplementary capital	General banking risk reserve	Retained profit from the previous years	Profit for the current year	Valuation of available-for-sale financial assets	Actuarial gains and losses on post-employment benefits	
As at 1 January 2015		**285 000**	**89 938**	**192 469**	**33 000**	**22 371**	**-**	**1 742**	**21**	**624 541**
Net profit		-	-	-	-	-	18 791	-	-	18 791
Other comprehensive income (gross)		-	-	-	-	-	-	(1 132)	4	(1 128)
Deferred tax on other comprehensive income		-	-	-	-	-	-	215	(1)	214
Total comprehensive income	16, 17	**-**	**-**	**-**	**-**	**-**	**18 791**	**(917)**	**3**	**17 877**
Transfer to general banking risk reserve	38	-	-	-	3 500	(3 500)	-	-	-	-
Transfer to supplementary capital	38	-	-	18 871	-	(18 871)	-	-	-	-
Issue of shares	36, 37	14 000	126 000	-	-	-	-	-	-	140 000
Share issue costs	37		(82)	-	-	-	-	-	-	(82)
As at 31 December 2015		**299 000**	**215 856**	**211 340**	**36 500**	**-**	**18 791**	**825**	**24**	**782 336**

Changes in equity from 1 January 2014 to 31 December 2014

	Note	Share capital		Retained earnings				Other components of equity		Total
		Registered share capital	Share premium	Other supplementary capital	General banking risk reserve	Retained profit from the previous years	Profit for the current year	Valuation of available-for-sale financial assets	Actuarial gains and losses on post-employment benefits	
As at 1 January 2014		**275 000**	**-**	**192 315**	**31 000**	**2 154**	**-**	**1 459**	**35**	**501 963**
Net profit		-	-	-	-	-	22 371	-	-	22 371
Other comprehensive income (gross)		-	-	-	-	-	-	349	(17)	332
Deferred tax on other comprehensive income		-	-	-	-	-	-	(66)	3	(63)
Total comprehensive income	16, 17	**-**	**-**	**-**	**-**	**-**	**22 371**	**283**	**(14)**	**22 640**
Transfer to general banking risk reserve		-	-	-	2 000	(2 000)	-	-	-	-
Transfer to supplementary capital		-	-	154	-	(154)	-	-	-	-
Issue of shares		10 000	90 000	-	-	-	-	-	-	100 000
Share issue costs		-	(62)							(62)
As at 31 December 2014		**285 000**	**89 938**	**192 469**	**33 000**	**-**	**22 371**	**1 742**	**21**	**624 541**

Notes presented on pages 8 to 97 constitute an integral part of these Financial Statements.

for 2015 (in PLN thousand)

Statement of cash flow

		Year ended 31 December	
	Note	2015	2014
A. Cash flows from operating activities		**(1 270 880)**	**(1 289 687)**
Profit before income tax		**26 797**	**29 475**
Adjustments:		***(1 297 677)***	***(1 319 162)***
Income tax paid		(4 175)	(5 917)
Amortisation and depreciation	23,24	4 699	4 310
Impairment of tangible fixed assets	13,24	12	25
Interest income (income statement)	7	(256 317)	(218 996)
Interest expenses (income statement)	7	145 555	132 813
Interest received		260 007	212 293
Interest paid		(13 852)	(10 460)
Change in amounts due from other banks	32	7	(1)
Change in assets and liabilities on derivative financial instruments	32	(3 134)	(9 052)
Change in loans and advances to clients	32	(2 069 877)	(1 279 703)
Change in investment securities	32	(25 540)	(163 999)
Change in other assets		5 211	47 925
Change in amounts due to other banks	32	632 700	(23 078)
Change in amounts due to clients	32	15 592	(45 101)
Change in debt securities in issue	32	9 300	19 870
Change in hedge accounting adjustments related to fair value of hedged items		(4 233)	25 763
Change in other liabilities and provisions	32	6 353	(5 800)
Result on disposal of intangible assets and tangible fixed assets	13	15	8
Disclosure of intangible assets	23	-	(62)
Net cash from operating activities		**(1 270 880)**	**(1 289 687)**
B. Cash flows from investment activities		**(8 086)**	**(3 938)**
Investing activity inflows		**17**	**25**
Disposal of intangible assets and tangible fixed assets		17	25
Investment activity outflows		**8 103**	**3 963**
Purchase of intangible assets and tangible fixed assets	23,24	8 103	3 963
Net cash from investment activities		**(8 086)**	**(3 938)**
C. Cash flows from financing activities		**1 442 916**	**1 267 056**
Financing activity inflows		**3 239 210**	**2 051 891**
Loans and advances from banks		1 454 847	797 775
Due to the issue of debt securities	28	1 540 713	1 154 178
Due to the issue of shares		139 918	99 938
Due to subordinated loans	29	100 000	-
Interest received from hedging derivative financial instruments		3 732	-
Financing activities outflows		**1 796 294**	**784 835**
Repayment of loans and advances from banks		1 105 726	-
Redemption of debt securities in issue	28	550 000	665 000
Interest paid on loans received, debt securities in issue, subordinated loan		140 568	118 836
Interest paid from hedging derivative financial instruments		-	999
Net cash from financing activities		**1 442 916**	**1 267 056**
Net increase / decrease in cash and cash equivalents (A+B+C)		**163 950**	**(26 569)**
Cash and cash equivalents as at the beginning of the reporting period, including:		**518 614**	**545 183**
Cash and balances with the central bank		7 669	7 378
Amounts due from other banks		30 972	22 377
Investment securities with maturity of up to 3 months from the date of purchase		479 973	515 428
Cash and cash equivalents as at the end of the reporting period, including:	**41**	**682 564**	**518 614**
Cash and balances with the central bank	18	7 521	7 669
Amounts due from other banks	19	205 180	30 972
Investment securities with maturity of up to 3 months from the date of purchase		469 863	479 973

Notes presented on pages 8 to 97 constitute an integral part of these Financial Statements.

Explanatory notes to the standalone financial statements

1. Information on mBank Hipoteczny S.A.

By the decision of the District Court for the Capital City of Warsaw 16th Commercial Department on 16 April 1999 mBank Hipoteczny S.A. (hereinafter referred to as the "Bank") was entered into the Commercial Register under registration number 56623.

On 27 March 2001 the District Court in Warsaw issued a decision to enter the Bank in the National Court Register (KRS) under KRS No. 0000003753.

As per the Polish Classification of Activities the Bank business is designated as 64.19.Z "Other monetary intermediation".

On 29 November 2013 District Court for the Capital City of Warsaw, 13th Commercial Department of the National Court Register registered the change of the Bank's Articles of Association resulting from resolution no. 1 of the Extraordinary General Meeting of BRE Bank Hipoteczny S.A. dated 30 October 2013. Together with the registration of the change in the Articles of Association the name of the Bank has been changed from BRE Bank Hipoteczny Spółka Akcyjna to mBank Hipoteczny Spółka Akcyjna. The Bank can use the following abbreviation: mBank Hipoteczny S.A.

According to the Bank's Articles of Association, the Bank's scope of activity is provision of banking services to natural and legal persons, as well as to unincorporated organisational units both in PLN and foreign currencies.

The Bank operates in the territory of the Republic of Poland.

Registered office of the Bank is located in Warsaw, at Armii Ludowej av. No. 26.

The Bank was established for an indefinite period of time.

mBank Hipoteczny S.A. is a specialised mortgage bank that plays a leading role on the commercial real estate financing market and issuing of covered bonds - debt securities through which the Bank finances its loan activities.

The Bank's offer is addressed to business entities and institutional clients who invest in purchasing, construction or modernisation of commercial real estate, such as office buildings, shopping centres, hotels, warehouse and distribution spaces, as well as residential apartments and houses, implemented by housing developers. In 2013 the Bank extended the scope of its business with loan activity in the retail area. In 2014 sales of retail loans was supplemented with a pooling model, in the scope of which the Bank acquire mortgage loans granted by mBank that can constitute the basis for issuing of covered bonds. From the end of 2012 the Bank does not finance local government units or other entities with a guarantee of local government units, nevertheless, the Bank owns a historically developed portfolio of loan transactions for this segment, which constitutes a basis for issuing of public sector covered bonds.

The activity of mBank Hipoteczny S.A. is implemented in operational segments that are described in detail in Note 6.

In 2015 the income of the Bank, calculated as the sum of net interest income, net fee and commission income, net trading income, other operating income and other operating expenses, amounted to PLN 114 147 thousand (2014: PLN 101 569 thousand). This income pertains in whole to the activity conducted within the Republic of Poland.

In 2015, the rate of return on assets of the Bank, calculated as net profit divided by the average total assets, amounted to 0.26%.[1].

In 2015, the Bank 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 item 158).

As at December 31, 2015 the employment in the Bank was 212 FTEs and 222 persons (December 31, 2014: 193 FTEs; 207 persons).

Average employment in 2015 was 218 employees, in 2014 it was 187 employees.

[1] net profit / average assets from the most recent 13 months that is considering opening and closing balance of the reporting period

These financial statements mBank Hipoteczny S.A. were approved by the Management Board on 14 March 2016.

2. Description of relevant accounting policies

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

2.1. Accounting basis

Financial Statements of mBank Hipoteczny S.A. have been prepared for the 12-month period ended 31 December 2015. Comparative data presented in these financial statements relate to the period of 12 months ended on 31 December 2014. Presented financial statements are standalone financial statements.

As at 31 December 2015 and as at 31 December 2014 mBank Hipoteczny S.A. had no subsidiaries.

The Financial Statements of mBank Hipoteczny S.A. have been prepared in compliance with the International Financial Reporting Standards (IFRS) as adopted for use in the European Union, according to the historical cost method, as modified by the revaluation of available for sale financial assets, financial assets and financial liabilities measured at fair value through the income statement, including all derivative contracts.

The preparation of the financial statements in compliance with IFRS requires the application of specific accounting estimates. It also requires the Management Board to use its own judgment when applying the accounting policies adopted by the Bank. The issues in relation to which a significant professional judgement is required, more complex issues, or such issues where estimates or judgments are material to the financial statements are disclosed in Note 5.

The financial statements of mBank Hipoteczny S.A have been prepared on the assumption that the Bank will continue as a going concern. No circumstances exist which would indicate any threats to further business activity of the Bank in the foreseeable future, i.e. in the period of at least 12 months following the balance sheet date.

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

2.2. Interest income and expenses

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

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

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

Income and expenses related to the interest component of the result on interest rate derivatives and resulting from current calculation of swap points on currency derivatives classified into banking book are presented in the interest results in the position Interest income/expense on derivatives classified into banking book. The Bank does not conduct commercial activity, all transactions on derivatives are classified in the banking book.

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

Interest expenses cover paid and accrued interests as well as commissions settled with the effective interest rate from deposits accepted from clients, interbank deposits, received loans, other financial liabilities with deferred payment term, subordinated loans, funds deposited in clients' bank accounts and own issued debt securities.

Interests accrued on receivables for which impairment was found are recognised in interest income on the basis of interest rates used to discount future cash flows when calculating allowances for impairment. Those interests are credited to the income statement from part of equity possible to be recovered, i.e. with consideration of adjustment of impairment of exposure.

2.3. Fee and commission income and expenses

Income on account of fees and commissions is recognised on the accrual basis, at the time of performance of the respective services. Commissions for granted loans are recognised in the account of the effective interest rate and included in interest income.

Commissions related to agreements that were not launched on the date of collection or payment of commission adjust the value of effective interest rate on the date of mobilisation of funds. Commissions for loan agreements that were not launched are included as one-off items in the income statement on the date of termination of a loan agreement. Commissions for loan trenches (for exposure) placed at the disposal of a client are calculated evenly over the period of provision of the service. The amount of commission is settled in time linearly over the period covering the transaction that is subject to commission. Incomes and costs for fees and commissions for which the method of effective interest rate is not applied are generally recognised in accordance with the accrual basis at the time of provision of the service.

Costs of commissions related to amounts of paid on received loans, issued securities adjust the value of effective interest rate on the date of the launch of the funds or on the day of payment, if it took place after the day of launching of the funds are presented in the line of interest expenses.

Commissions on other operations are included in the income statement as one-off items.

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

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

The Bank does not offer insurance products which are not bundled with financial instruments.

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

Due to occurrence of marginal costs directly associated with the sales of insurance product, they are settled one time by the Bank. For majority of the abovementioned expenses the following approach is taken by the Bank: expenses directly linked to the sale of insurance products bundled with loan are recognised using the same pattern as in case of income observing the matching concept. A part of expenses is treated as an element adjusting the calculation of effective interest rate for interest income and the remaining part of expenses is recognised in fee and commission expenses as upfront cost or as cost accrued over time.

For insurance products considered as bundled with loans the Bank estimates also the part of remuneration which in the future will be returned due to early termination of insurance contract and appropriately decreases interest income or fee and commission income to be recognised.

In case of related products, when the premium is charged on a monthly basis, and a client may join insurance or discontinue it on a regular basis, revenue is recognised monthly on a cash basis in commission income.

While recognising interest incomes in terms of insurance associated with a mortgage loan, in relation to incomes from a one-off premium charged for a period of the first two years, the Bank, on a linear basis within the scope of interest incomes, equals the level of recognised in this period revenues with a level of subsequent consideration it receives from a regular premium charged on a monthly basis after the second year of insurance protection.

Since 31 March 2015, due to the termination of agreement on cash bonus on this day, which was concluded on 7 January 2014 between the Bank and BRE Ubezpieczenia Sp. z.o.o. (currently Aspiro S.A.), the Bank does not receive remuneration for offered insurance products associated with a loan product.

2.5. Segment reporting

Operational segments is component of a unit:

a) which engages in a business activity in respect to which generation of revenues and incurring of costs is possible (including revenues and costs associated with transaction with other components of the same unit),

b) which operating results are regularly reviewed by the main body responsible for operational decision making in a unit and which use those results while deciding on resources allocated to a segment and while assessing operational results of the segment, and

c) in relation to which separate financial information is available.

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

In accordance with IFRS 8, the Bank has the following business segments: “Loans for refinancing”, “Loans to JST”, “Loans to housing developers”, “Loans to commercial developers”, “Loans for land purchase”, “Loans to natural persons”, “Loans to natural persons - agency model, pooling”.

2.6. Financial assets / financial liabilities

2.6.1. Financial assets

The Bank categorises its financial assets as follows:

- loans and receivables;
- financial assets available for sale,
- financial assets disclosed at the fair value through the income statement,
- financial assets held to maturity.

The classification of financial assets is determined by the Bank Management at the time of their initial recognition. Financial assets at initial recognition are measured at fair value plus related transaction costs in case of a financial asset item not measured at fair value through profit or loss.

Standardised purchases and sales of financial assets at fair value through the income statement, held to maturity and available for sale are recognised or excluded from the statement on financial position on the transaction settlement date. Loans are recognised when cash is advanced to the borrowers. Available for sale financial assets and financial assets measured at fair value through the income statement are valued at the end of the reporting period according to their fair value. Financial assets are excluded from the statement on financial position when the rights to receive cash flows from the financial assets have expired or have been transferred and the Bank has transferred substantially all risks and benefits of ownership.

<u>Loans and receivables</u>

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

Loans and receivables are measured at adjusted cost of acquisition (amortised cost), applying the effective interest rate method.

<u>Financial assets available for sale</u>

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

Interest income and expense from available for sale financial assets are presented in net interest income.

Available for sale financial assets and financial assets measured at fair value through the income statement are valued at the end of the reporting period according to their fair value. Loans and receivables, as well as investments held to maturity are measured at adjusted cost of acquisition (amortised cost), applying the effective interest rate method.

Gains and losses arising from changes in the fair value of available for sale financial assets are recognised in other comprehensive incomes until the de-recognition of the respective financial asset in the statement of financial position or until its impairment - at such time the aggregate gain or loss previously recognised in other comprehensive income is now recognised in the income statement. However, interest calculated using the effective interest rate is recognised in the income statement. If the fair value of a debt instrument classified as available for sale increases in a subsequent period, and such increase can be objectively related to an event occurring after the recording of the impairment loss in the income statement, then the respective impairment loss is reversed in the income statement.

Dividends on available for sale equity instruments are recognised in the income statement when the entity's right to receive payment is established. The fair value of quoted investments in active markets is based on current market prices. In reporting periods presented in these financial statements, there were no available for sale equity instruments at the Bank.

<u>Financial assets disclosed at the fair value through the income statement</u>

This category includes financial assets held for trading.

Derivative instruments are classified by the Bank as financial assets disclosed at the fair value through the income statement.

The valuation and result on disposal of financial assets designated at fair value through income statement is recognised in trading income except for interest income on derivatives, which is recognised in the interest result in the position interest income on derivatives classified into banking book.

Financial assets measured at fair value through the income statement are valued at the end of the reporting period according to their fair value. Gains and losses resulting from changes in the fair value of financial assets measured at fair value through the income statement are recognised in the income statement in the period in which they arise as trading income.

<u>Financial assets held to maturity</u>

Investments held to maturity comprise not classified as derivative instruments, where the payments are determined or possible to determine and with specified maturity dates, and which the Bank intends and is capable of holding until their maturity. In the case of sale by the Bank before maturity of a part of assets held to maturity which cannot be deemed insignificant the held to maturity portfolio is tainted, and there with all the assets of this category are reclassified to the available for sale category.

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

2.6.2. Financial liabilities

The Bank categorises its financial liabilities as follows:

- financial liabilities disclosed at the fair value through the income statement,
- other financial liabilities.

Financial liabilities measured at fair value through the income statement are:

- liabilities for held for trading incurred in order to achieve economic benefits resulting from short-term changes of prices and fluctuations of other market factors,
- other financial liabilities, regardless of intentions followed when concluding a contract, if they constitute one asset of portfolio of similar financial liabilities, in relation to which there is a high probability of realisation of expected economic benefits in a short-term,
- derivative financial instruments,
- financial liabilities disclosed at the fair value through the income statement by Bank's decision.

Apart from derivative instruments the Bank did not classify any other financial liability as measured at the fair value through the income statement.

Other financial liabilities include in particular:

- fund on current accounts,
- deposits from clients,
- subordinated loans received,
- loans received,
- other financial liabilities with deferred payment term,
- debt securities issued by the Bank (covered bonds and bonds),
- trade payables.

Other financial liabilities are valued at the depreciated cost using the effective interest rate method.

2.7. Offsetting financial instruments

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

2.8. Impairment of financial assets

Assets carried at amortised cost

At the end of the reporting period the Bank estimates whether there is an objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is an objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The rules of impairment measurement and calculation of provisions for loans and advances are presented in Note 3.1.3.

Uncollectible loans are written off against the provision for loan impairment. Before a loan is written off all required procedures are conducted and the loss amount is determined.

Subsequent recoveries of amounts previously written off reduce (in accordance with IAS 39) the amount of the provision for loan impairment in the income statement. If in a subsequent period the impairment loss amount is decreasing and the decrease can be related objectively to an event occurring after the impairment was recognised (e.g., improvement of the debtor's credit rating), then the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recorded in the income statement.

Receivables written off and not accumulated are recorded on off-balance sheet accounts. In case of receivables written off without accumulation, the department providing administrative support of receivables conducts debt collection activities until complete recovery of the amount or its amortization. Those actions may be suspended when they are ineffective or unprofitable, or if all possibilities of recovering a receivable were exhausted. Write-offs are subject to de-recognition from off-balance sheet accounts, if:

- receivable is collected,
- receivable is redeemed.

<u>Financial assets available for sale</u>

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

<u>Renegotiated agreements</u>

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

The general rule of the restructuring policy conducted by the Bank is recognition of the reasons of threat of failure to repay a loan granted according to conditions specified in the loan agreement as early as possible and diagnosis whether those threats are attributed to the market or the entrepreneur.

In case of threats resulting from the situation on the market, the Bank conducts a policy of restructuring of the granted loan towards implementation of the “stay” strategy which assumes maintenance of relationship with the borrower and consists in such change of the conditions of the granted loan which will allow the entrepreneur to continue business activity and its further development in case of beneficial change of market conditions.

In case of threats attributed to the entrepreneur, the Bank conducts a policy of restructuring of the granted loan towards implementation of the “exit” strategy assuming termination of relationship with a borrower as fast as possible and without losses.

The most important factor taken into account in restructuring of granted loans is assumed time of repayment of a loan, wherein the Bank prioritises restructuring over debt collection, unless restructuring does not bring tangible effects.

In case of restructuring of conditions of repayment of loans, the Bank is flexible in terms of applied margins, commissions and fees, provided that the repayment of the entire current value of a loan is guaranteed.

Due to the specificity of the loan product (mortgage loan) offered by the Bank, the Bank prefers, in case of impairment calculation, taking assumptions of future cash inflows from the sale of assets on which the Bank established mortgages in time resulting from standard periods of liquidation of those assets, and not from inflows from the borrower’s own contributions or implementation of other securities, unless such inflows are almost guaranteed.

A set of measures, defined by internal regulations and related to the renegotiation and restructuring of terms of loan agreements, defined as the Banks policy with respect to forbearance, was described in Note 3.1.7.

2.9. Cash and cash equivalents

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

2.10. Derivative financial instruments and hedge accounting

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

If the fair value of the particular instrument may be determined by comparison with other current market transactions concerning the same instrument (not modified) or relying on valuation techniques based exclusively on market data that are available for observation, then the Bank recognises the respective gains or losses from the first day in accordance with the principles described under Note 2.18.on observable market data. If such price is known, the Bank shows profits or losses on the first day.

The method of recognising the resulting fair value gain or loss depends on whether the given derivative instrument is designated as a hedging instrument, and if it is, it also depends on the nature of the hedged item. The Bank designates certain derivative instruments as security of the fair value of a recognised liability component (covered bonds issued at fixed rate).

Derivative instruments designated as hedges against positions maintained by the Bank are recorded by means of hedge accounting, subject to the fulfilment of the criteria specified in IAS 39:

- At the inception of the hedge there is formal designation and documentation of the hedging relationship and the entity’s risk management objective and strategy for undertaking the hedge. That documentation shall include identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instruments effectiveness in offsetting the exposure to changes in the hedged item’s fair value,
- The hedge is expected to be highly effective in offsetting changes in fair value attributable to the hedged risk, consistently with the originally documented risk management strategy for that particular hedging relationship,
- The effectiveness of the hedge can be reliably measured, i.e. the fair value of the hedged item that is attributable to the hedged risk and the fair value of the hedging instrument can be reliably measured,
- The hedge is assessed on an on-going basis and determined actually to have been highly effective throughout the financial reporting periods for which the hedge was designated.

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

<u>Fair value hedges</u>

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

In case a hedge has ceased to fulfil the criteria of hedge accounting, the adjustment to the carrying value of the hedged item for which the effective interest method is used is amortised to the income statement over the period to maturity.

Derivative instruments not fulfilling the criteria of hedge accounting

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

Rules of calculation of impairments (valuation adjustment) on credit risk of the counterparty from valuation of derivative instruments of the market risk.

Impairment loss due to credit risk (valuation adjustment) for derivative instruments is created for customers in the financial sector, who were not classified to the default category or technical default which means a default resulting from the breach of provisions of agreement (e.g. failure to cover costs arising from a transaction despite the fact that the main receivable was settled in a timely manner). The amount of impairment constitutes the sum of expected on particular transactions concluded with a given counterparty credit losses for a default of this counterparty, which will become apparent until the maturity date of particular derivative instruments. Expected loss due to counterparty risk is estimated per counterparty - cumulatively for all transactions of the counterparty on the basis of indicated term structure of expected future positive exposure (EPE) and curves of credit spreads for individual sectors and ratings.

As at 31 December 2015 the Bank held EUR 4 648 thousand (PLN 19 807 thousand) collateral against changes in valuation of derivative contracts concluded with mBank S.A. as well as PLN 495 thousand collateral against changes in valuation of derivative contracts that are cleared centrally (Variation Margin).

The Bank holds the following derivative instruments in its portfolio:

Interest rate risk instruments:

- Interest Rate Swap Contracts.

Foreign exchange risk instruments:

- FX SWAP contracts.

All transactions on derivative instruments are concluded with the objective to secure currency risk and interest rate risk. The Bank does not conduct commercial activity, all transactions on derivatives are classified in the banking portfolio.

2.11. Intangible assets

Intangible assets are recognised at their cost of acquisition adjusted by the costs of improvement (rearrangement, development, reconstruction or modernisation) less any accumulated amortization and any impairment losses. Accumulated amortization is accrued by the straight line method taking into account the expected period of economic useful life of the respective intangible assets. If for a given intangible asset expected period of useful life is different than the period specified below, the period of amortisation for a given asset may be determined with consideration of this difference. Expenditures on an intangible asset are included in costs as they are incurred, unless they constitute an element of the purchase price or cost of creation of an intangible asset that meets the criteria of recognition.
On each balance sheet day the company carries out an assessment whether or not any indications exist for possible value impairment of any asset item. If any such indication exists, the company estimates the recoverable amount of such respective asset.

Computer software

Purchased computer software licences are capitalised in the amount of costs incurred for the purchase and adaptation for use of specific computer software. These costs are amortised on the basis of the expected useful life of the software (2-10 years). Expenses attached to the development or maintenance of computer software are expensed when incurred. Expenses directly linked to the development of identifiable unique proprietary computer programmes controlled by the Bank, which are likely to generate economic benefits in excess of such costs expected to be gained over a period exceeding one year, are recognised as intangible assets.

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

Development costs

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

"Development costs" useful lives are finite and the amortization period does not exceed 5 years. Amortization rates are adjusted to the period of economic utilisation.

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

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

Material intangible assets as at December 31st, 2015:

- Agency model handling software with net value of PLN 1 041 thousand,
- Pooling software with net value of PLN 797 thousand.

2.12. Tangible fixed assets

The balance sheet value is the purchase price or cost of production of a given asset decreased by the total value of amortisation write-offs and the total amount of impairment losses.

Cost is the amount of cash or cash equivalents paid and the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction. The purchase price or cost of production also consist in all directly attributable costs incurred in order to adjust an asset to place and conditions necessary to begin its functioning, including also costs of demounting, removal of an asset or renovations to which the Bank is obliged. The purchase price or cost of production also cover expenditures incurred at a later date in order to increase the asset's useful life, change of its component or its renewal.

The value, which is either a purchase price or cost of production of specific assets, reduced by the final value of this asset, should be amortised.

The amortisation is a systematic distribution of value subject to amortisation over the useful life of an asset. Impairment loss is recognised in the amount by which the carrying value of given asset item exceeds its recoverable value.

The recoverable value corresponds to the net selling price of an asset or its use value depending on which is higher.

The final value of the asset is the amount, which according to the forecast the company could currently obtain taking into consideration the age and state at the end of its life (after deducting the estimated selling costs).

Amortization and annual depreciation is determined considering the economic usability period of given tangible fixed assets. Correctness of the applied periods and rates for amortisation is subject to periodical review - not later than at the start of each fiscal year.

The depreciation method applied to fixed asset is reviewed at least at the end of each financial year, and in case of a significant change in the expected pattern of consumption of the future economic benefits from the asset item by the company, the amortization method is changed to reflect such change. Change in the method of depreciation is recognized as a change in estimate in accordance with IAS 8.

The Bank amortises tangible fixed assets using the straight-line method by distributing its initial value or revalued amount reduced by final value by estimated useful life. The final value of useful life of an asset is verified at the end of each financial year and in case when expectations differ from previous estimations, the change is recognised as the change of estimated values.

Useful life of an asset is a period in which according to expectations a given asset will be used.

Useful lives of individual groups of tangible fixed assets amount to:

- Technical equipment and machinery	5 - 10 years,
- IT equipment	4 - 5 years,
- Equipment and vehicles	5 - 10 years,
- Leasehold improvements	in the expected lease/rent period,
- Office equipment and furniture	5 - 12 years.

If for a given tangible fixed asset expected useful life is different than the one specified above, the period of amortisation for a given asset may be determined with consideration of this difference.

Depreciable fixed assets are tested for impairment always whenever events or changes in circumstances indicate that the carrying value may not be recoverable and at the end of each reporting period. The value of a fixed asset carried in the statement of financial position is reduced to the level of its recoverable value if the carrying value in the statement of financial position exceeds the estimated recoverable amount. The recoverable value is the higher of two amounts: the fair value of the fixed asset reduced by its selling costs and the value in use.

The balance sheet value of tangible fixed assets is removed from the statement on financial situation upon disposal of this item or when no future economic benefits resulting from its use or disposal are expected.

The Bank does not increase the balance sheet value of tangible fixed assets by the costs of current maintenance of those assets. Repair and maintenance costs are recognized in the income statement in the period in which they occurred.

In case of replacement of a component of a tangible fixed asset, the Bank recognises costs of replacement of parts of those items in the balance sheet value of tangible fixed assets as they are incurred. The balance sheet value of components is written off in accordance with conditions of removal from the statement on financial situation.
Profits and losses resulting from the removal of a tangible fixed asset item from the statement on financial situation are established as the difference between net disposal proceeds and the balance sheet value of this item and are recognised in the income statement at the moment of removal of this position from the statement on financial situation.

2.13. Deferred income tax

Such liabilities or assets are determined by application of the tax rates in force by virtue of law or of actual obligations at the end of the reporting period. According to expectations such tax rates applied will be in force at the time of realisation of the assets or settlement of the liabilities for deferred corporate income tax. Temporary differences are differences arising between the carrying amount of an asset or liability and its tax base.

Liabilities or assets for deferred corporate income tax are recognised in their full amount according to the balance sheet method in connection with the existence of temporary differences between the tax value of assets and liabilities and their carrying value.

Balance sheet value of deferred income tax assets is subject to review as at each balance sheet date and relevant correction is recognised, by the amount corresponding to the correction of the expected future taxable income that will enable partial or full utilisation of such deferred income tax assets. Unrecognised deferred income tax asset is subject to reassessment for each balance sheet date and is recognised up to the amount reflecting probability of achieving future taxable income which will allow for recovery of this asset.

The Bank presents the deferred income tax assets and liabilities netted in the statement of financial position separately for each subsidiary undergoing consolidation. Such assets and provisions may be Revaluation of non-financial assets available for sale and due to actuarial profits and losses on valuation of pension benefits is recognised in the same manner as revaluation and actuarial profits and losses, directly in the other comprehensive income.

This Regulation shall come into force on 1 January 2015.

2.14. Inventories

Assets repossessed for debt are classified by the Bank as inventories. At initial recognition assets repossessed for debt are stated at the lower of: purchase price or net sales price. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling costs. The amount of any inventory write-downs to the net realisable value and any inventory losses are recorded as costs of the period in which a write-down or a loss occurred, as "Other operating costs". Reversals of inventory write-downs resulting from increases in their net realisable value are recorded as "Other operating income".

2.15. Prepayments, accruals and deferred income

The Bank recognises prepayments if the costs incurred relate to future reporting periods. Prepayments are presented in the statement of financial position under "Other assets".

Accrued expenses are liabilities payable for goods and services that were received/provided, but were not paid, invoiced or officially agreed with the supplier, including amounts due to employees. Deferred income includes received amounts of future benefits. Accruals and deferred income are presented in the statement of financial position under the item "Other liabilities and provisions".

2.16. Provisions

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

2.17. Retirement and other employee benefits

<u>Provision for retirement and similar benefits</u>

The Bank forms provisions against future liabilities on account of post-employment benefits determined on the basis of an estimation of liabilities of that type, using an actuarial model. Current employment costs and net interest are recognized in the income statement under "Overhead costs". Actuarial profits and losses are recognised in other comprehensive incomes which will not be reclassified to the income statement.

<u>Phantom share – based benefits, settled in cash</u>

The Bank conducts a remuneration program for the Management board of the Bank and employees having significant influence on the risk profile of the Bank based on phantom shares settled in cash. These benefits are accounted for in accordance with IAS 19 "Employee benefits". Valuation adjustment of phantom shares increases costs of a given period in correspondence with liabilities. Costs are recognised over time during the period of the right to benefits and included in "Overhead costs". Phantom shares are awarded in the amount resulting from valuation of those shares for the assessment period. Valuation of phantom shares is calculated at the end of each reporting period as a ratio of the Bank' book value and the amount of ordinary shares.Details of the programme are provided in Note 42.

2.18. Issue of securities

The Bank's liabilities resulting from issue of securities (covered bonds, bonds) upon initial recognition are valuated according to the fair value, taking into account the costs of transaction that may be directly assigned to the issue, and throughout the entire duration of the transaction they are valued to the amount of amortised cost including the effective interest rate. The amount of the reversal is recorded in the income statement in "Interest expense".

2.19. Loans and advances received

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

2.20. Equity

Equities consist of capitals and funds produced by the Bank in accordance with specified provisions of law, i.e. appropriate acts, the Articles of Association.

Registered share capital

Share capital is presented at its nominal value, in accordance with the Articles of Association and with the entry in the National Court Register.

Share premium

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

- Share issue costs

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

Retained earnings

Retained earnings include:

- other supplementary capital created from profit appropriation,
- General Risk Fund created through the profit appropriation and intended for the purposes specified in the Articles of Association or in other legal regulations,
- retained earnings from the previous year,
- net result for the current year.

Other components of equity

Other equity items include amount from valuation of available for sale financial instruments and actuarial of employee benefits after the period of employment.

2.21. Leasing

The Bank acts as the lessee. Leasing agreements in the Bank are operational leasing agreements. The total payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease. No financial lease agreements were concluded by the Bank.

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

2.22. Valuation of items denominated in foreign currencies

Functional currency and presentation currency

The financial statements are presented in PLN thousand, with PLN being the functional and presentation currency of the Bank.

Transactions and balances

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

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

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

2.23. New standards, interpretations and amendments to published standards

These financial statements include the requirements of all the International Accounting Standards and the International Financial Reporting Standards endorsed by the European Union, and the related with them interpretations which have been endorsed and binding for annual periods starting on 1 January 2015.

<u>Published Standards and Interpretations which have been issued and binding for the Bank for annual periods starting on 1 January 2015</u>

Standards and interpretations approved by the European Union:

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

  The Interpretation provides guidance on when to recognise a liability for a levy imposed by a government, both for levies that are accounted for in accordance with IAS 37 and those where thetiming and amount of the levy is certain and does not address whether the liability to pay a levygives rise to an asset or an expense.

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

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

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

These financial statements do not include the following standards and interpretations which await endorsement of the European Union or which have been endorsed by the European Union but entered or will enter into force after the balance sheet date.

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

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

Standards and interpretations approved by the European Union:

- IAS 19 (Amended), Defined Benefit Plans: Employee Contributions, published by the International Accounting Standards Board on 21 November 2013, approved by European Union on 17 December 2014 and binding for annual periods starting on or after 1 July 2014, in EU effective at the latest for financial years beginning on or after 1 February 2015.

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

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

- Amendments to IAS 1, Disclosure initiative, published by the International Accounting StandardsBoard on 18 December 2014, approved by European Union on 18 December 2015 and binding forannual periods starting on or after 1 January 2016.

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

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

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

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

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

- Amendments to IAS 16 and IAS 38, Clarification of acceptable methods of depreciation and amortization, published by the International Accounting Standards Board on 12 May 2014, approved by European Union on 2 December 2015 and binding for annual periods beginning on or after 1 January 2016.

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

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

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

- Amendments to IFRS 11, Accounting for acquisitions of interests in joint operations, published by the International Accounting Standards Board on 6 May 2014, approved by European Union on 24 November 2015 and binding for annual periods beginning on or after 1 January 2016.

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

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

- Amendments to IAS 16 and IAS 41 Agriculture: Bearer Plants published by the International Accounting Standards Board on 30 June 2014, approved by European Union on 23 November 2015 and binding for annual periods beginning on or after 1 January 2016.

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

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

- Annual Improvements to IFRSs 2012-2014 Cycle, changing 4 standards, published by the International Accounting Standards Board on 25 September 2014, approved by European Union on 15 December 2015 and binding for annual periods beginning on or after 1 January 2016.

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

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

Standards and interpretations not yet approved by the European Union:

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

  The Bank is of the opinion that the application of the standard will have an impact on the presentation and measurement of these instruments in the financial statements and the valuation of impairments.

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

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

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

- IFRS 15, *Revenue from Contracts with Customers*, published by the International Accounting Standards Board on 28 May 2014, binding for annual periods beginning on or after 1 January 2018.

  Amendments to IFRS 15 were published by International Accounting Standards Board on 11 September 2015 and are binding for annuals periods starting on or after 1 January 2018.

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

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

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

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

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

- Amendments to IFRS 10 and IAS 28, *Sale or contribution of assets between an investor and its associate or joint venture*, published by the International Accounting Standards Board on

11 September 2014. The date of entry into force has been postponed indefinitely by International Accounting Standards Board.

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

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

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

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

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

- Amendments to IAS 12, *Recognition of Deferred Tax Assets for Unrealised Losses*, published by the International Accounting Standards Board on 19 January 2016, binding for annual periods starting on or after 1 January 2017.

  Amendments to IAS 12 clarify the requirements on recognition of deferred tax assets for unrealized losses on debt instruments measured at fair value. The amendments introduce the guidance on the identification of deductible temporary differences. Especially the standard confirms that decreases below cost in the carrying amount of a fixed-rate debt instrument measured at fair value for which the tax base remains at cost give rise to a deductible temporary difference. This applies irrespective of whether the debt instrument's holder expects to use it or sale it.

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

- Amendments to IAS 7, *Disclosure Initiative*, published by the International Accounting Standards Board on 29 January 2016, binding for annual periods starting on or after 1 January 2017.

  Amendments to IAS 7 introduce the requirements to disclose changes in liabilities arising from financing activities in statement of cash flows, including both changes arising from cash flows and non-cash changes. To fulfill the requirement the standard requires a reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities in cash flow statement.

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

- IFRS 16, *Leases*, published by the International Accounting Standards Board on 13 January 2016, binding for annual periods starting on or after 1 January 2019.

  IFRS 16 introduces new principles for the recognition of leases. The main amendment is the elimination of the classification of leases as either operating leases or finance leases and instead, the introduction of a single lessee accounting model. Applying a single accounting model, a lessee is required to recognize lease assets and corresponding liability in the statement of financial position, except for leases with a term of less than 12 months and leases with underlying asset of low value. A lessee is also required to recognize depreciation costs of lease asset separately from interest costs on lease liabilities in the income statement.

IFRS 16 substantially carries forward the lessor accounting approach. It means that lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

The Bank is of the opinion that the application of a new standard will have an impact on the recognition, presentation, measurement and disclosure of lease assets and corresponding liability in the financial statements of the Bank as lessee.

3. Financial risk management

3.1. Credit risk

The Bank is exposed to credit risk consisting in counterparty's failure to fulfil obligation against the Bank in the full amount within the prescribed period. In order to limit the credit risk, the Bank conducts lending activity in accordance with internal procedures as well as policy of credit decision-making and credit risk assessment.

3.1.1. Collaterals

The Bank's Policy in terms of loan collaterals and their valuation includes regulation of acts: on covered bonds and mortgage banks, banking law, Act on registered pledge and pledge register, Act on land and mortgage, provisions of the Commercial Companies Code, provisions of the Civil Code and other Acts. Additionally, the issues of legal safeguard cover Guidelines and Recommendations of the Banking Supervision Commission (currently Financial Supervision Authority), including Recommendation S and J as well as provisions of internal banking regulations.

The Bank hold and applies Rules and Regulations of Establishing of banking and mortgage real estate value approved by the Banking Supervision Commission (currently Financial Supervision Authority - KNF), issued on the basis of the Act dated 29 August 1997 on covered bonds and mortgage banks (consolidated text Journal of Laws 2003 No. 99, item 919 as amended) including provisions of Recommendation F regarding basis criteria applies by the Financial Supervision Authority for approval of rules and regulations of establishing the mortgage lending value of the property issued by mortgage banks. Thereby, the Bank ensures that the value of credit exposure collateral secured by mortgage is sufficient for the entire duration of the agreement. This assurance is based on analysis of long-term profitability of a given real estate, completed by establishing of the amount of capitalised net proceeds possible in long-term to achieve from a given real estate.

The Bank may conduct or order conducting revaluation of collaterals, including the real estate constituting mortgage collateral, provided that in the period from the last valuation events occurred that could have significant influence on the value of a given collateral or in case of real estate which constitutes collateral of loans for which the loss of value was recognised.

As a mandatory legal collateral of repayment of a granted loan the Bank accepts:

- mortgage on real estate that is subject to lending, entered into land register in the first place - in case of loans for refinancing, loans to commercial developers, loans to housing developers, loans for land purchase, loans to natural persons, loans to natural persons - agency model, pooling.
- assignment of rights from insurance policy against fire and other random events of a real estate mortgaged to the Bank or assignment of rights from policy against any construction risk of the financed real estate (depending on whether financing covers a completed real estate or an estate under construction) - in case of loans for refinancing, loans to commercial developers, loans to housing developers, loans to natural persons, loans to natural persons - agency model, pooling.
- assignment or pledge on receivables under lease agreements - in case of loans for refinancing, loans to commercial developers,

- blank promissory note of the borrower with bill declaration - in case of loans granted to local government units,
- guarantee of local government units according to civil law - in case of loans for health care facilities and companies appointed by local government units.

In case of commercial loans a dominating organisational form of borrowers of the Bank are so called special purpose companies. To the best knowledge of the Bank, Members of the Management Board and employees of the Bank do not hold positions in bodies of companies that are borrowers of the Bank.

According to IFRS 10, the Bank conducts analysis of exercising of control over units by the Bank. The Bank did not invest in securities and shares of other business units giving it a possibility to exercise current control over significant activities of those units and has no subsidiaries or associated, thus the analysis is related to possible interactions between the Bank and entities credited by it.

If those companies are companies with share capital, i.e. limited liability companies and joint stock companies, the Bank accepts registered pledge on shares or stocks as a legal collateral for repayment of a loan. Therefore, there is also significant concentration of registered pledges on shares or stocks as legal collateral of loan repayment. In case of financing of limited and limited joint stock companies, as legal collateral of repayment of loan the Bank accepts a pledge on shares/stocks of a general partner - an entity authorised to manage affairs of a limited or limited joint stock company.

Regardless of collaterals referred to above, the Bank may accept additional legal forms of collaterals for loans, in particular:

a) bank guarantee,
b) guarantee under civil law or according to the law on bills of exchange,
c) registered pledge on rights or receivables,
d) pledge according to the civil code on rights or receivables,
e) transfer of receivables other than those referred to above,
f) cash in banks,
g) power of attorney to account,
h) accession to a loan debt,
i) loan insurance,
j) declaration on submission to execution,
k) deposit,
l) borrower’s shareholders’ obligations
m) other forms provided by law.

The Bank establishes the form and value of legal collateral taking into account the specificity of a transaction, i.e. considering:

a) type and amount of loan and period of lending,
b) borrower’s legal status,
c) borrower’s financial situation,
d) history of cooperation with the borrower and capital group to which the borrower belongs,
e) costs of establishing collateral,
f) possibility of satisfying from accepted collateral of claims of the Bank in the shortest possible time.

In the scope of bank guarantees and assignment of rights from insurance policies, the Bank while selecting counterparties pays attention to financial results and rating of collateral issuers, accepting collaterals from reliable banks and insurance companies only.

3.1.2. Description of the rating system and credit risk management

For the analysis of the loan portfolio the Bank uses rating models which are updated annually. Rating systems currently cover 96.14% of total sum of risk-weighted exposures with standard method including portfolios covered with a plan of gradual implementation and 74.89% without including those portfolios.

The Bank applies rating models:

- for the purposes of credit risk management, including making credit decisions, assessment of credit risk of a transaction and capital adequacy - in case of commercial portfolio;
- for the purposes of credit risk management, including making credit decisions, assessment of credit risk of a transaction, determination of loss impairments, and eventually also for the purposes of capital adequacy - for exposures in the scope of the retail portfolio obtained in cooperation with mBank S.A.

Commercial portfolio including commercial receivables purchased from mBank S.A.

In the area of commercial credits the Bank applies its own rating system for the purposes of assessment of a transaction risk, covering 11 rating models dedicated to particular commercial real estate market segments and a transfer function model allowing for determination of supervisory category on the basis of scoring assigned in the scope of internal model.

Ratings that analyse the structure of transaction are applicable to financing implemented:

- using "project finance", where as a principle a target company is a borrower,
- for different types of transactions related to financing or refinancing of construction/purchase of office, service and commercial buildings, commercial and service spaces, warehouses, single- and multi-family housing estates for rental or lease, hotels and business premises for commercial activity, offices and warehouses.

Bank's models cover various stages of financing of a transaction - financing of construction or financing of a purchase/refinancing of completed real estate. Criteria cover area associated with:

- real estate: location, legal status, functional features of the facility;
- features of a local market: relation between demand and supply for a given type of facilities, business activity indicator in the region;
- analysis of financial glows generated by a real estate: amount, stability, currency adjustment, stress tests;
- quality assessment of the project's sponsor and its financial potential and will to support the project.

The Bank uses a grouping method that assigns exposure to appropriate risk categories, specifying supervisory values of expected loss (EL) and risk weight.
Assignment of appropriate supervisory categories takes place subsequent to risk assessment of a transaction with application of developed by the Bank internal rating models and transfer function model which transforms scoring assigned in the scope of the above mentioned internal models to supervisory categories.

Retail portfolio obtained in cooperation with mBank S.A.

For the purposes of assessment of reliability of a client applying for a retail loan product secured with mortgage and monitoring/reporting of credit risk for this portfolio, group credit risk models, which the Bank is a local user, are applied. Detailed rules and scope of cooperation between Banks in terms of group risk models are specified by provisions of a separate agreement on cooperation in the scope of risk management. The capital requirement for credit risk for this part of the portfolio is calculated using the standard method, since as at 31 December 2015 it is covered by a plan of gradual implementation.

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

- Loss Given Default (LGD) model. In the model, loss is defined as a function dependent on the level of recovery from clients' own payments and possible value of collateral using real estate collected during enforcement procedures,
- Credit Conversion Factor (CCF) model. This factor is an integral part of the EAD model (CCF as a degree of implementation of off-balance sheet liabilities by the client on the day of default occurrence),
- probability of default model (PD) which is a modular model that integrates application and behavioural models as well as models based on external data from Credit Information Bureau (BIK), functioning in the area of retail banking.

Additional Information.

Ratings assigned by external rating agencies have very limited significance in the credit risk assessment of the Bank due to dominating organisational form of borrowers - special purpose companies.

Risk weighted exposure amounts for credit risk calculated using internal ratings method are presented in Note 45.

Assessment of quality of the Bank's loan portfolio is made on the basis of monitoring of timely repayments and monitoring of analysis of economic and financial situation of the borrower.

Loans to natural persons are monitored monthly for timely repayments and regularities in terms of established effective mortgage collaterals. All contractual obligations of the client are realised in the same monitoring period (including insuring of the real estate and assignment of the rights under insurance policies).

Commercial and public sector portfolio is monitored monthly for timely repayments, while the economic and financial situation is monitored quarterly or semi-annually depending on risk assessment of a transaction measured with obtained amount of points in the rating model. Additionally, the implementation of investment and settlement with contractors is also subject to monthly monitoring - in case of financing of a construction.

As presented in note 3.1.5., 94.57% of gross value of loans and advances granted to clients are not overdue loans, without identified impairment. Remaining 5.43% of the loan portfolio value are overdue loans without identified impairment (2.7%) and loans with identified impairment (2.73%).

3.1.3. Loss of value measurement

The Bank measures the loss of value of credit exposures in accordance with International Accounting Standard no. 39.

For the purposes of loss of value analysis four portfolios are distinguished in the Bank:

- commercial portfolio,
- public sector portfolio,
- retail portfolio obtained in cooperation with mBank S.A. and
- portfolio of other retail loans.

Commercial portfolio is divided into two sub-portfolios, distinguishing commercial loans (developer loans, commercial loans and loans to legal persons) and other loans to individual entrepreneurs.

Retail loan portfolio, JST and other retail loans

The Bank assumes the occurrence of a default in relation to a given debtor, if at least one out of three following events took place:

a) deterioration of counterparty/transaction loan quality. The Bank recognises that the debtor probably will not fully fulfil its loan obligations against the Bank, parent entity of the Bank without actions of the Bank, such as implementation of collateral, if such exists,
b) delay in payments for over 90 days. Any of the exposures of a nature of debtor loan obligation against the Bank, parent entity of the Bank is overdue for more than 90 days, provided that:
    - in case of retail exposures the overdue amount exceeds PLN 500,
    - in case of other exposures the overdue amount exceeds PLN 3 000,
c) qualification of an entity to a default situation by the Bank's parent entity.

For a default date the Bank assumes the date of decision on occurrence of a default - on the basis of obtaining of information about hard and soft evidence as well as on the basis of conducted exposure assessment analysis.

The following elements constitute "hard" evidence of failure to fulfil obligation and indicate deterioration of loan quality of a client/transaction in accordance with the above definition:

a) preparation of a loss impairment as a result of significant deterioration of debtor's creditworthiness,

b) sale by the Bank of an exposure with significant economic loss associated with changes in its creditworthiness,
c) the Bank's permission for forced restructuring of loan liability, if it may cause reduction of financial liabilities through amortisation of significant part of the liability or deferring of payment of the principal amount, interests or - if applicable - commission,
d) filing by the Bank a bankruptcy motion against debtor or filing similar motion in respect of loan obligations of the debtor towards the Bank, the parent of the Bank.
e) bankruptcy of debtor or acquiring by him a similar legal protection resulting in his evasion of or delay in repayment of loan obligations towards the Bank, the parent or subsidiary entity of the Bank,
f) fraud of the client (provision of false data at the time of granting of a loan or during its monitoring, credit fraud etc.),
g) termination of an agreement (in whole or in part) and/or initiation of debt collection activities.

Apart from hard evidence, which determine occurrence of default event, the Bank identifies soft evidence. Occurrence of a soft evidence does not automatically cause necessity for classification as a default event. Soft evidences have supplementary nature. These are issues which Bank should additionally consider during analysis of the situation of the borrower and which may indicate its deterioration. If in the Bank's assessment identified soft evidence have significant meaning for a particular case, the Bank should proceed with an assessment whether a default event occurred regardless of lack of hard evidence.

The Bank calculated loss impairments on the basis of individual analysis (commercial or public sector portfolio) and portfolio analysis (retail portfolio and exposures from the commercial or public sector portfolio for which no value loss was identified in the individual analysis).

The process of calculation of impairment losses in the individual analysis consists in:

a) determination of estimated future cash flows (repayments) both from collaterals and payments made by borrowers, including planned costs,
b) in the calculation of difference between balance sheet value of a given asset and current value of estimated profits and costs discounted with effective interest rate,
c) booking of impairment losses.

In case of evidence of loss of value and individual analysis of a given credit exposure, not stating the loss of value, impairment loss is calculated on the basis portfolio parameters analysis.

In case of lack of evidence of the loss of value against credit exposure, on the basis of probability of default, an impairment loss is calculated in the portfolio analysis for the incurred, but not identified losses.

The portfolio analysis covers all retail and commercial loans not covered by the individual analysis. The Bank applies estimated for the purposes of loss of value measurement parameters specifying the rate of healing (ZLGD), indicator of faulty collaterals (BD) and indicator of relationship between recovery and the value of collateral (CCR), as well as individual for each exposure indicator of relationship between a debt and the value of collateral (LTV) used for determination of LGD in the portfolio analysis and additionally parameters PD and LIP. The Bank assumes that LIP amounts to 8 months for the commercial loan portfolio and 12 months for retail loans. PD parameter is currently determined using 3 year time series. LGD parameter is estimated on the basis of data from 2009, selection of the scope of data is made in order to ensure adequacy of estimation of the amount of impairment losses to current economic conditions. Each of separated portfolios has its own set of ZLGD, BD, CRR and PD parameters.

In June 2015, the Bank revised the methodology for measuring value impairment, including extending the LIP parameter from 6 months to 8 months for the portfolio of commercial loans and 12 months for retail loans, setting the PD parameter was extended from 18 months to a 3-year time series.

In case of assets for which a loss of value was identified, the Bank executes stricter monitoring, e.g. revaluation of the mortgage lending value of the property constituting collateral of a loan.

for 2015 (in PLN thousand)

Retail portfolio obtained in cooperation with mBank S.A.

In case of the retail portfolio obtained in cooperation with mBank S.A., it is assumed that there is an evidence of loss of value of a retail exposure, when a natural person obliged due to a given product is in default state, which means:

a) that the overdue of at least one loan liability of the debtor is maintained for a period exceeding 90 days and the total amount of overdue on all loan exposures of the debtor (overdue by over 31 days) exceeds PLN 500,
b) one of the client's transactions is subject to restructuring,
c) loan claim is sold with significant economic credit loss,
d) the Bank submits a motion to commence execution proceedings, bankruptcy or recovery proceedings (resulting with possible omission or delay in repayment) by the debtor,
e) loss impairment was made as a result of significant deterioration of the client's creditworthiness,

Gross balance sheet value of the retail portfolio obtained in cooperation with mBank S.A. as at 31 December 2015 amounted to PLN 2 569 974 thousand (as at 31 December 2014 it was PLN 784 440 thousand).

Calculation of impairment losses on balance sheet credit exposures and reserves on off-balance sheet credit exposures in parameters based on risk determined using methodology applied for the purposes of advanced method of external ratings (AIRB) after necessary elimination of differences between approach resulting from AIRB and MSR 39.

3.1.4. Maximum exposure to credit risk - before consideration of taken collaterals

At the end of 2015 and 2014, the Bank did not hold any assets which maximum exposure to credit risk would differ from the balance sheet value.

The Bank applies a system of control and maintenance of the Bank's credit risk. 94.57% of the loan portfolio and advances to customers and 100% receivables from banks belong to the category of receivables serviced in a timely manner for which no impairment was identified (31 December 2014 respectively: 92.17% and 100%).

Maximum exposure to credit risk - financial effect of collaterals

The tables below present financial effect of held collaterals, that is the degree in which a collateral limits credit risk.

As at 31 December 2015	Gross amount	Established impairment write-downs	Impairment write-downs without the collateral cash flows	Financial effect of collaterals
Balance sheet data				
Amounts due from other banks	**205 180**	**-**	**-**	**-**
Loans and advances to clients, including:	**7 489 132**	**(97 389)**	**(182 824)**	**85 435**
Corporate clients	4 701 272	(94 546)	(173 827)	79 281
Individual clients	2 641 448	(2 799)	(8 953)	6 154
Public sector clients	146 317	(44)	(44)	-
Other receivables	95	-	-	-
Total balance sheet data	**7 694 312**	**(97 389)**	**(182 824)**	**85 435**
Off-balance sheet data				
Loan commitments	979 967	(18)	(35)	17
Total off-balance sheet data	**979 967**	**(18)**	**(35)**	**17**

As at 31 December 2014	Gross amount	Established impairment write-downs	Impairment write-downs without the collateral cash flows	Financial effect of collaterals
Balance sheet data				
Amounts due from other banks	**30 972**	**-**	**-**	**-**
Loans and advances to clients, including:	**5 413 440**	**(87 699)**	**(203 483)**	**115 784**
Corporate clients	4 375 564	(85 356)	(196 144)	110 788
Individual clients	862 951	(2 291)	(7 287)	4 996
Public sector clients	174 925	(52)	(52)	-
Total balance sheet data	**5 444 412**	**(87 699)**	**(203 483)**	**115 784**
Off-balance sheet data				
Loan commitments	1 076 968	(1)	(5)	4
Total off-balance sheet data	**1 076 968**	**(1)**	**(5)**	**4**

3.1.5. Loans and advances to clients and banks

Loans and advances to clients	31.12.2015		31.12.2014	
	exposure (PLN `000)	share/coverage (%)	exposure (PLN `000)	share/coverage (%)
Not overdue, without impairment recognised	7 082 378	94.57	4 989 802	92.17
Overdue, without impairment recognised	202 459	2.70	238 774	4.41
Items with impairment recognised	204 295	2.73	184 864	3.42
Total gross	**7 489 132**	**100.00**	**5 413 440**	**100.00**
Impairment write-down on loans not overdue, without impairment recognised	(13 650)	0.18	(8 214)	0.15
Impairment write-down on loans overdue, without impairment recognised	(688)	0.01	(487)	0.01
Impairment write-down on loans with impairment recognised	(83 051)	1.11	(78 998)	1.46
Total impairment write-down	**(97 389)**	**1.30**	**(87 699)**	**1.62**
Total net	**7 391 743**	**98.70**	**5 325 741**	**98.38**

The following table contains receivables from banks:

Amounts due from other banks	31.12.2015		31.12.2014	
	exposure (PLN `000)	share/coverage (%)	exposure (PLN `000)	share/coverage (%)
Not overdue, without impairment recognised	205 180	100.00	30 972	100.00
Total gross	**205 180**	**100.00**	**30 972**	**100.00**
Total net	**205 180**	**100.00**	**30 972**	**100.00**

There are no overdue receivables or receivables with identified loss of value in the Bank.

for 2015 (in PLN thousand)

Loans and advances past due but not impaired

Gross amounts of loans and advances not past due and not impaired according to the rating are presented below.

	score from internal models 31.12.2015		31.12.2015	score from internal models 31.12.2014		31.12.2014
	[SCOREmin	SCOREmax)		[SCOREmin	SCOREmax)	
Exposures permanently exempted from the IRB approach	no rating	no rating	498 212	no rating	no rating	580 153
Exposures temporarily exempted from the IRB approach — retail portfolio acquired in cooperation with mBank S.A.	-	-	2 550 076	-	-	780 380
Exposures subject to the IRB approach — specialised lending, including	-	-	4 034 090	-	-	3 629 269
- supervisory category 1	45	54	8 813	48	54	5 642
- supervisory category 2	24	45	3 562 921	26	48	3 132 300
- supervisory category 3	12	24	338 330	12	26	433 326
- supervisory category 4	1	12	7 957	1	12	5 787
- supervisory category 5	default	default	116 069	default	default	52 214
Total			**7 082 378**			**4 989 802**

For the calculation of capital requirement for credit risk the Bank applies method of internal ratings with application of supervisory approach in terms of assignment of risk categories to exposure for specialised lending. Assignment to appropriate supervisory category takes place after risk assessment of a transaction using developed by the Bank internal rating models and the transfer function model which transforms scoring assigned in the scope of given internal models to supervisory categories. Particular supervisory categories listed in the table above specify supervisory risk weights and expected losses.

On the basis of annual review of the transfer function, on 1 April 2015 changes were introduced to the transfer map - the threshold between supervisory category 1 and supervisory category 2 was lowered from 48 to 45 points, and from 26 to 24 points in case of supervisory category 2 and supervisory category 3. The review was conducted on the basis of updated sample and methodology of the transfer function structure. Change of the limits of the transfer function mapping did not significantly influence the capital requirement determined in accordance with internal rating model.

Gross amounts of loans and advances not past due and not impaired divided into client class are presented below.

	31.12.2015	31.12.2014
Corporate clients	4 322 972	3 965 062
Individual clients	2 612 994	849 815
Public sector clients	146 317	174 925
Other receivables	95	-
Total clients	**7 082 378**	**4 989 802**
Banks	205 180	30 972
Total	**7 287 558**	**5 020 774**

Quality assessment of loans and advances not past due and not impaired

	31.12.2015	31.12.2014
Loans and advances with limited credit risk	361 058	420 687
Loans and advances with standard credit risk	6 605 066	4 516 901
Loans and advances with increased credit risk	116 254	52 214
Total	**7 082 378**	**4 989 802**

In the portfolio of loan and advances of limited credit risk the Bank includes loans and advances granted to public sector clients and corporate clients whose basic legal collateral is guarantee or guarantee of local government units. Additionally, the Bank in this category includes receivables

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submitted to the clearing house of deposits securing derivative instruments through a central counterparty. In the portfolio of loans and advances of standard credit risk the Bank includes loans and advances granted to individual and corporate clients whose basic collateral is a mortgage established on real estates for which no evidence of loss of value was found.
In the portfolio of loans and advances of increased credit risk the Bank includes loans and advances granted to corporate clients in case of whom there is evidence of loss of value, but the Bank does not recognise the loss of value due to expected recovery of credit exposure in the full amount.

Loan quality assessment of derivative financial instruments

	31.12.2015	31.12.2014
Derivatives with limited credit risk	32 212	37 291
Total	**32 212**	**37 291**

All transactions on derivative financial instruments (excluding FX SPOT transactions), as at 31 December 2015 and 31 December 2014 were transactions originally concluded with mBank S.A., therefore, the Bank assesses that the credit risk associated with those instruments is limited. One IRS transaction concluded in October 2015 originally with mBank S.A. is cleared centrally by London Clearing House (LCH) via clearing broker, i.e. Commerzbank A.G.

Loans and advances past due but not impaired

The exposures against clients and banks, for whom at least one receivable is past due by one or more days, are assumed as past due exposures. Whereby, in case of portfolio granted in cooperation with mBank S.A., the past due exposure is an exposure on delayed contracts (by one or more days). No impairment is recognised in respect of loans and advances past due for less than 90 days, unless other available information indicates their impairment. In rare cases for loans and advances overdue by over 90 days, the Bank does not recognise impairment if there is particular evidence demonstrating lack of impairment of those loans and advances.

Gross amounts of loans and advances which were overdue, but for which no impairment was recognised, divided into client classes, are presented below.

Overdue loans and advances without impairment recognised (31 December 2015)	Corporate clients	Individual clients	Public sector clients	Total clients
up to 30 days	148 326	19 996	-	168 322
from 31 to 60 days	-	1 861	-	1 861
from 61 to 90 days	16 240	708	-	16 948
more than 90 days	15 183	145	-	15 328
Total	**179 749**	**22 710**	**-**	**202 459**

Overdue loans and advances without impairment recognised (31 December 2014)	Corporate clients	Individual clients	Public sector clients	Total clients
up to 30 days	180 581	6 314	-	186 895
from 31 to 60 days	-	172	-	172
from 61 to 90 days	624	467	-	1 091
more than 90 days	50 616	-	-	50 616
Total	**231 821**	**6 953**	**-**	**238 774**

for 2015 (in PLN thousand)

Loans and advances individually impaired

Gross amounts of loans and advances individually impaired (before taking into consideration the cash flows from collateral held) are presented below by classes of assets.

Loans and advances individually impaired	Corporate clients	Individual clients	Total clients
31 December 2015 r.			
Impaired loans and advances (gross amount)	198 551	5 744	204 295
Estimated recovery from contributions and collaterals	**117 167**	**3 969**	**121 136**
Impairment write-downs	**81 276**	**1 775**	**83 051**
The mortgage lending value of the property constituting collateral for loans	**265 800**	**16 196**	**281 996**
31 December 2014 r.			
Impaired loans and advances (gross amount)	178 681	6 183	184 864
Estimated recovery from contributions and collaterals	**101 531**	**3 944**	**105 475**
Impairment write-downs	**77 074**	**1 924**	**78 998**
The mortgage lending value of the property constituting collateral for loans	**247 962**	**16 506**	**264 468**

In 2015, as in 2014, the Bank did not recognise impairment of any exposures against banks.

Factors analysed in the recognition of impairment of loans indicated in the table above are all evidences of loss of value recognised by the Bank, including e.g. significant financial difficulties and breach of agreement, i.e. failure to pay interests or capital part of liability.

The basic legal collateral of loans granted to the Bank's clients is a mortgage established for the Bank as the first item in the land register held for the real estate.
Value of the real estate that constitutes collateral of a loan granted by the Bank is estimated on the basis of so called the mortgage lending value of the property, concept assuming long-term maintenance of value by a real estate.

In case of adverse changes in the value of collaterals, the Bank verifies them through re-running of valuation of the real estate. Depending on effects of the valuation, as a principle the Bank negotiates with the borrower in accordance with concluded loan agreement:

a) establishing of additional collateral,
b) change of collateral,
c) making of one-off repayment of the debt to the LTV level accepted by the Bank,
d) renegotiation of the conditions of the agreement.

As a result of analysis of valuation the Bank updates estimated amount of recovery from own contributions and from collaterals as well as creates an impairment loss.

Failure to reach an agreement may cause partial or full termination of agreement, if the economic and financial situation of the borrower show permanent deterioration.

The Bank has emergency plan in case of unexpected, radical changes in prices on the real estate market.

Additionally, in the above tables in the mortgage lending value of the property constituting collateral for loans, the Bank presented current value of accepted collaterals, not adjusted against decreasing value of credit exposure. The mortgage lending value of the property that constitute collateral of loans granted by the Bank exceeds the value of exposure, thus in case of occurrence of additional receivables associated with exposures, e.g. additional execution costs etc., the Bank will be able to satisfy its claims.

The mortgage lending value of the property is established for the purposes of the Bank and constitutes a value which in the Bank's opinion reflects the level of risk associated with a real estate as the subject of collateral of granted loans. The mortgage lending value of the property includes in particular only those features of the real estate and associated with it profits which with the assumption of rational exploitation have a permanent nature, and which can be obtained by every owner of this real estate.

for 2015 (in PLN thousand)

3.1.6. Repossessed collateral

The Bank may acquire a real estate of the debtor of the Bank on which mortgage that secures the repayment of loan was established in exchange for cancellation of the loan liability or part thereof resulting from the loan agreement, directly to its assets.

The Bank repossesses real estates of the debtor that constitute subject of mortgage collateral of repayment of liabilities arising from loan agreement or other real estates indicated by the Bank's debtor and accepted by the Bank as a subject of repossession.

The Bank is obliged to take measures aimed at sale of repossessed real estate or part thereof immediately after its purchase/repossession.

The decision regarding the strategy of sale of repossessed/purchased by the Bank real estate or part thereof and its procedure is taken by the Management Board of the Bank.

In 2015 the Bank did not take over any collaterals. Reduction of value of inventories is associated with the sale of residential premises situated in the repossessed real estate in the previous years.

Change of status of repossessed collaterals

	Period from 01.01.2015 to 31.12.2015	Period from 01.01.2014 to 31.12.2014
As at the beginning of the period	**8 192**	**8 192**
Increase (due to)	166	-
- reversal of impairment write-downs	34	-
- other increase	132	-
Decrease (due to)	(1 590)	-
- sale of real estate	(1 302)	-
- establishment of impairment write-downs	(288)	-
As at the end of the period	**6 768**	**8 192**

3.1.7. The policy of mBank Hipoteczny S.A. in terms of forbearance

The Bank offers forbearance to assist customers, who are temporarily in financial distress and are unable to meet their original contractual repayment terms, through agreements with less restrictive terms of repayment, without which financial difficulties would prevent satisfactory repayment under the original terms and conditions of the contract.

Changes to these agreements may be initiated by the customer or the Bank and include e.g. debt restructuring, new repayments schedule, capital repayments deferrals with interest repayments kept.

The type of concession offered should be appropriate to the nature and the expected duration of the customer's financial distress. If the customer wants to conclude an agreement it must convince the Bank about its willingness and ability to repay the loan. Prior to granting any concession, an assessment of its impact on improving customer's ability to repay the loan is carried out.

The Bank renegotiates loan agreements with customers in financial difficulties to maximise possibility of receivables repayment and minimise the risk of default.

In case of retail customers, in accordance with the forbearance policy, forborne activities may take on various forms depending on the type and scale of the customer's financial problems. Activities of short-term nature are subject mainly to temporary reduction of the amounts of instalments or increase of capital instalments while maintaining payment of interests. For customers under long term financial distress extension of contractual repayment schedule may be offered by the Bank which can include instalments reduction.

For the corporate clients in financial distress the Bank offers, in accordance with the forbearance policy, a wide range of activities aimed at supporting of the business process, starting from omission of actions to which the Bank is entitled in case of breach of contractual provisions or covenants, and finishing on restructuring of loan agreements. At the same time restructuring agreements may repeal or alleviate additional conditions concluded in the original agreement, if it is an optimum strategy for survival of the customer's business.

for 2015 (in PLN thousand)

The risk of no repayment of the product portfolio subject to the forbearance policy is mitigated with the amount of PLN 612 697 thousand of accepted collaterals (the mortgage lending value of the property that constitute the collateral of the loan), therefore, the possible influence of this portfolio on deterioration of the entire portfolio of the Bank is significantly limited.

The structure of the loan portfolio in the forbearance category in mBank Hipoteczny as at 31 December 2015 is as follows:

Balance sheet data	Gross value	Of which defaulted	write-downs created	Net value
Loans and advances to clients, including:	355 873	163 780	33 957	321 916
Individual clients	353 913	163 780	33 954	319 959
Corporate clients	1 960	-	3	1 957
Total balance sheet data	**355 873**	**163 780**	**33 957**	**321 916**

The structure of the loan portfolio in the forbearance category in mBank Hipoteczny as at 31 December 2014 is as follows:

Balance sheet data	Gross value	Of which defaulted	write-downs created	Net value
Loans and advances to clients, including:	336 133	197 029	35 453	300 680
Individual clients	335 758	197 029	35 452	300 306
Corporate clients	375	-	1	374
Total balance sheet data	**336 133**	**197 029**	**35 453**	**300 680**

The volume of the portfolio of customers to whom the Bank gave a concession remains small compared to the total volume of the Bank's loan portfolio. The share of forbearance portfolio constitutes 4.75% (as at 31.12.2014: 6.2%) of the whole portfolio. The forbearance exposure portfolio in the default category constituted 45.02% of the forbearance portfolio as at 31 December 2015 (58.62% as of 31.12.2014). The exposure portfolio in the default category was covered with write-offs in 20.37% (17.85% as at 31.12.2014). The risk of no repayment of the forbearance portfolio is mitigated with accepted collaterals in a form of mortgages established on a property of the mortgage lending value in the amount of PLN 612 697 thousand (PLN 543 961 thousand as at 31.12.2014), including PLN 250 404 thousand in the default category (PLN 347 529 thousand as at 31.12.2014).

Changes in forbearance exposures carrying value in 2015 and 2014

	Gross value	Of which defaulted	write-downs created	Net value
Balance as at 31 December 2014	**336 133**	**197 029**	**35 453**	**300 680**
Outputs	(21 505)	(21 505)	(917)	(20 588)
Change in exposure	(22 739)	(11 744)	(773)	(21 966)
New forbearance	63 984		194	63 790
Balance as at 31 December 2015	**355 873**	**163 780**	**33 957**	**321 916**

	Gross value	Of which defaulted	write-downs created	Net value
Balance as at 31 December 2013	**226 338**	**219 312**	**41 332**	**185 006**
Outputs	(61 524)	(54 499)	(8 057)	(53 467)
Change in exposure	(16 760)	(16 760)	1 535	(18 295)
New forbearance	188 079	48 976	643	187 436
Balance as at 31 December 2014	**336 133**	**197 029**	**35 453**	**300 680**

for 2015 (in PLN thousand)

Forbearance exposures by type of concession as at 31 December 2015

Type of concession (31 December 2015)	Gross value	Of which defaulted	write-downs created	Net value
Refinancing	25 267	25 267	78	25 189
Modification of terms and conditions	330 606	138 513	33 879	296 727
Total	**355 873**	**163 780**	**33 957**	**321 916**

Forbearance exposures by type of concession as at 31 December 2014

Type of concession (31 December 2014)	Gross value	Of which defaulted	write-downs created	Net value
Refinancing	22 125	22 125	46	22 079
Modification of terms and conditions	314 008	174 904	35 407	278 601
Total	**336 133**	**197 029**	**35 453**	**300 680**

Forbearance exposures without recognised loss impairment per length of overdue period as at 31 December 2015

Forborne exposures without impairment recognised (31 December 2015)	Gross value	Of which defaulted	write-downs created	Net value
Not overdue	224 887	33 128	690	224 197
up to 30 days	334	-	1	333
31 to 90 days	3 377	3 377	10	3 367
more than 90 days	9 639	9 639	30	9 609
Total	**238 237**	**46 144**	**731**	**237 506**

Forbearance exposures without recognised loss impairment per length of overdue period as at 31 December 2014

Forborne exposures without impairment recognised (31 December 2014)	Gross value	Of which defaulted	write-downs created	Net value
Not overdue	175 687	45 963	365	175 322
up to 30 days	17 983	8 603	37	17 946
31 to 90 days	-	-	-	-
more than 90 days	45 571	45 571	88	45 483
Total	**239 241**	**100 137**	**490**	**238 751**

Forbearance exposures with recognised loss impairment per length of overdue period as at 31 December 2015

Forborne exposures with impairment recognised (31 December 2015)	Gross value	Of which defaulted	write-downs created	Net value
Not overdue	35 188	35 188		35 188
up to 30 days	-	-	-	-
31 to 90 days	-	-	-	-
more than 90 days	82 448	82 448	33 226	49 222
Total	**117 636**	**117 636**	**33 226**	**84 410**

Forbearance exposures with recognised loss impairment per length of overdue period as at 31 December 2014

Forborne exposures with impairment recognised (31 December 2014)	Gross value	Of which defaulted	write-downs created	Net value
Not overdue	54 372	54 372	23 537	30 835
up to 30 days	-	-	-	-
31 to 90 days	12 902	12 902	900	12 002
more than 90 days	29 618	29 618	10 526	19 092
Total	**96 892**	**96 892**	**34 963**	**61 929**

for 2015 (in PLN thousand)

Forbearance exposures by industry as at 31 December 2015

As at 31 December 2015	Gross value	Of which defaulted	write-downs created	Net value
Activity related to the real estate market	238 809	91 528	33 708	205 101
Building industry	79 300	72 252	136	79 164
Professional, scientific and technical activity	35 804	-	110	35 694
Natural persons	1 960	-	3	1 957
Total	**355 873**	**163 780**	**33 957**	**321 916**

Forbearance exposures by industry as at 31 December 2014

As at 31 December 2014	Gross value	Of which defaulted	write-downs created	Net value
Activity related to the real estate market	202 689	100 958	34 310	168 379
Building industry	96 071	96 071	1 065	95 006
Professional, scientific and technical activity	36 998	-	77	36 921
Natural persons	375	-	1	374
Total	**336 133**	**197 029**	**35 453**	**300 680**

Interest income related to forbearance exposures at the end of 2015, amounted to PLN 13 380 thousand (for the period ended 31 December 2014: PLN 13 224 thousand).

Retail Banking

The Bank does not consider loans with modified terms as falling under the forbearance policy in the case when changes result from the customer's application and there are no current or anticipated customer's financial difficulties, and, in addition, modifications of the contract meet the criteria of decision-making policy for a healthy portfolio. In the normal course of cooperation with a customer, the customer who is not in financial distress submits application to change the conditions of agreement, for example, in the scope of renegotiation of pricing conditions due to change of market conditions or in order to increase its ability to service another loan. If such application meets all decision criteria and is granted according to market conditions, then such loan is not classified to the forbearance category.

If case when a customer applies for prolongation of the repayment term, reduction of the amount of paid instalments or other alleviation of conditions, when it is caused by financial distress of the customer, modified agreements are treated as forborne products subject to the forbearance policy and are appropriately reported in the financial statement.

Forborne products (forbearance) available in retail banking are offered only to customers who are in financial distress. The type of offered forborne product depends of the scale and nature of the customer's financial distress.

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

- individual repayment schedule,
- maturity extension/ extension of loan duration,
- restructuring,
- Interest deferrals,
- Principal deferrals,

with assumption that the failure to apply changes could result with no repayment of loan and in consequence the loss on the side of the Bank.

Forborne activities of short-term nature are focused on temporary reduction of the amount of instalments and may consist in suspension of repayments of capital with maintaining repayment of interests.

For customers under long term financial distress extension of contractual repayment schedule or refinancing of debt, which can be evidence for classification of the customer to the default category, may be offered.

The necessity to grant another forborne product causes reclassification of the product to non-performing category, and in case of lack of regular servicing, when overdue exceeds 90 days, the customer is reclassified to the default category.

This portfolio is subject to regular reviews and reporting to the management of the Risk Division. The effectiveness of undertaken actions, regularity of restructured transactions' service in respect of types of product and client's segment are subject to assessment.

The Bank ceases to recognise the product as forbearance in the following cases:

- repayment of loan is considered as performing,
- at least 2 years passed since an attempt to recognise exposure as performing, or the contract was in the non-performing category at the moment of granting of a concession,
- there were regular inflows from receivables or interests (delays is payment on the contract not exceeding 31 DPD in significant amount), since at least from the half of the sample,
- no exposure of debtors is overdue by over 31 days at the end of sample period in the amount greater than PLN 500.

The portfolio of products of forbearance status in the retail part as at 31 December 2015 amounted to PLN 1 960 thousand (PLN 375 thousand as at 31.12.2014).

<u>Corporate banking</u>

Credit relationships between the Bank and corporate clients are based on products the granting conditions of which take into account the type of business activity conducted by the client and are subject to negotiations.

Mortgage loans negotiated for commercial reasons, e.g. in cases of significant improvement of the client's financial situation or in order to maintain relationship with a client without difficult credit situation are not treated as forbearance and are not subject to the following disclosure.

Forbearance occurs when, due to current or future financial distress of a client, the Bank grants products on conditions that are below standard conditions applicable in the Bank, which in other circumstances would not be accepted.

The change of conditions is treated as a relief subject to the forbearance policy, when it improves the client's ability to repay the debt or prevents the client's default.

For corporate clients in financial distress the Bank applies a wide range of action aimed at supporting of the Client's business process, wherein the following list of possible restructuring actions subject to the forbearance policy do not exhaust all available actions, but includes the most commonly used:

- loan increase,
- deferral of scheduled repayments,
- extension of the tenor,
- restructuring (medium or long term refinancing),
- capitalization of interest,
- lowering of the Bank's margin,
- granting of a grace period for repayment of capital while maintaining payment of interests,
- Covenant waiver.

The assessment of impairment on the basis of individual analysis is performed in every situation in which any criterion of recognising exposure as default in accordance with methodology applicable in the Bank occurred.

The portfolio of loans classified to the forbearance category in the Bank is subject to particular monitoring by all units participating in the lending process and constant assessment whether any evidence of permanent impairment of the Bank's receivable occurred. Transactions qualified to this category remain in this portfolio and are reported as forbearance for minimum 24 months from the day of granting of a concession (so called trial period). In order to recognise that the client came back to normal category it is necessary that the debt is appropriately serviced and that there is no overdue at the end of the trial period. A client may be removed from the forbearance portfolio before the end of the trial period only in case of complete repayment of the debt.

All loan products granted to a client serviced in the area of restructuring in the scope of the Bad Loans Section in the Credit Risk Department have the forbearance status and are subject to disclosure.

The portfolio of products of forbearance status in the corporate part as at 31 December 2015 amounted to PLN 353 913 thousand (PLN 335 758 thousand as at 31.12.2014).

3.1.8. Debt instruments: investment securities

The value of investment securities as at 31 December 2015 amounted to PLN 748 505 thousand, and as at 31 December 2014 amounted to PLN 735 220 thousand. Debt instruments on both 31 December 2015 and 31 December 2014 had A rating in the scale of Fitch Ratings.

Net balance sheet value of investment securities constituting additional collateral of liabilities for issued mortgage and public sector covered bonds:

- as at 31 December 2015 amounted to PLN 66 343 thousand,
- as at 31 December 2014 amounted to PLN 200 614 thousand

Net balance sheet value of investment securities constituting collateral of liabilities under the guaranteed means protection fund:

- as at 31 December 2015 amounted to PLN 2 070 thousand,
- as at 31 December 2014 amounted to PLN 2 123 thousand

Investment securities on which collateral was established are presented in Note 35.

Both as at 31 December 2015 and 31 December 2014 all investment securities were not past due instruments, without impairment.

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

Risk of geographical concentration

Assets, liabilities and off-balance sheet items are not presented according to geographical areas in the Bank due to insignificance of geographical differentiation of risks. The Bank operates only in the territory of the Republic of Poland.

The risk of concentration of large exposures, the risk of concentration of exposures

Concentration risk is a risk that can significantly influence stability and security of the Bank's actions through failure to perform liability by a single entity, entities related in capital or organisationally as well as through group of entities in case of which the probability of failure to perform this liability depends on common factors.

In the scope of concentration risk management the Bank identifies risk, measures, monitor and report it.

Measurement of concentration risk in the Bank is performed through establishing of the size of an exposure that generates the risk of concentration and relate this amount to established limits resulting from provisions of law and internal limits.
The Bank limits credit risk using internal exposure concentration limits, specified in internal procedures.

While establishing proposal of the level of internal exposure concentration limits, the Bank takes into account the following issues:

a) the macroeconomic situation in the country,
b) situation on the real estate market in the country,
c) situation on financial markets in the country,
d) implementation of credit policy of the Bank in previous years,
e) results of restructuring and debt collection actions of the Bank,
f) information from reliable sources (academic centres) on economic situation of entities, branches, industry sectors, according to the recommendations of Resolution No. 384/2008 KNF,
g) economic and quality information regarding the process of management in entities against which it holds exposure from which the concentration risk results,
h) factors resulting from other types of risk associated with identified exposures from which the risk of concentration arises (e.g. of interest rate, liquidity, operational and political) that may negatively influence an increase of concentration risk,
i) stress test results.

Internal exposure limits are specified in relation to the amount of own funds of the Bank and in relation to the sum of exposures of the Bank.

The Bank conducts monthly reporting of monitored concentration risk in relation to:

a) capital groups monitoring,
b) exposures concentration limit monitoring,
c) large exposures limit monitoring,
d) monitoring of the limit of loans granted to Bank's related entities,
e) internal limits monitoring.

Sector concentration risk

The Bank focuses its activity on granting of loans secured with mortgage established on real estate to legal entities, loans to local government units and loans secured with guarantee or guarantee of local government units. Regardless of external loan concentration limits the Management Board of the Bank establishes internal limits associated with e.g.:

a) industry concentration according to the type of financed real estate,
b) financing of real estates under construction and land purchases,
c) share of the financing of particular types of real estates in the loan portfolio,
d) geographical concentration, currency concentration,
e) type of applied in the Bank interest rates (fixed and variable interest rates),
f) lending period.

As at 31 December 2015 no exceeding of exposure limit against an entity or a group of affiliated clients specified in Art. 395.1 of the CCR Regulation occurred in the Bank.

The assessment of individual credit risk in case of financing of commercial real estates is made on the basis of assessment of borrowers' creditworthiness, credit transaction ratings which include selected quantitative indicators, i.e. debt service coverage ratio (DSCR), interests cover ratio (ISCR), level of own funds, and in case of housing developers the level of benchmark price and quality measures, e.g. the means of project management and identification of default event. Ratings in the Bank cover different segments of specialist financing defined in bank procedures in terms of their distinction as to the type and investment phase. The Bank assesses the risk of credit transactions through risk parameters estimates. In particular the Bank, whose activity is subject to credit risk, before concluding a transaction or over its course - in monitoring mode - conducts risk assessment based on individualised rating systems that were created on the basis of en expert approach.

Credit risk management in financing of commercial real estate also includes: creation of impairment losses for balance sheet credit exposures and write-offs for off-balance sheet credit exposures, indicators of creation and release of write-offs, application of limits, stress tests, scenario analyses, receivables concentration limits monitoring, application of credit collaterals, application of conservative rules of specifying of mortgage lending value of the property, application of statistical models to updating of real estate value.

The table below presents the structure of concentration of balance sheet exposures in particular sectors.

No	Industries	Net carrying amount (PLN '000)	Share in the portfolio (%)	Net carrying amount (PLN '000)	Share in the portfolio (%)
		31.12.2015		31.12.2014	
1.	Natural persons	2 601 184	35.19	818 811	15.37
2.	Activity related to the real estate market	2 581 345	34.92	2 683 891	50.39
3.	Building industry	1 749 932	23.67	1 300 492	24.42
4.	Activity related to culture, entertainment and leisure	191 123	2.58	215 545	4.05
5.	Public administration and defence; Compulsory social security	92 666	1.25	114 284	2.15
6.	Professional, scientific and technical activity	91 245	1.24	101 799	1.91
7.	Health protection and social welfare	55 481	0.75	62 761	1.18
8.	Activity related to accommodation and catering services	14 007	0.19	19 079	0.36
9.	Information and Communication	7 932	0.11	-	-
10.	Water supply; Sewage and waste management and activity related to reclamation	6 367	0.09	8 062	0.15
11.	Other	461	0.01	1 017	0.02
	Total	**7 391 743**	**100.00**	**5 325 741**	**100.00**

3.3. Strategy for use of financial instruments

The Bank in its activity uses financial instruments including also derivative instruments. The Bank accepts deposits from clients and issues covered bonds and bonds. The Bank's liabilities bear both variable and fixed interest rates. The Bank invests raised funds in assets of acceptable level of risk in order to increase interest margin. In order to secure currency risk and interest rate risk the Bank concludes transactions on derivative instruments.

While concluding the above mentioned transactions the Bank maintains the level of liquidity sufficient to settle all arising liabilities.

The Bank applies fair value hedge accounting. The only type of risk hedged in the scope of hedge accounting is the risk of change of interest rates. Result from valuation of hedged item and hedge instruments is presented in the following tables. Collateral is regularly assessed and its high efficiency can be stated. The Bank documents its own assessment of the effectiveness of fair value hedging transactions, measured both prospectively and retrospectively from the time of their designation and throughout the period of duration of the hedging relationship between the hedging instrument and the hedged item.

Description of the hedging relation

The Bank secures the risk of change of fair value of mortgage covered bonds of fixed interest rates issued by the Bank. The hedged risk results from changes in interest rates.

Hedged items

Mortgage covered bonds of nominal value of EUR 124 000 thousand with fixed interest rates are hedged items,

Hedging instruments

Interest Rate Swap transactions which change fixed interest rate into variable interest rate constitute hedging instruments.

Presentation of the result from hedged and hedging transactions

Fair value adjustment of hedged liabilities and valuation of hedging instruments is recognised in the income statement in the result of trade activity excluding profits and interest costs of the interest element of valuation of hedging instruments that are presented in the Interest incomes/costs on derivative instruments item included in the scope of hedging accounting.

The following table presents hedged items as at 31 December 2015. In the following table the nominal value is presented in EUR thousand, while the carrying amount and hedge accounting adjustments related to fair value of hedged items and change of fair value due to hedge accounting in PLN thousand.

Debt financial instruments by type	Nominal value	Intrest on 31.12.2015	Maturity	The carrying amount	Hedge accounting adjustments related to fair value of hedged items	Change of fair value due to hedge accounting
Mortgage covered bonds (EUR)	30 000	2,75%	2020-07-28	127 653	5 028	(754)
Mortgage covered bonds (EUR)	8 000	3,50%	2029-02-28	34 432	3 325	651
Mortgage covered bonds (EUR)	15 000	3,50%	2029-03-15	64 621	6 252	1 225
Mortgage covered bonds (EUR)	20 000	3,20%	2029-05-30	85 281	8 059	1 650
Mortgage covered bonds (EUR)	20 000	1,12%	2018-10-22	85 094	577	(251)
Mortgage covered bonds (EUR)	11 000	1,29%	2025-04-24	46 917	(1 854)	1 855
Mortgage covered bonds (EUR)	20 000	1,14%	2022-02-25	85 241	143	(143)
Total hadge amount				**529 239**	**21 530**	**4 233**

The following table presents hedging items as at 31 December 2015. In the following table the nominal value is presented in EUR thousand, while the fair value and change of fair value due to hedge accounting in PLN thousand.

Derivatives	Nominal value	End of transaction	Fair value of asset	Fair value of liabilities	Change of fair value due to hedge accounting
IRS (EUR)	30 000	2020-07-28	8 646	-	(26)
IRS (EUR)	8 000	2029-02-28	4 566	-	(1 008)
IRS (EUR)	15 000	2029-03-15	8 259	-	(1 890)
IRS (EUR)	20 000	2029-05-30	7 477	-	(2 323)
IRS (EUR)	20 000	2018-10-22	517	-	442
IRS (EUR)	20 000	2022-02-25	-	285	201
IRS (EUR)	11 000	2025-04-24	-	2 084	(2 021)
Total hadge amount			**29 465**	**2 369**	**(6 625)**

The total results of fair value hedge accounting recognised in the income statement in 2015 and 2014

	Year ended 31 December	
	2015	**2014**
Interest income on derivatives concluded under hedge accounting of fair value	5 533	2 806
Net profit on hedged items	4 233	(25 763)
Net profit on hedging instruments	(6 625)	27 287
Total net profit on hedge accounting of fair value	**3 141**	**4 330**

Derivative instruments

The Bank strictly controls open net derivative items, i.e. difference between purchase and sale contracts, both in terms of the nominal value of the contract and the period of validity. The amount subject to credit risk at any time is limited to current fair value of instruments which valuation is positive (i.e. assets), which, in relation to derivative instruments, constitutes only small fraction of value of agreement or nominal values used to express the volume of existing instruments.

Off-balance sheet liabilities of credit nature

Off-balance sheet liabilities of credit nature relate to not used part of granted loans. The Bank reserves the possibility to non-payment of unused part of loan in case of deterioration of the client's creditworthiness. therefore, the probable amount of resulting loss is significantly lower than the entire amount of unused liabilities from loans.
The Bank has organisational solutions that ensure formal and factual separation of credit risk assessment processes from processes of credit decision-making. Credit decisions are taken collectively, according to the decision-making powers, after consideration of recommendation presented by the director of department responsible for the credit risk analysis.

3.4. Market risk

The Bank is exposed to market risk understood as risk of changes of current valuation of financial instruments that constitute the portfolios of the Bank which result from changes in pricing and value of market parameters. Market risk exposure of the Bank results from open items on interest, currency instruments that are exposed to market change of value of appropriate risk factors, and in particular to change of value of interest rates, exchange rates and variability of those risk factors.

The risk profile results from the Bank's operational strategy. The Bank offers products based on variable interest rate, wherein the products based on variable interest rate are preferred. The Bank offers products in foreign currencies EUR and USD. The Bank does not perform operations at its own account for trade purposes, it only has the bank portfolio. The main method of market risk management in the Bank is application of natural security, that is obtaining of funds for financing in currencies and of interest rates directly adjusted to corresponding assets. Due to the nature of the Bank's activity, the exposure to market risk should be maintained at the lowest possible level. The Bank aims to limit the exposure to market risk resulting from the structure of assets and liabilities through concluding hedging transactions, the catalogue of which is approved by the Management Board of the Bank. Identification of market risks and liquidity takes into account internal and external factors. Internal factors include factors such as: the specificity of lending activity and the specificity of refinancing structure. External factors include factors constituting the surroundings of the Bank: interbank market, behaviour of financial markets, strategy and policy of shareholder against the Bank. The market risk is identified in all types of products and types of activities. Widely recognised methods are applied in the process of identification. The Bank specified the level of risk through measurement of the value exposed to risk (Value at Risk - VaR) and through stress tests.

VaR is a statistical measurement of the market risk level which expresses a potential loss to which a portfolio is exposed during specified period of time, for a given level of confidence, in normal market conditions, due to changes of risk factors (exchange rates, interest rates, prices). The potentiality of a loss means that with previously established large probability (confidence level), at which fair value is determined, within a specified time period a loss lower than determined VaR value may be expected.

Value at risk in the Bank is determined using historical simulation method. This method consists in determination of distribution of changes in the value of portfolio on the basis of historical distribution of changes of risk factors, observed over a specified period of time. VaR is determined in one day time horizon on the basis of 254 historical observations and is monitored at confidence level of 97.5%.

As at 31 December 2015, VaR amounted to PLN 100.75 thousand at confidence level of 97.5%. As at 31 December 2014, VaR amounted to PLN 70.5 thousand at confidence level of 99%.

The list below presents the value of average VaR of the Bank during the period from 1 January 2015 until 31 December 2015 and from 1 January 2014 until 31 December 2014.

PLN '000	12 months until 31.12.2015 r.		12 months until 31.12.2014 r.	
	average	maximum	average	maximum
Interest rate risk	26	83	88	195
Currency risk	29	459	35	318
Total VaR	**55**	**455**	**122**	**342**

Stress test and scenario analyses

Stress test is an additional measurement of market risk, supplementing the measurement of value at risk, which shows hypothetical change of current valuation of the Bank's portfolio that would take place as a result of adoption by risk factors of specified extreme values in one day time horizon. The Bank applies e.g. scenario method of large, extremely correlated identical changed in each group, value of risk factors. As at 31 December 2015, the amount of risk resulting from this scenario amounted to PLN 1080 thousand, while the average amount of risk for this scenario in the period from 1 January 2015 until 31 December 2015 amounted to PLN 652 thousand.

Below is a decomposition of amount of risk resulting from described stress test to the amount assigned to interest rate risk and currency risk.

Stress test	31.12.2015			31.12.2014		
	Total	Interest rate risk	Currency risk	Total	Interest rate risk	Currency risk
Amount of risk in PLN '000	1 080	(3 079)	4 159	776	(3 538)	4 314

The Bank measures sensitivity of current value of portfolio of the Bank to parallel shift of yield curve by 100 BP in the negative direction from the point of view of term revaluation gap structure. Revaluation gap presents aggregated capital and interest exposures of the Bank corresponding to particular nodal points of the yield curve. The risk amount of 100 BP is determined as a difference of current value of portfolio calculated on the basis of shock disturbed by 100 BP risk factors values as at the reporting date and current value of portfolio on the basis of risk factors value observed on the reporting date. The amount of 100 BP risk amounted to, as at 31 December 2015, PLN 1 424 thousand, while its average in the period from 1 January 2015 until 31 December 2015 amounted to PLN 632 thousand, as at 31 December 2014 - PLN 1 693 thousand, average in the period from 1 January 2014 until 31 December 2014 - PLN 981 thousand.

for 2015 (in PLN thousand)

3.5. Currency risk

Exchange rate risk results from exposure of current value of exposures of the Bank in assets, liabilities and off-balance sheet items expressed in PLN to adverse effect of changes of market exchange rates.

The Bank is exposed to currency risk to a small degree, as it does not maintain significant currency mismatch of assets and liabilities (currency positions) through adaptation of currency structure of conducted lending action and sources of refinancing as well as closing of open currency positions with derivative contracts (Note 20). The risk of influence of changes of exchange rates to the financial result of the Bank is limited, and existing in the Bank procedures for control and reporting significantly eliminate possibility of its arising. In the scope of currency risk management, the Bank assesses the scale and structure of currency risk only on the basis of current currency position of the Bank. Monitoring also covers currency position including expected repayments and payment of loans that influence currency risk. The Bank manages currency position by performing currency purchase/sale transactions with immediate or future terms and by concluding transaction of the SWAP type.

The following table presents exposures of the Bank to currency risk as at 31 December 2015 and 31 December 2014. The tables bellow present assets and liabilities of the Bank according to balance sheet amount broken down by particular currencies of transactions.

31.12.2015	PLN	EUR	USD	Razem
Assets				
Cash and balances with the central bank	7 521	-	-	**7 521**
Amounts due from other banks	151 612	53 558	10	**205 180**
Derivative financial instruments	2 747	29 465	-	**32 212**
Loans and advances to clients	4 370 961	2 938 032	82 750	**7 391 743**
Investment securities available for sale	748 505	-	-	**748 505**
Intangible assets	8 152	-	-	**8 152**
Tangible fixed assets	7 523	-	-	**7 523**
Deferred income tax assets	7 213	-	-	**7 213**
Current income tax assets	1 597	-	-	**1 597**
Other assets	9 424	55	-	**9 479**
TOTAL ASSETS	**5 315 255**	**3 021 110**	**82 760**	**8 419 125**
Liabilities				
Amounts due to other banks	1 767 064	1 109 762	82 915	**2 959 741**
Derivative financial instruments	1 401	2 369	-	**3 770**
Amounts due to clients	210 818	54 430	261	**265 509**
Debt securities in issue	2 922 239	1 242 663	-	**4 164 902**
Hedge accounting adjustments related to fair value of hedged items	-	21 530	-	**21 530**
Subordinated liabilities	200 899	-	-	**200 899**
Other liabilities and provisions	20 365	73	-	**20 438**
TOTAL LIABILITIES	**5 122 786**	**2 430 827**	**83 176**	**7 636 789**
Net balance sheet position	**192 469**	**590 283**	**(416)**	**782 336**
Loan commitments	**847 706**	**132 261**	**-**	**979 967**

31.12.2014	PLN	EUR	USD	Razem
Assets				
Cash and balances with the central bank	7 669	-	-	**7 669**
Amounts due from other banks	17 596	13 067	309	**30 972**
Derivative financial instruments	3 308	33 983	-	**37 291**
Loans and advances to clients	2 657 009	2 587 260	81 472	**5 325 741**
Investment securities available for sale	735 220	-	-	**735 220**
Intangible assets	5 074	-	-	**5 074**
Tangible fixed assets	7 241	-	-	**7 241**
Deferred income tax assets	11 426	-	-	**11 426**
Current income tax assets	1 002	-	-	**1 002**
Other assets	14 576	114	-	**14 690**
TOTAL ASSETS	**3 460 121**	**2 634 424**	**81 781**	**6 176 326**
Liabilities				
Amounts due to other banks	851 679	1 077 316	51 639	**1 980 634**
Derivative financial instruments	33	6 027	3 382	**9 442**
Amounts due to clients	201 423	48 354	235	**250 012**
Debt securities in issue	2 274 478	897 110	-	**3 171 588**
Hedge accounting adjustments related to fair value of hedged items	-	25 763	-	**25 763**
Subordinated liabilities	100 257	-	-	**100 257**
Other liabilities and provisions	14 089	-	-	**14 089**
TOTAL LIABILITIES	**3 441 959**	**2 054 570**	**55 256**	**5 551 785**
Net balance sheet position	**18 162**	**579 854**	**26 525**	**624 541**
Loan commitments	**811 777**	**265 191**	**-**	**1 076 968**

3.6. Interest rate risk

Interest rate risk is a risk resulting from exposure of current and future financial result and capital of the Bank to adverse impact of changes in interest rates. The Bank manages the interest rate gap through matching of terms of revaluations of assets and liabilities. In case of such mismatch appropriate hedging instruments are applied (IRS derivative instruments, Basic Swap). Derivative transactions to interest rate are concluded exclusively in order to secure positions resulting from lending activity and its financing.

The measure of interest rate risk if revaluation terms mismatch gap and specified on its basis interest income exposed to risk ("EaR").

A sudden change of interest rates by 100 BP for all maturity dates if it had a permanent nature and adverse direction and would cause reduction of annual interest income by:

EaR (in PLN '000)	31.12.2015	31.12.2014
for items expressed in PLN	7 518	4 585
for items expressed in USD	5	3
for items expressed in EUR	312	316

When calculating those values it was assumed that the structure of assets and liabilities recognised in financial statements as at 31 December 2015 and as at 31 December 2014 will not change in the course of next year and that the Bank will not take any action in order to change exposure at risk.

Maintaining of interest rate risk level in 2015 on similar level as in 2014 is a result of current adjustment of revaluation terms of granted loans and corresponding financing sources. Additionally, the Bank concludes hedging transaction of IRS type in order to limit interest rate risk.

The Bank's exposures to interest rate risk are presented below. Data in the table present financial assets and financial liabilities per balance sheet value, sorted according to terms of interest rate change arising from agreement or relates to their maturity.

for 2015 (in PLN thousand)

31.12.2015	Up to 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Non-interest rate items	Total
Assets							
Cash and balances with the central bank	7 521	-	-	-	-	-	**7 521**
Amounts due from other banks	205 180	-	-	-	-	-	**205 180**
Derivative financial instruments	10 450	13 260	8 502	-	-	-	**32 212**
Loans and advances to clients	2 179 467	3 405 846	1 806 284	-	146	-	**7 391 743**
Investment securities available for sale	647 159	-	101 346	-	-	-	**748 505**
TOTAL ASSETS	**3 049 777**	**3 419 106**	**1 916 132**	**-**	**146**	**-**	**8 385 161**
Liabilities							
Amounts due to other banks	969 575	1 663 142	327 024	-	-	-	**2 959 741**
Derivative financial instruments	211	495	3 064	-	-	-	**3 770**
Amounts due to clients	253 134	1 584	8 451	-	-	2 340	**265 509**
Debt securities in issue	809 068	1 350 802	1 475 793	212 747	316 492	-	**4 164 902**
Subordinated liabilities	-	200 899	-	-	-	-	**200 899**
TOTAL LIABILITIES	**2 031 988**	**3 216 922**	**1 814 332**	**212 747**	**316 492**	**2 340**	**7 594 821**
Balance sheet gap	**1 017 789**	**202 184**	**101 800**	**(212 747)**	**(316 346)**	**(2 340)**	**790 340**

31.12.2014	Up to 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Non-interest rate items	Total
Assets							
Cash and balances with the central bank	7 669	-	-	-	-	-	**7 669**
Amounts due from other banks	30 972	-	-	-	-	-	**30 972**
Derivative financial instruments	11 833	15 670	9 788	-	-	-	**37 291**
Loans and advances to clients	2 076 917	1 376 122	1 872 702	-	-	-	**5 325 741**
Investment securities available for sale	479 973	-	204 716	50 531	-	-	**735 220**
TOTAL ASSETS	**2 607 364**	**1 391 792**	**2 087 206**	**50 531**	**-**	**-**	**6 136 893**
Liabilities							
Amounts due to other banks	1 066 319	626 167	288 148	-	-	-	**1 980 634**
Derivative financial instruments	3 806	1 302	4 334	-	-	-	**9 442**
Amounts due to clients	228 358	2 923	16 167	-	-	2 564	**250 012**
Debt securities in issue	1 013 216	536 309	1 225 531	84 999	311 533	-	**3 171 588**
Subordinated liabilities	-	100 257	-	-	-	-	**100 257**
TOTAL LIABILITIES	**2 311 699**	**1 266 958**	**1 534 180**	**84 999**	**311 533**	**2 564**	**5 511 933**
Balance sheet gap	**295 665**	**124 834**	**553 026**	**(34 468)**	**(311 533)**	**(2 564)**	**624 960**

3.7. Liquidity risk

Liquidity risk is a risk of lack of ability to finance assets and timely performance of liabilities in the course of normal activity of the Bank or in other conditions that can be foreseen without the necessity to incur losses.

Strategic objective in terms of liquidity risk management is ensuring the ability of the Bank to timely repayment of liabilities and financing of steadily growing assets and minimisation of impact of this risk to the financial result of the Bank.

The Bank manages liquidity risk in a way ensuring maintenance of current, short-, medium- and long-term liquidity. The Bank specifies rules of identification, measurement, assessment, monitoring and reporting of risk. In terms of market liquidity risk management, the Bank diversifies sources of financing mainly in the scope of cooperation with mBank S.A. The Bank finances long-term assets with mortgage and public sector covered bonds of long maturity date in the first place, with long-term deposits in the second place, and satisfies the current demand for financial resources on the interbank market and through issuing of short-term bonds, accepting of deposits from clients and servicing of clients' current accounts.

The Bank has emergency plan in case of liquidity crisis The plan specifies cases of crisis situations that cause risk of liquidity loss or arising of another hazard for currency and interest risk management, identifies reserve funding sources of the Bank, indicates general procedures for the Bank in crisis situations.

The Bank ensures immediate and current payment liquidity through maintaining of liquidity portfolio consisting in instruments that can be quickly liquefied.

Current and short-term payment liquidity are monitored using liquidity ratios appropriately up to 1 week and 1 month. Additionally, the Bank limits the size of exposure in the scope of cumulated liquidity gap in periods of up to 1 month, 3 months, 6 months, 1 year and 2 years.

for 2015 (in PLN thousand)

In 2015 and 2014, the Bank monitored all liquidity measures specified in the resolution of KNF 386/2008 dated 17 December 2008:

- M1 - short-term liquidity gap,
- M2 - short-term liquidity ratio,
- M3 - coverage ratio of illiquid assets with own funds,
- M4 - coverage ratio of illiquid assets and assets of limited liquidity with own funds and stable external funds.

The table below presents values of liquidity measures M1- M4 and the LCR measure as at 31 December 2015 and their average, minimum and maximum values:

liquidity norm*	value as at 31.12.2015	average	minimum	maximum
M1	PLN 789 930 thousand	PLN 427 569 thousand	PLN 12 101 thousand	PLN 838 726 thousand
M2	3.243	1.767	1.012	3.305
M3	51.754	41.694	37.205	51.754
M4	1.080	1.075	1.039	1.134
LCR	850%	696%	209%	4374%

(*) M2, M3 and M4 are relative measures expressed as decimal fraction

LCR (Liquidity Coverage Ratio) - an indicator of the ratio of the buffer of liquid assets to expected net outflows within 30 calendar days.

In 2015 the LCR measure remained on safe level.

The table below presents values of liquidity measures M1- M4 as at 31 December 2014 and their average, minimum and maximum values:

liquidity norm*	value as at 31.12.2014	average	minimum	maximum
M1	PLN 511 619 thousand	PLN 417 672 thousand	PLN 238 194 thousand	PLN 588 803 thousand
M2	2.610	1.884	1.366	3.101
M3	36.521	31.461	29.130	38.992
M4	1.082	1.082	1.041	1.129

(*) M2, M3 and M4 are relative measures expressed as decimal fraction

In 2015 and 2014 no exceeding of liabilities limit and any form of liquidity took place.

for 2015 (in PLN thousand)

3.7.1. Cash flows from transactions in non-derivative financial instruments

The table below includes not discounted values of cash inflows required to pay or received by the Bank. The cash flows have been presented as at the year-end date, categorised by the remaining contractual maturities. The amounts denominated in foreign currencies were converted to Polish zloty at the average rate of exchange announced by the National Bank of Poland at the year-end date.

Liabilities (by contractual dates of maturity) as at 31 December 2015

	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	Total
Assets (by expected dates of maturity)						
Cash and balances with the central bank	7 521	-	-	-	-	7 521
Amounts due from other banks	205 180	-	-	-	-	205 180
Loans and advances to clients	44 967	124 268	635 368	2 785 839	6 054 391	9 644 833
Investment securities available for sale	471 575	-	103 420	181 693	-	756 688
Total assets	**729 243**	**124 268**	**738 788**	**2 967 532**	**6 054 391**	**10 614 222**
Liabilities (by contractual dates of maturity)						
Amounts due to other banks	266 355	149 726	218 054	1 703 762	828 275	3 166 172
Amounts due to clients	252 642	1 588	8 498	-	-	262 728
Debt securities in issue	5 958	15 659	529 447	2 461 120	1 644 095	4 656 279
Subordinated liabilities	-	3 021	7 873	41 829	236 662	289 385
Total liabilities	**524 955**	**169 994**	**763 872**	**4 206 711**	**2 709 032**	**8 374 564**
Net liquidity gap	**204 288**	**(45 726)**	**(25 084)**	**(1 239 179)**	**3 345 359**	**2 239 658**

Liabilities (by contractual dates of maturity) as at 31 December 2014

	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	Total
Assets (by expected dates of maturity)						
Cash and balances with the central bank	7 809	-	-	-	-	7 809
Amounts due from other banks	30 972	-	-	-	-	30 972
Loans and advances to clients	53 225	84 591	424 144	2 141 354	4 289 126	6 992 440
Investment securities available for sale	480 000	-	208 331	49 345	-	737 676
Total assets	**572 006**	**84 591**	**632 475**	**2 190 699**	**4 289 126**	**7 768 897**
Liabilities (by contractual dates of maturity)						
Amounts due to other banks	131 262	207 200	613 490	1 104 171	-	2 056 123
Amounts due to clients	229 023	2 287	16 307	-	-	247 617
Debt securities in issue	11 154	62 873	568 670	1 997 934	934 252	3 574 883
Subordinated liabilities	-	1 386	4 174	22 270	116 741	144 571
Total liabilities	**371 439**	**273 746**	**1 202 641**	**3 124 375**	**1 050 993**	**6 023 194**
Net liquidity gap	**200 567**	**(189 155)**	**(570 166)**	**(933 676)**	**3 238 133**	**1 745 703**

The amounts disclosed in maturity dates analysis are undiscounted contractual cash flows.

3.7.2. Cash flows from transactions in non-derivative financial instruments

Derivative financial instruments settled in net amounts

Derivative financial instruments settled by the Bank on the net basis include interest rate swap contracts (IRS).

for 2015 (in PLN thousand)

The following table presents derivative financial liabilities of the Bank which will be settled on the net basis, broken down by particular maturity dates as at balance sheet date. The amount in foreign currencies has been converted to PLN according to average exchange rate of NBP from balance sheet date. Amounts recognised in the table are not discounted contractual cash outflows.

31.12.2015

Derivative financial instruments to be settled on a net basis	within 1 month	from 1 to 3 months	from 3 months to 1 year	from 1 to 5 years	over 5 years	Total
Interest rates swaps (IRS)	(304)	2 767	4 391	19 529	1 061	**27 444**
Total net valuation	**(304)**	**2 767**	**4 391**	**19 529**	**1 061**	**27 444**

31.12.2014

Derivative financial instruments to be settled on a net basis	within 1 month	from 1 to 3 months	from 3 months to 1 year	from 1 to 5 years	over 5 years	Total
Interest rates swaps (IRS)	-	770	(857)	132	-	**45**
Total net valuation	**-**	**770**	**(857)**	**132**	**-**	**45**

Derivative financial instruments settled in gross amounts

Derivative financial instruments settled by the Bank on the gross basis include the following currency financial instruments: SWAP currency contracts on the date of SPOT and FORWARD currency.

The table below presents derivative financial instruments of the Bank which will be settled on the net basis, broken down by particular maturity periods as at balance sheet date. The amounts in foreign currencies have been converted to PLN according to average exchange rate of NBP as at balance sheet date.

31.12.2015

Derivative financial instruments to be settled on a gross basis	within 1 month	from 1 to 3 months	from 3 months to 1 year	Total
Currency SWAP contracts:				
- outflows	102 276	117 191	387 797	**607 264**
- inflows	103 473	117 842	389 715	**611 030**

31.12.2014

Derivative financial instruments to be settled on a gross basis	within 1 month	from 1 to 3 months	from 3 months to 1 year	Total
Currency SWAP contracts:				
- outflows	111 434	115 082	396 394	**622 910**
- inflows	107 398	113 122	391 270	**611 790**

4. Fair value of financial assets and liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value measurement assumes that the transaction of selling the asset or transferring a liability occurs either:

- on the main market of a given element of assets or liability,
- in the absence of a main market, for the most advantageous market for the asset or liability.

The main and the most advantageous markets must be both available to the Bank.

Following market practices the Bank values open positions in financial instruments using either the mark-to-market approach or is applying pricing models well established in market practice (mark-to- model method) which use as inputs market prices or market parameters, and in few cases parameters estimated internally by the Bank. All significant open positions in derivatives (currency or interest rates) are valued by marked-to-model using prices or parameters observable in the market.

The following sections present key assumptions and methods used by the Bank for estimation of the fair values of financial instruments.

<u>Loans and advances to banks</u>

The Bank assumed that the fair value of deposits of variable interest rates and deposits of fixed interest rates below 1 year is their carrying value. The Bank does not hold deposits opened for a period longer than 1 year.

Receivables from banks are presented on the level 3 in the fair value hierarchy.

<u>Receivables due to loans and advances granted to clients</u>

The fair value for loans and advances to customers is disclosed as the present value of future cash flows using current interest rates including margins for credit risk and real payment terms resulting from loan agreements. The level of credit margins has been determined on the basis of market quotations of credit margins median for Moody's rating system. Attribution of a credit margin to a given credit exposure took place as a result of mapping of the Moody's rating system with the internal rating system of the Bank. In order to reflect the fact that the majority of exposures of the Bank is secured while the median of market quotations is concentrated around unsecured issues, the Bank made adjustments in this respect.

Receivables due to loans and advances granted to clients are presented on the level 3 in the hierarchy of fair value.

<u>Investment securities available for sale</u>

During initial recognition in books the fair value of payment are reported. Costs of transaction are included in valuation of initial value using effective interest rate method. On the balance sheet day, the Bank valuates debt security listed on stock exchange or for which there is an active market according to the fair value (current market price), the valuation is made on the basis of the closing price of the session.

Any increases or loss of values are accounted for the day of valuation, i.e. at the end of a month, separately for each type of securities. Securities in the Bank's portfolio of the same issuer, of the same series, and purchased in different periods and at different prices are sold by the Bank using the FIFO principle - outflow of securities takes place in the order of their purchase.

Financial instruments representing liabilities include the following:

- fund on current accounts,
- loans received,
- other financial liabilities with deferred payment term,
- subordinated loans received,
- deposits,
- liabilities due to issued by the Bank covered bonds and bonds.

The Bank does not hold financial instruments on the side of liabilities of fixed interest rate of above 1 year apart from liabilities due to covered bonds issued by the Bank.

The Bank assumed that the fair value of liabilities arising from funds on current accounts, received loans, other financial liabilities with deferred payment term, received subordinated loan, deposits of variable interest rate or fixed interest rate, but below 1 year is equal to their carrying value.

Those liabilities are presented on the level 3 in the fair value hierarchy.

<u>Liabilities arising from issuing of securities (covered bonds and bonds)</u>

The Bank estimated fair value for issued covered bonds and unsecured corporate bonds of high rating using credit spread. For trenches subject to secondary trade issued so far it was assumed that the value of credit spread is the same as for issuing on the primary market with the same period until maturity. Clean price of particular trenches of covered bonds in trade was estimated taking into account the period remaining until maturity, value of expected credit spread for issuing on secondary market and quotations from swap curve.

for 2015 (in PLN thousand)

Liabilities arising from issuing of debt securities are presented on the level 3 in the hierarchy of fair value.

The following table presents a summary carrying values and fair values for each group of financial assets and liabilities not recognised in the statement of financial position of the Bank at their fair values.

Financial assets and liabilities	31.12.2015		31.12.2014	
	Carrying value	Fair value	Carrying value	Fair value
Financial assets				
Cash and balances with the central bank	**7 521**	**7 521**	**7 669**	**7 669**
Amounts due from other banks	**205 180**	**205 180**	**30 972**	**30 972**
Loans and advances to clients, including:	**7 391 743**	**7 542 198**	**5 325 741**	**5 384 068**
Corporate clients	4 606 821	4 648 842	4 290 209	4 339 196
Individual clients	2 638 649	2 742 969	860 660	868 451
Public sector clients	146 273	150 387	174 872	176 421
Total financial assets	**7 604 444**	**7 754 899**	**5 364 382**	**5 422 709**
Financial liabilities				
Amounts due to other banks	**2 959 741**	**2 959 741**	**1 980 634**	**1 980 634**
Amounts due to clients, including:	**265 509**	**265 509**	**250 012**	**250 012**
Corporate clients	265 364	265 364	249 831	249 831
Individual clients	141	141	161	161
Public sector clients	4	4	20	20
Debt securities in issue	**4 164 902**	**4 186 469**	**3 171 588**	**3 234 445**
Subordinated liabilities	**200 899**	**200 899**	**100 257**	**100 257**
Total financial liabilities	**7 591 051**	**7 612 618**	**5 502 491**	**5 565 348**

The table below presents the fair value hierarchy of financial assets and liabilities measured at fair value in accordance with the assumptions described above, exclusively for disclosure as at 31 December 2015 and 31 December 2014.

31.12.2015	including:	Level 1	Level 2	Level 3
		Prices quoted in active markets	Valuation techniques based on observable market data	Other valuation techniques
VALUATION ONLY FOR PURPOSES OF DISCLOSURE				
Financial assets				
Cash and balances with the central bank	7 521	-	-	7 521
Amounts due from other banks	205 180	-	-	205 180
Loans and advances to clients	7 542 198	-	-	7 542 198
Financial liabilities				
Amounts due to other banks	2 959 741	-	-	2 959 741
Amounts due to clients	265 509	-	-	265 509
Debt securities in issue	4 186 469	-	-	4 186 469
Subordinated liabilities	200 899	-	-	200 899
Total financial assets	**7 754 899**	**-**	**-**	**7 754 899**
Total financial liabilities	**7 612 618**	**-**	**-**	**7 612 618**

for 2015 (in PLN thousand)

31.12.2014	including:	Level 1 Prices quoted in active markets	Level 2 Valuation techniques based on observable market data	Level 3 Other valuation techniques
VALUATION ONLY FOR PURPOSES OF DISCLOSURE				
Financial assets				
Cash and balances with the central bank	7 669	-	-	7 669
Amounts due from other banks	30 972	-	-	30 972
Loans and advances to clients	5 384 068	-	-	5 384 068
Financial liabilities				
Amounts due to other banks	1 980 634	-	-	1 980 634
Amounts due to clients	250 012	-	-	250 012
Debt securities in issue	3 234 445	-	-	3 234 445
Subordinated liabilities	100 257	-	-	100 257
Total financial assets	**5 422 709**	**-**	**-**	**5 422 709**
Total financial liabilities	**5 565 348**	**-**	**-**	**5 565 348**

The following table presents the hierarchy of fair values of financial assets and liabilities recognised in the statement of financial position of the Bank according to their fair values.

31.12.2015	including:	Level 1 Prices quoted in active markets	Level 2 Valuation techniques based on observable market data	Level 3 Other valuation techniques
RECURRING FAIR VALUE MEASUREMENTS				
FINANCIAL ASSETS				
Investment securities available for sale, including:	**748 505**	**278 642**	**469 863**	**-**
- Treasury bonds	278 642	278 642	-	-
- Money bills	469 863	-	469 863	-
Derivative financial instruments, including:	**32 212**	**-**	**32 212**	**-**
- Interest-bearing instruments	29 995	-	29 995	-
- Foreign exchange instruments	2 217	-	2 217	-
TOTAL FINANCIAL ASSETS	**780 717**	**278 642**	**502 075**	**-**

31.12.2015	including:	Level 1 Prices quoted in active markets	Level 2 Valuation techniques based on observable market data	Level 3 Other valuation techniques
FINANCIAL LIABILITIES				
Derivative financial instruments	**3 770**	**-**	**3 770**	**-**
Interest-bearing instruments	2 369	-	2 369	-
Foreign exchange instruments	1 401	-	1 401	-
TOTAL FINANCIAL LIABILITIES	**3 770**	**-**	**3 770**	**-**
RECURRING FAIR VALUE MEASUREMENTS				
TOTAL FINANCIAL ASSETS	**780 717**	**278 642**	**502 075**	-
TOTAL FINANCIAL LIABILITIES	**3 770**	**-**	**3 770**	-

for 2015 (in PLN thousand)

31.12.2014	including:	Level 1 Prices quoted in active markets	Level 2 Valuation techniques based on observable market data	Level 3 Other valuation techniques
RECURRING FAIR VALUE MEASUREMENTS				
FINANCIAL ASSETS				
Investment securities available for sale, including:	**735 220**	**255 246**	**479 974**	**-**
- Treasury bonds	255 246	255 246	-	-
- Money bills	479 974	-	479 974	-
Derivative financial instruments	**37 291**	**-**	**37 291**	**-**
- Interest-bearing instruments	37 125	-	37 125	-
- Foreign exchange instruments	166	-	166	-
TOTAL FINANCIAL ASSETS	**772 511**	**255 246**	**517 265**	**-**

31.12.2014	including:	Level 1 Prices quoted in active markets	Level 2 Valuation techniques based on observable market data	Level 3 Other valuation techniques
FINANCIAL LIABILITIES				
Derivative financial instruments	**9 442**	**-**	**9 442**	**-**
Interest-bearing instruments	77	-	77	-
Foreign exchange instruments	9 365	-	9 365	-
Total financial liabilities	**9 442**	**-**	**9 442**	**-**
RECURRING FAIR VALUE MEASUREMENTS				
TOTAL FINANCIAL ASSETS	**772 511**	**255 246**	**517 265**	-
TOTAL FINANCIAL LIABILITIES	**9 442**	**-**	**9 442**	-

With regard to financial instruments valuated in repetitive way to the fair value classified as level 1 and 2 in hierarchy of fair value, any cases in which transfer between these levels may occur, are monitored by appropriate departments of the Bank on the basis of internal rules.

In the reporting period there were no changes of classification of elements of statement of financial position in the fair value hierarchy.

5. Major estimates and assessments made in connection with the application of accounting principles

The Bank applies estimates and adopts assumptions which impact the values of assets and liabilities presented in the subsequent period. Estimates and assumptions, which are continuously subject to assessment, rely on historical experience and other factors, including expectations concerning future events, which seem justified under the given circumstances.

<u>Impairment of loans and advances</u>

The Bank reviews its loan portfolio in terms of possible impairments at least once per quarter. In order to establish whether the impairment should be reported in the income statement, the Bank assesses whether there are any evidence indicating possible to measure decrease of estimated future cash flows arising from granted loans and advances. If there is objective evidence of impairment of loan, the amount of impairment is calculated as a difference between balance sheet value for a given element of asset and current value of estimated future cash flows (with exclusion of future impairments due to outstanding loans that were no incurred yet), discounted according to original effective interest rate of a given element of financial assets. The rules of impairment measurement are presented in Note 3.1.3.

<u>Impairment of non-financial assets - inventories</u>

Impairment losses of acquired real estates are calculated in semi-annual and annual periods. Calculation of an impairment loss in comparison to sale prices of real estates (apartments) of comparable market in the last half-year/year to the purchase prices of concerned real estates (apartments). Loss on sale is an evidence for estimation of loss impairment of the value of unsold real estate properties for relevant location / relevant project.

Deferred tax assets

The Bank activates accumulated impairment losses on loans in deferred tax in case of occurrence of events allowing for prima facie evidence of irrecoverability of loans in accordance with applicable tax regulations, including as an effect of debt collection activities.

Liabilities due to post-employment employee benefits

The costs of post-employment employee benefits are determined using an actuarial valuation. The actuarial valuation involves making assumptions about discount rates, future salary increases, mortality rates and other factors. Due to the long–term nature of these liabilities, such estimates are subject to significant uncertainty.

Phantom share-based benefits

The Bank conducts a remuneration program for the Management Board of the Bank and employees having significant influence on the risk profile of the Bank based on phantom shares settled in cash.

The description of the structure of the Program is presented in Note 42.

In accordance with the provisions of IAS 19 to determine the present value of liabilities for employee benefits the method of projected unit credit was applied.
The amount of bonus which the Bank obliges to pay on the basis of Remuneration Policy for employees having significant influence on the Bank's risk profile is the basis for calculation of reserve for deferred part of the variable remuneration for entitled employees of the Bank.

The final value of the bonus, which constitutes the product of the number of shares, and their expected value on the balance sheet date preceding the implementation of each of deferred trenches is actuarially discounted on the reporting day. The discounted amount is reduced by actuarially discounted amount of annual allocation to the reserve for the same day. The actuarial discount means the product of financial discount and probability of reaching the moment of complete purchase of entitlements to each of deferred trenches by each of participants individually.

Amounts of annual allocations are calculated in accordance with projected unit credit method. The probability referred to above was established using competing risks method, where the three following risks were taken into account: the probability of dismissal from work, risk of total incapacity to work, risk of death.

The value of provision for variable remuneration as at 31 December 2015 amounted to PLN 2 008 thousand, as at 31 December 2014 it amounted to PLN 899.7 thousand.

Fair value of financial instruments

The fair value of financial instruments not listed on active markets is determined by applying valuation techniques. All the models are approved prior to being applied and they are also calibrated in order to assure that the obtained results indeed reflect the actual data and comparable market prices. As far as possible, observable market data originating from an active market are used in the models.

Leasing classification

The Bank makes judgement classifying lease agreements as finance lease or operating lease based on the economic substance of the transaction basing on professional judgment whether substantially all the risk and rewards incidental to ownership of an asset were transferred or not.

Classification for forbearance exposures

In accordance with the Bank's forbearance policy presented under Note 3.1.7, the Bank classifies exposure / customers which are subject to the forbearance policy on the basis of professional judgment.

6. Operating segments

According to the requirement of "management approach", information about operational segments are presented according to principles of internal reporting submitted to the Management Board of the Bank (main body responsible for operational decision-making), which task is to allocate resources to operational segments and assessment of their results.

mBank Hipoteczny S.A. is a specialised mortgage bank that plays a leading role on the commercial real estate financing and issuing of covered bonds market - debt securities through which the Bank finances its loan activities. The Bank's offer is addressed to business entities and institutional clients who invest in purchasing, construction or modernisation of commercial real estates, such as office buildings, shopping centres, hotels, warehouse and distribution spaces, as well as residential apartments and houses, implemented by housing developers. In 2013 the Bank extended the scope of its business with loan activity in the retail area (loans to natural persons - agency model). In 2014 sales of retail loans was supplemented with a pooling model, in the scope of which the Bank acquires mortgage loans granted by mBank that can constitute the basis for issuing of covered bonds. From the end of 2012 the Bank does not finance local government units or other entities with a guarantee of local government units, nevertheless, the Bank owns a historically developed portfolio of loan transactions for this segment, which constitutes a basis for issuing of public sector covered bonds.

Taking into account specialist nature of the Bank's activity, the following operational segments were identified:

- **Loans for refinancing commercial real estates,**
- **Loans to local government units (JST),**
- **Loans to housing developers,**
- **Loans to commercial real estate developers,**
- **Loans for land purchase,**
- **Loans to natural persons,**
- **Loans to natural persons - agency model, pooling**

The classification by business segments is based on client groups and product groups defined by homogenous transaction characteristics. This manner of distribution of areas is consistent with means of sales management.

Loans for refinancing commercial real estates - a basic segment of the Bank's activity which covers loans granted for purchase or refinancing of completed facilities of commercial purpose (office buildings, warehouse, shopping centres, logistic centres, hotels, guest houses, commercial premises etc.).

Loans to local government units (JST) - in this segment the Bank includes loans granted to local government units (municipalities, districts, provinces), as well as loans secured with guarantee or local government units guarantee (commercial companies established by JST, independent public health care institutions).

Loans to housing developers - this segment includes loans granted for financing of housing developer projects (single- and multi-family residential houses intended for sale or rent).

Loans to commercial real estate developers - this segment includes loans granted for financing of commercial developer projects, accordant with the loan policy of the Bank.

Loans for land purchase - in this segment the Bank includes loans granted for financing or refinancing of land purchase for housing developer projects.

Loans to natural persons - in this segment the Bank includes loans granted to natural persons, mainly for housing purposes. Segment of loans to natural persons is a declining segment due to discontinuation of sales in this segment in 2014.

Loans to natural persons - agency model, pooling - in this segment the Bank includes loans granted to natural persons for housing purposes. Loans are granted in PLN and are secured with mortgages. Sales of loans is implemented in the scope of agency agreement through the network of mBank S.A. This segment also includes pooling loans - housing receivables acquired from the parent entity - loans in PLN granted to natural persons for housing purposes, secured with a mortgage.

Non-allocated assets items - in this items all non-loan items of the Bank are presented.

On the basis of above accepted product segmentation, the gross result of particular operational segments is determined, which includes all items of income statement.

The main assumption of the division of segment within income statement is to present profitability of a given segment in the Bank's activity as scrupulously as possible. For this purpose, the Bank assigns all direct incomes at the level of each loan agreement, such as interest incomes, commission incomes, as well as specifies the level of impairment losses. Due to the lack of possibility to allocate liabilities to particular segment groups, the Bank determines segment costs and commission costs according to specified structure described below.

The Bank divides the costs of refinancing to three categories: costs of public sector covered bonds, costs of mortgage covered bonds and averaged costs of remaining sources of refinancing (mainly loans and deposits acquired from mBank S.A.). For each of those categories the average cost of refinancing is calculated on the basis of average margin and averaged states per reporting period of all liabilities included in a given category.

The Bank specifies interest and commission costs for the segment of loans to local government units on the basis of average costs of financing with public sector covered bonds in the reporting period and attributable for this segment part of averaged costs of remaining sources of financing (proportionally to the amount of liability that refinances excess loans to JST over the balance sheet value of issued covered bonds).

The Bank specifies interest and commission costs of other segments on the basis of average mortgage covered bonds costs in the reporting period and averaged costs of remaining sources of financing, proportionally to the share of loans of the segment in the entire loan portfolio excluding loans to JST.

Remaining items of the income statement are divided either through the share of average in the credit exposure year or by the share of average value of risk-weighted assets, in case of administrative and amortisation costs. The Bank does not allocate the income tax to particular segments, therefore, information in the scope of profit/loss is disclosed at the level of pre-tax profit. Information about segments are measured according to identical principles as those presented in the accounting policy.

In 2015 the Bank changed the key of division of particular items of the income statement to particular segments. Main changes consist in application of averages from 12 months of risk-weighted assets states instead of states at the end of period and average states of liabilities as well as average margin during calculation of refinancing costs. Due to this change, comparative data was appropriately converted.

The basic and only division is the division to segments of the activity of the Bank. Due to the fact that the Bank operates only on the territory of Republic of Poland, it does not apply geographical segmentation.

There are no operations between operational segments in the Bank.

The separation of the assets of a segment as well as incomes and costs is done on the basis of internal information prepared at the Bank for the purpose of management accounting. Assets and associated with those assets incomes and costs were assigned to the particular segments of the Bank. The result of the segment takes into account all items of incomes and costs. The Bank's liabilities were not assigned to particular segments due to the fact that such division in not regularly presented to the Management Board of the Bank.

for 2015 (in PLN thousand)

Period from 01.01.2015 to 31.12.2015	Loans for refinancing commercial real estates	Loans to local government units	Loans to housing developers	Loans to commercial real estate developers	Loans for land purchase	Loans to natural persons	Loans to natural persons — agency model, pooling	Total	Income statement
Interest income	133 447	14 491	32 410	14 387	1 502	1 164	58 915	256 317	256 317
Interest expense	(57 073)	(14 659)	(13 755)	(6 934)	(571)	(1 102)	(51 461)	(145 555)	(145 555)
Net interest income	**76 375**	**(169)**	**18 656**	**7 454**	**930**	**62**	**7 454**	**110 762**	**110 762**
Fee and commission income	6 694	583	1 313	567	30	51	3 398	12 636	12 636
Fee and commission expenses	(755)	(87)	(107)	(76)	(4)	(8)	(5 070)	(6 107)	(6 107)
Net impairment write-downs on loans and advances	(15 380)	18	(8 800)	(81)	(22)	146	(656)	(24 775)	(24 775)
Amortisation/depreciation and overhead costs	(41 270)	(1 076)	(4 400)	(3 623)	(329)	(398)	(11 479)	(62 575)	(62 575)
Other income statement items	(2 073)	(54)	(221)	(182)	(17)	(20)	(577)	(3 144)	(3 144)
Segment result (before tax)	**23 592**	**(785)**	**6 440**	**4 059**	**589**	**(168)**	**(6 930)**	**26 797**	**26 797**

31.12.2015	Loans for refinancing commercial real estates	Loans to local government units	Loans to housing developers	Loans to commercial real estate developers	Loans for land purchase	Loans to natural persons	Loans to natural persons — agency model, pooling	Non-allocated assets items	Total	Statement of financial position
Loans and advances to clients	**3 760 846**	**360 855**	**446 552**	**200 736**	**21 476**	**32 048**	**2 569 996**	**(765)**	**7 391 743**	**7 391 743**
Other assets	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1 027 382**	**1 027 382**	**1 027 382**
Segment assets	**3 760 846**	**360 855**	**446 552**	**200 736**	**21 476**	**32 048**	**2 569 996**	**1 026 617**	**8 419 125**	**8 419 125**

Gross result for particular operational segments of the Bank is presented in agreement with items of income statement, prepared for the purposes of audited financial statements.

for 2015 (in PLN thousand)

Period from 01.01.2014 do 31.12.2014	Loans for refinancing commercial real estates	Loans to local government units	Loans to housing developers	Loans to commercial real estate developers	Loans for land purchase	Loans to natural persons	Loans to natural persons — agency model, pooling	Total	Income statement
Interest income	130 689	20 865	35 433	16 514	2 936	1 423	11 136	218 996	218 996
Interest expense	(67 143)	(21 565)	(20 625)	(10 071)	(1 592)	(1 737)	(10 080)	(132 813)	(132 813)
Net interest income	**63 546**	**(700)**	**14 808**	**6 443**	**1 344**	**(314)**	**1 056**	**86 183**	**86 183**
Fee and commission income	4 311	513	817	1 951	42	47	1 951	9 632	9 632
Fee and commission expenses	(816)	(125)	(132)	(102)	(10)	(11)	(4 390)	(5 586)	(5 586)
Net impairment write-downs on loans and advances	(15 756)	18	(6 521)	(588)	2 189	(38)	(249)	(20 945)	(20 945)
Amortisation/depreciation and overhead costs	(37 482)	(1 309)	(4 285)	(5 090)	(514)	(472)	(1 997)	(51 149)	(51 149)
Other income statement items	8 310	290	950	1 128	114	105	443	11 340	11 340
Segment result (before tax)	**22 113**	**(1 313)**	**5 637**	**3 742**	**3 165**	**(683)**	**(3 186)**	**29 475**	**29 475**

31.12.2014	Loans for refinancing commercial real estates	Loans to local government units	Loans to housing developers	Loans to commercial real estate developers	Loans for land purchase	Loans to natural persons	Loans to natural persons — agency model, pooling	Non-allocated assets items	Total	Statement of financial position
Loans and advances to clients	**3 187 138**	**420 561**	**446 454**	**430 921**	**21 856**	**36 459**	**782 352**	**-**	**5 325 741**	**5 325 741**
Other assets	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**850 585**	**850 585**	**850 585**
Segment assets	**3 187 138**	**420 561**	**446 454**	**430 921**	**21 856**	**36 459**	**782 352**	**850 585**	**6 176 326**	**6 176 326**

Gross result for particular operational segments of the Bank is presented in agreement with items of income statement, prepared for the purposes of audited financial statements.

for 2015 (in PLN thousand)

7. Net interest income

	Year ended 31 December	
	2015	**2014**
Interest income		
Loans and advances, including the unwind of discount relating to impairment write-down	227 009	183 158
Cash and short-term deposits	528	519
Investment securities	14 266	17 333
Cash collaterals	14	-
Interest income on derivatives classified into banking book	8 967	15 180
Interest income on derivatives concluded under hedge accounting	5 533	2 806
Total interest income	**256 317**	**218 996**
Interest expense		
Due to settlements with banks	(41 226)	(20 269)
Due to settlements with clients	(914)	(1 734)
Due to the issue of debt securities	(97 491)	(104 705)
Due to subordinated loan	(5 924)	(6 105)
Total interest expense	**(145 555)**	**(132 813)**
Total net interest income	**110 762**	**86 183**

Interest income related to impaired financial assets amounted to PLN 5 866 thousand (for the period ended 31 December 2014: PLN 7 645 thousand)

Net interest income per client groups is as follows:

	Year ended 31 December	
	2015	**2014**
Interest income		
From banking sector	23 892	30 401
From other entities, including:	232 425	188 595
- from corporate clients	168 499	163 881
- from individual clients	54 000	12 371
- from public sector	9 926	12 343
Total interest income	**256 317**	**218 996**

Income due to interests on money bills were presented in the item “Intrest income from banking sector” while income due to interests on treasury bonds in the item “Intrest income from public sector”.

	2015	**2014**
Interest expense		
From banking sector	(47 150)	(26 374)
From other entities, including:	(914)	(1 734)
- from corporate clients	(914)	(1 734)
From own issuances	(97 491)	(104 705)
Total interest expense	**(145 555)**	**(132 813)**

for 2015 (in PLN thousand)

8. Net fee and commission income

	Year ended 31 December	
	2015	**2014**
Fee and commission income		
Credit-related fees and commissions	12 163	9 202
Commissions from bank accounts	428	381
Commissions from money transfers	45	49
Total fee and commission income	**12 636**	**9 632**
Fee and commission expenses		
Costs of real estate analyses and valuations related to the lending activity	(4 126)	(3 915)
Costs related to the debt instrument's issue program (covered bonds and bonds)	(929)	(660)
Commission expense from the stand-by credit line	(356)	(519)
Cost of servicing loan products	(390)	(348)
Other	(306)	(144)
Total fee and commission expense	**(6 107)**	**(5 586)**
Total net fee and commission income	**6 529**	**4 046**

9. Net trading income

	Year ended 31 December	
	2015	**2014**
Foreign exchange result	**2 036**	**3 862**
Net exchange differences on translation	(8 542)	25 194
Valuation of foreign currency derivatives	10 578	(21 332)
Other net trading income and result on hedge accounting	**(2 470)**	**8 430**
Interest-bearing instruments	(78)	6 906
Hedge accounting, including:	(2 392)	1 524
- net profit on hedged items	4 233	(25 763)
- net profit on hedging instruments	(6 625)	27 287
Total net trading income	**(434)**	**12 292**

Foreign exchange result covers realised and unrealised, positive and negative exchange rate differences, as well as profits and losses on spot transactions and forward contracts. The result on operations on interest-bearing instruments covers the result on interest rate swap contracts which have not been designated as hedging instruments.

In 2014, the Bank implemented fair value hedge accounting in relation to issued fixed-interest rate mortgage covered bonds. Interest Rate Swap is the hedging instrument swapping the fixed interest rate for a variable interest rate. As at 31 December 2015, there were seven hedging relations concluded, presented in Note 3.3.

for 2015 (in PLN thousand)

10. Other operating income

	Year ended 31 December	
	2015	**2014**
Income from sales of services	432	493
Income from the release of the provisions for future liabilities	180	187
Refund the overpayment to cover the cost of banking supervision	63	210
Income from recovering receivables designated previously as prescribed, remitted or uncollectible	52	37
Refund of reliefs on new technologies	-	98
Other	36	118
Total other operating income	**763**	**1 143**

11. Net impairment write-downs on loans and advances

	Year ended 31 December	
	2015	**2014**
Net write-downs on loans and advances to clients (Note 21)	(24 759)	(20 944)
Net write-downs for contingent liability towards clients	(16)	(1)
Net impairment write-downs on loans and advances	**(24 775)**	**(20 945)**

12. Overhead costs

	Year ended 31 December	
	2015	**2014**
Employment costs	(32 434)	(28 410)
Material costs, including:	(19 564)	(15 581)
- logistic cost	(7 238)	(6 022)
- IT cost	(4 487)	(3 756)
- marketing cost	(4 128)	(3 935)
- consulting services cost	(2 203)	(1 336)
- other cost	(1 508)	(532)
Contribution and payments to the Bank Guarantee Fund	(3 959)	(1 822)
Taxes and fees	(1 340)	(830)
Reserve on Borrowers Support Fund	(350)	-
Contributions to the Social Benefits Fund	(229)	(196)
Total overhead costs	**(57 876)**	**(46 839)**

for 2015 (in PLN thousand)

Employment costs

	Year ended 31 December	
	2015	2014
Wages and salaries	(26 116)	(23 469)
Social security expenses	(3 821)	(2 856)
Costs of retirement benefits	(9)	(10)
Provision for unused holidays	(413)	(206)
Remuneration in the form of phantom shares settled in cash	(915)	(650)
Other employee benefits	(1 160)	(1 219)
Total employment costs	**(32 434)**	**(28 410)**

In 2015 average level of employment in the Bank was 218 persons (2014: 187 persons).

Remuneration in the form of phantom shares settled in cash relates to the costs of variable remuneration programme for employees having significant influence on the risk profile of the Bank program. Cash-settled phantom share-based payment benefits are presented in Note 2.17. Description of variable remuneration programme for employees having significant influence on the risk profile of the Bank program is presented in Note 42.

13. Other operating expenses

	Year ended 31 December	
	2015	2014
Costs arising from impairment write-downs created for other receivables (excluding loans)	(1 746)	(209)
Cost of real estate valuation	(763)	-
Loss on the sales of assets repossessed for debts (inventories) and costs of their maintenance	(384)	(685)
Inventory write-downs	(254)	-
Costs of execution proceedings	(243)	(552)
Provisions for litigation	(18)	-
Loss on sales or liquidation of fixed assets	(15)	(8)
Costs of creation of impairment charges on tangible fixed assets	(12)	(25)
Compensation, penalties and fines paid	(6)	(282)
Other	(32)	(334)
Total other operating expenses	**(3 473)**	**(2 095)**

The item "Costs arising from impairment write-downs created for other receivables (excluding loans) " for 2015 includes an increase to the write-off to 100% of the Bank's receivables arising from incorrectly applied VAT rate by a contractor on an invoice documenting delivery of real estate property to the Bank in the amount of PLN (1 665) thousand. In 2014 a write-off for PLN (69) thousand was created with regard to the above.This write-off was increased as a result of a notification received by the Bank in April 2015 from a receiver on initiation of bankruptcy proceedings of the contractor by a decision of the competent district court of 11 March 2015.

for 2015 (in PLN thousand)

14. Income tax expense

	Year ended 31 December	
	2015	**2014**
Current income tax	(3 579)	(5 535)
Deferred income tax (Note 31)	(4 427)	(1 569)
Total income tax	**(8 006)**	**(7 104)**
Profit before tax	**26 797**	**29 475**
Income tax calculated at the rate applicable in a given fiscal year (19%)	(5 091)	(5 600)
Non-taxable income	1 420	188
Non-deductible tax costs, including:	(4 335)	(1 708)
- value of write-downs on receivables	(3 893)	(1 296)
- costs of the prudent fee to the Bank Guarantee Fund	(140)	(116)
- other	(302)	(296)
Adjustments in respect of current tax from prior years	-	16
Total income tax expense	**(8 006)**	**(7 104)**
Effective tax rate calculation		
Profit before income tax	26 797	29 475
Income tax	(8 006)	(7 104)
Effective tax rate	**29.88%**	**24.10%**
Nominal tax rate	**19.00%**	**19.00%**

Tax authorities may audit the correct settlement of taxes in the period of 5 years from the end of the year in which the deadline for filing of tax return expired. Since the beginning of activity of the Bank no tax audit was performed by tax authorities in terms of income tax for legal persons.

15. Earnings per share

	Year ended 31 December	
	2015	**2014**
Basic:		
Net profit from activities attributable to shareholders of mBank Hipoteczny S.A.	18 791	22 371
Weighted average number of ordinary shares	2 909 068	2 759 589
Basic net profit per share (in PLN per share)	**6.46**	**8.11**
Diluted:		
Net profit attributable to shareholders of mBank Hipoteczny S.A., applied during the estimation of diluted profit per share	18 791	22 371
Weighted average number of ordinary shares / Diluted weighted average number of ordinary shares	2 909 068	2 759 589
Earnings per ordinary share / Diluted earnings per ordinary share (in PLN per share)	**6.46**	**8.11**

The basic earnings per share are computed as the quotient of the Bank stockholders' share of the profit and the weighted average number of ordinary shares during the year.

Diluted profit is equal to base profit per single share, since there are no elements causing dilution.

for 2015 (in PLN thousand)

Weighted average of number of ordinary shares during a period is a number of ordinary shares at the beginning of a given period, adjusted by the number of ordinary shares purchased or issued during this period weighted with an indicator that reflects period of the occurrence of these shares. The indicator reflecting the period of occurrence of particular shares is a number of days for which specified shares occur to the total number of days in a given period.

16. Disclosures regarding the tax effect of elements of other comprehensive incomes

	Year ended 31 December	
	2015	2014
Items that may be reclassified to the income statement	**(917)**	**283**
Available-for-sale financial assets:	(917)	283
- gross amount	(1 132)	349
- deferred tax	215	(66)
Items that will not be reclassified to the income statement	**3**	**(14)**
Actuarial gains and losses on post-employment benefits	3	(14)
- gross amount	4	(17)
- deferred tax	(1)	3
Total other comprehensive income, net	**(914)**	**269**

17. Disclosures regarding the elements of other comprehensive incomes

	Year ended 31 December	
	2015	2014
Items that may be reclassified to the income statement, including:	**(917)**	**283**
Available-for-sale financial assets	**(917)**	**283**
Unrealised gains on debt instruments recognised in the financial year (net)	-	283
Unrealised losses on debt instruments recognised in the financial year (net)	(917)	-
Items that will not be reclassified to the income statement, including:	**3**	**(14)**
Actuarial gains and losses on post-employment benefits	**3**	**(14)**
Actuarial gains	3	-
Actuarial losses	-	(14)
Total other comprehensive income, net	**(914)**	**269**

18. Cash and balances with central bank

The Bank has a current account in the Polish National Bank (NBP) which balance as at 31 December 2015 amounted to PLN 7 521 thousand. As at 31 December 2014, the funds of the Bank on this current account amounted to PLN 7 669 thousand. On the basis of the Act on the National Bank of Poland of 29 August 1997, mBank Hipoteczny hold a mandatory reserve deposit. The arithmetic mean of daily balances of the mandatory reserve which the Bank was obliged to maintain during a given period in the current account with NBP amounted to:

- PLN 7 139 thousand for the period from 31 December 2015 to 31 January 2016,
- PLN 7 451 thousand for the period from 31 December 2014 to 1 February 2015,

The rate of interest of funds kept as mandatory reserve as at 31 December 2015 amounted to 1.35%, while as at 31 December 2014 amounted to 1.80%.

for 2015 (in PLN thousand)

19. Amounts due from other banks

	31.12.2015	31.12.2014
Deposits with other banks (overnight deposits)	150 006	15 001
Current accounts	55 172	15 971
Other receivables	2	-
Included in cash equivalents	**205 180**	**30 972**
Total (gross) amounts due from other banks	**205 180**	**30 972**
Total (net) amounts due from other banks	**205 180**	**30 972**
Short-term amounts due from other banks (up to 1 year)	205 180	30 972

All receivables were receivables from Polish banks without recognised impairment.

20. Derivative financial instruments

	Nominal amount		Fair value	
	purchase	disposal	assets	liabilities
As at 31 December 2015				
Derivative financial instruments held for trading				
Foreign exchange derivatives				
- FX swap contracts	613 746	609 984	2 217	1 401
Total OTC derivatives	**613 746**	**609 984**	**2 217**	**1 401**
Total foreign exchange derivatives	**613 746**	**609 984**	**2 217**	**1 401**
Interest rate derivatives				
- IRS contracts	200 000	200 000	530	-
Total OTC interest rate derivatives	**200 000**	**200 000**	**530**	**-**
Total interest rate derivatives	**200 000**	**200 000**	**530**	**-**
Total assets / liabilities held for trading	**813 746**	**809 984**	**2 747**	**1 401**
Derivatives held for hedging				
Derivatives designated as fair value hedges	528 426	528 426	29 465	2 369
- IRS contracts	528 426	528 426	29 465	2 369
Total derivatives held for hedging	**528 426**	**528 426**	**29 465**	**2 369**
Total recognised derivative assets /liabilities	**1 342 172**	**1 338 410**	**32 212**	**3 770**
Total recognised derivative assets /liabilities held for trading	**1 342 172**	**1 338 410**	**32 212**	**3 770**
Short-term (up to 1 year)	813 746	809 984	2 747	1 401
Long-term (over 1 year)	528 426	528 426	29 465	2 369

for 2015 (in PLN thousand)

	Nominal amount		Fair value	
	purchase	disposal	assets	liabilities
As at 31 December 2014				
Derivative financial instruments held for trading				
Foreign exchange derivatives				
- FX swap contracts	650 937	657 085	166	9 365
Total OTC derivatives	**650 937**	**657 085**	**166**	**9 365**
Total foreign exchange derivatives	**650 937**	**657 085**	**166**	**9 365**
Interest rate derivatives				
- IRS contracts	850 000	850 000	3 142	32
Total OTC interest rate derivatives	**850 000**	**850 000**	**3 142**	**32**
Total interest rate derivatives	**850 000**	**850 000**	**3 142**	**32**
Total assets / liabilities held for trading	**1 500 937**	**1 507 085**	**3 308**	**9 397**
Derivatives held for hedging				
Derivatives designated as fair value hedges	396 394	396 394	33 983	45
- IRS contracts	396 394	396 394	33 983	45
Total derivatives held for hedging	**396 394**	**396 394**	**33 983**	**45**
Total recognised derivative assets /liabilities	**1 897 331**	**1 903 479**	**37 291**	**9 442**
Total recognised derivative assets /liabilities held for trading	**1 897 331**	**1 903 479**	**37 291**	**9 442**
Short-term (up to 1 year)	1 500 937	1 507 085	3 308	9 397
Long-term (over 1 year)	396 394	396 394	33 983	45

21. Loans and advances to clients

	31.12.2015	31.12.2014
Loans and advances to corporate clients	**4 701 272**	**4 375 564**
Loans and advances to individual clients	**2 641 448**	**862 951**
Loans and advances to the public sector	**146 317**	**174 925**
Other receivables	**95**	**-**
Loans and advances from clients (gross)	**7 489 132**	**5 413 440**
Impairment write-downs on loan and advances to clients (negative amount)	(97 389)	(87 699)
Loans and advances from clients (net)	**7 391 743**	**5 325 741**
Short-term (up to 1 year)	678 031	427 185
Long-term (over 1 year)	6 713 712	4 898 556

As at 31 December 2015, the gross balance sheet value of loans granted to corporate and individual clients as well as for the public sector in the Bank's loan portfolio amounted to PLN 7 489 018 thousand on the basis of variable interest rate, and PLN 19 thousand on the basis of fixed interest rate. As at 31 December 2014, on the basis of variable interest rate the gross balance sheet value amounted to PLN 5 412 748 thousand, and PLN 692 thousand on the basis of fixed interest rate.

for 2015 (in PLN thousand)

Impairment write-downs on loans and advances

	31.12.2015	31.12.2014
Incurred but not identified losses		
Gross balance sheet exposure	7 284 837	5 228 576
Impairment write-downs on exposures analysed on a portfolio basis	(14 338)	(8 701)
Net balance sheet exposure	**7 270 499**	**5 219 875**
Impaired receivables		
Loans to corporate clients	198 551	178 699
Loans to individual clients	5 744	6 165
Total gross balance sheet exposure	**204 295**	**184 864**
Impairment write-down on impaired exposures	(83 051)	(78 998)
Net balance sheet exposure	**121 244**	**105 866**

Movements in Impairment write-downs on loans and advances

	Impairment write-downs as at 01.01.2015	Write-downs created	Reversal of write-downs	Receivables written-off	Impairment write-downs as at 31.12.2015
Corporate clients	(85 356)	(35 687)	11 428	15 069	(94 546)
Individual clients	(2 291)	(3 216)	2 708	-	(2 799)
Public sector clients	(52)	-	8	-	(44)
Total movements in impairment write-downs on loans and advances	(87 699)	(38 903)	14 144	15 069	(97 389)

	Impairment write-downs as at 01.01.2014	Write-downs created	Reversal of write-downs	Receivables written-off	Impairment write-downs as at 31.12.2014
Corporate clients	(73 528)	(36 112)	15 451	8 833	(85 356)
Individual clients	(1 993)	(760)	462	-	(2 291)
Public sector clients	(67)	-	15	-	(52)
Total movements in impairment write-downs on loans and advances	(75 588)	(36 872)	15 928	8 833	(87 699)

22. Investment securities

	31.12.2015			31.12.2014		
	Investment securities without pledge	Pledged investment securities	Total investment securities	Investment securities without pledge	Pledged investment securities	Total investment securities
Debt securities:	**680 092**	**68 413**	**748 505**	**532 483**	**202 737**	**735 220**
Issued by government	210 229	68 413	278 642	52 510	202 737	255 247
- government bonds	210 229	68 413	278 642	52 510	202 737	255 247
Issued by central bank	469 863	-	469 863	479 973	-	479 973
- central bank's money bills	469 863	-	469 863	479 973	-	479 973
Total debt securities	**680 092**	**68 413**	**748 505**	**532 483**	**202 737**	**735 220**
Short-term (up to 1 year)	569 139	2 070	571 209	532 483	152 207	684 690
Long-term (over 1 year)	110 953	66 343	177 296	-	50 530	50 530

As at 31 December 2015, the carrying values of debt securities with fixed interest rates amounted to PLN 571 210 thousand while debt securities with variable interest rates PLN 177 295 thousand. As at 31 December 2014 debt securities were based on fixed interest rate.

Pledged assets are not subject to resale and further pledge.

for 2015 (in PLN thousand)

Movements in investment securities

	31.12.2015	31.12.2014
Investment securities		
As at the beginning of the period	**735 220**	**605 824**
Additions	29 369 527	26 485 896
Disposals (sale, redemption and forfeiture)	(29 355 110)	(26 356 849)
Gains / losses from changes in fair value	(1 132)	349
As at the end of the period	**748 505**	**735 220**

23. Intangible assets

	31.12.2015	31.12.2014
Concessions, patents, licences and similar assets, including:	5 556	3 725
- computer software	5 556	3 725
Intangible assets under development	2 596	1 349
Total intangible assets	**8 152**	**5 074**

Movements in intangible assets

Movements in the period from 01.01.2015 to 31.12.2015	Acquired computer software	Intangible assets under development	Total
Gross value of intangible assets as at the beginning of the period: 01.01.2015	**13 632**	**1 349**	**14 981**
Increase (due to)	**3 539**	**3 002**	**6 541**
- purchase	1 784	3 002	4 786
- transfer from intangible assets under development	1 755	-	1 755
Decrease (due to)	**(857)**	**(1 755)**	**(2 612)**
- transfer from intangible assets under development	-	(1 755)	(1 755)
- liquidation	(857)	-	(857)
Gross value of intangible assets as at the end of the period 31.12.2015	**16 314**	**2 596**	**18 910**
Accumulated amortisation as at the beginning of the period: 01.01.2015 r.	**(9 907)**	**-**	**(9 907)**
Amortisation for the period (due to):	**(851)**	**-**	**(851)**
- amortisation	(1 708)	-	(1 708)
- liquidation	857	-	857
Accumulated amortisation as at the end of the period 31.12.2015	**(10 758)**	**-**	**(10 758)**
Net value of intangible assets as at the end of the period 31.12.2015	**5 556**	**2 596**	**8 152**

for 2015 (in PLN thousand)

Movements in the period from 01.01.2014 to 31.12.2014	Acquired computer software	Intangible assets under development	Total
Gross value of intangible assets as at the beginning of the period: 01.01.2014	**10 797**	**1 578**	**12 375**
Increase (due to)	**2 835**	**2 280**	**5 115**
- purchase	733	2 280	3 013
- transfer from intangible assets under development	2 040	-	2 040
- other increases	62	-	62
Decrease (due to)	**-**	**(2 509)**	**(2 509)**
- transfer from intangible assets under development	-	(2 040)	(2 040)
- other decreases	-	(469)	(469)
Gross value of intangible assets as at the end of the period 31.12.2014	**13 632**	**1 349**	**14 981**
Accumulated amortisation as at the beginning of the period: 01.01.2014	**(8 827)**	**-**	**(8 827)**
Amortisation for the period (due to):	**(1 080)**	**-**	**(1 080)**
- amortisation	(1 080)	-	(1 080)
Accumulated amortisation as at the end of the period 31.12.2014	**(9 907)**	**-**	**(9 907)**
Net value of intangible assets as at the end of the period 31.12.2014	**3 725**	**1 349**	**5 074**

24. Tangible fixed assets

	31.12.2015	31.12.2014
Technical equipment and machinery	5 608	5 718
Vehicles	392	620
Fixed assets under construction	237	-
Other fixed assets	1 286	903
Total tangible fixed assets	**7 523**	**7 241**

Movements in tangible fixed assets

Movements in the period from 01.01.2015 to 31.12.2015	Equipment	Vehicles	Other fixed assets	Fixed assets under construction	Total
Gross value of tangible fixed assets as at the beginning of the period: 01.01.2015	**19 043**	**2 211**	**4 982**	**-**	**26 236**
Increase (due to)	**2 203**	**-**	**877**	**1 199**	**4 279**
- purchase	1 704	-	414	1 199	3 317
- transfer from fixed assets under construction	499	-	463	-	962
Decrease (due to)	**(1 385)**	**(80)**	**(420)**	**(962)**	**(2 847)**
- sale	-	(80)	-	-	(80)
- liquidation	(1 385)	-	(420)	-	(1 805)
- transfer from fixed assets under construction	-	-	-	(962)	(962)
Gross value of tangible fixed assets as at the end of the period 31.12.2015	**19 861**	**2 131**	**5 439**	**237**	**27 668**
Accumulated amortisation as at the beginning of the period: 01.01.2015	**(13 325)**	**(1 566)**	**(4 079)**	**-**	**(18 970)**
Amortyzacja za okres (z tytułu)	**(928)**	**(140)**	**(74)**	**-**	**(1 142)**
- amortisation	(2 307)	(195)	(489)	-	(2 991)
- sale	-	55	-	-	55
- liquidation	1 379	-	415	-	1 794
Accumulated amortisation as at the end of the period 31.12.2015	**(14 253)**	**(1 706)**	**(4 153)**	**-**	**(20 112)**
Impairment charge as at the beginning of the period: 01.01.2015	**-**	**(25)**	**-**	**-**	**(25)**
- increase	-	(12)	-	-	(12)
- decrease	-	4	-	-	4
Impairment charge as at the end of the period 31.12.2015	**-**	**(33)**	**-**	**-**	**(33)**
Net value of tangible fixed assets as at the end of the period 31.12.2015	**5 608**	**392**	**1 286**	**237**	**7 523**

for 2015 (in PLN thousand)

Movements in the period from 01.01.2014 to 31.12.2014	Equipment	Vehicles	Other fixed assets	Fixed assets under construction	Total
Gross value of tangible fixed assets as at the beginning of the period: 01.01.2014	**18 118**	**2 457**	**5 167**	**390**	**26 132**
Increase (due to)	**1 552**	**-**	**257**	**18**	**1 827**
- purchase	675	-	257	18	950
- transfer from fixed assets under construction	408	-	-	-	408
- other increases	469	-	-	-	469
Decrease (due to)	**(627)**	**(246)**	**(442)**	**(408)**	**(1 723)**
- sale	-	(246)	-	-	(246)
- liquidation	(627)	-	(442)	-	(1 069)
- transfer from fixed assets under construction	-	-	-	(408)	(408)
Gross value of tangible fixed assets as at the end of the period 31.12.2014	**19 043**	**2 211**	**4 982**	**-**	**26 236**
Accumulated amortisation as at the beginning of the period: 01.01.2014	**(11 519)**	**(1 479)**	**(4 024)**	**-**	**(17 022)**
Amortisation for the period (due to):	**(1 806)**	**(87)**	**(55)**	**-**	**(1 948)**
- amortisation	(2 430)	(308)	(492)	-	(3 230)
- sale	-	221	-	-	221
- liquidation	624	-	437	-	1 061
Accumulated amortisation as at the end of the period 31.12.2014	**(13 325)**	**(1 566)**	**(4 079)**	**-**	**(18 970)**
Impairment charge as at the beginning of the period: 01.01.2014	**-**	**-**	**-**	**-**	**-**
- increase	-	(25)	-	-	(25)
Impairment charge as at the end of the period 31.12.2014	**-**	**(25)**	**-**	**-**	**(25)**
Net value of tangible fixed assets as at the end of the period 31.12.2014	**5 718**	**620**	**903**	**-**	**7 241**

25. Other assets

	31.12.2015	31.12.2014
Other, including:	**9 479**	**14 690**
- inventories	6 768	8 192
- other prepayments	1 149	1 253
- receivables from agency model valuation	425	182
- income receivable	670	2 966
- debtors	438	1 895
- other	29	202
Total other assets	**9 479**	**14 690**
Short-term (up to 1 year)	9 479	14 690
Long-term (over 1 year)	-	-

Inventories consists of assets repossessed for debts described in note 3.1.6.

for 2015 (in PLN thousand)

26. Amounts due to other banks

	31.12.2015	31.12.2014
Term deposits (including overnight deposits)	313 404	396 627
Loans received	2 513 519	1 228 221
Other financial liabilities with deferred payment term	113 011	346 533
Liabilities in respect of cash collateral	19 807	9 253
Total amounts due to other banks	**2 959 741**	**1 980 634**
Short-term (up to 1 year)	589 165	925 224
Long-term (over 1 year)	2 370 576	1 055 410
Fixed rate deposits	313 404	396 627

Other financial liabilities with deferred payment term relate to liability resulting from agreements on transfer of retail loans portfolio secured with a mortgage and agreements on transfer of commercial loans secured with a mortgages concluded with mBank S.A. The transactions are described in Note 43.

All received loans are based on variable interest rate.

mBank Hipoteczny S.A. did not provide collaterals to its creditors. The Bank did not register any breaches of contractual conditions associated with liabilities due to received loans.

27. Amounts due to clients

	31.12.2015	31.12.2014
Corporate clients:	**265 364**	**249 834**
Cash in current accounts	242 011	191 638
Term deposits (including overnight deposits)	20 663	55 810
Other liabilities (in respect of):	2 690	2 386
- cash collateral	1 130	915
- other	1 560	1 471
Individual clients:	**141**	**160**
Other liabilities (in respect of):	141	160
- cash collateral	65	65
- other	76	95
Public sector clients:	**4**	**18**
Other liabilities (in respect of):	4	18
- other	4	18
Total amounts due to clients	**265 509**	**250 012**
Short-term (up to 1 year)	264 825	249 108
Long-term (over 1 year)	684	904

28. Debt securities in issue

As at 31 December 2015, issued mortgage and public sector covered bonds were rated by Fitch Ratings Ltd in London at the BBB level.

Receivables secured with a mortgage entered into land register as the first item are the collateral of mortgage covered bonds. Public sector covered bonds are secured with receivables due to loans granted to local government units or loans secured with a guarantee of local government units. Additionally, the issue of mortgage covered bonds, to 10% of the amount, secured with mortgage receivables of the Bank may also be based on:

- funds of the Bank allocated to issued securities or securities guaranteed by the Polish National Bank, European Central Bank, governments or central banks of the European Union member states, Organisation for Economic Cooperation and Development, with exclusion of states that restructure or were restructuring its foreign debt in the last 5 years, as well as State Treasury,
- funds of the Bank allocated to the Polish National Bank,
- funds of the Bank held in cash.

The total nominal value of issued mortgage covered bonds:

- as at 31 December 2015 amounted to PLN 3 927 227 thousand,
- as at 31 December 2014 amounted to PLN 2 677 214 thousand,

The total nominal value of issued public sector covered bonds:

- as at 31 December 2015 amounted to PLN 150 000 thousand,
- as at 31 December 2014 amounted to PLN 350 000 thousand,

The balance sheet value of issued covered bonds as at 31 December 2015 and 31 December 2014 is presented in the tables below.

The value of not matured capital of loans entered into the mortgage cover calculation constituting security of issuing of mortgage covered bonds:

- as at 31 December 2015 amounted to PLN 5 403 757 thousand,
- as at 31 December 2014 amounted to PLN 3 263 858 thousand,

Additionally, as at 31 December 2015 the basis for issuing of mortgage covered bonds were treasury bonds of nominal value of PLN 60 000 thousand. While as at 31 December 2014, treasury bonds of nominal value of PLN 160 000 thousand were the basis.

According to the Act on covered bonds and mortgage banks, the Bank may refinance loans secured with mortgages in part not exceeding 60% of the mortgage lending value of the property from the funds obtained from issuing of covered bonds.

The value of receivables constituting collateral of mortgage covered bonds issuing in part not exceeding 60% of the mortgage lending value of the property:

- as at 31 December 2015 amounted to PLN 4 342 172 thousand,
- as at 31 December 2014 amounted to PLN 2 653 030 thousand,

Both, as at 31 December 2015 and as at 31 December 2014, mortgage covered bonds were secured with receivables secured with mortgage entered as the first item in the land and mortgage register.

The value of not matured capital of loans entered into the mortgage cover calculation constituting security of issuing of public sector covered bonds:

- as at 31 December 2015 amounted to PLN 361 911 thousand,
- as at 31 December 2014 amounted to PLN 421 805 thousand,

As at 31 December 2015, issued public sector covered bonds were additionally secured with treasury bonds of nominal value of PLN 6 000 thousand. While as at 31 December 2014, issued public sector covered bonds were additionally secured with treasury bonds of nominal value of PLN 30 000 thousand.

Minimum required by law level of security of covered bonds in trade is specified as equivalent of nominal amount of issued covered bonds.

for 2015 (in PLN thousand)

Nominal value of mortgage covered bonds listed on two markets in the scope of CATALYST: On Regulated Securities Market operated by BondSport SA and parallel regulated stock market operated by GPW in Warsaw SA:

- as at 31 December 2015 amounted to PLN 3 927 227 thousand,
- as at 31 December 2014 amounted to PLN 2 677 214 thousand,

Nominal value of public sector covered bonds listed on two markets in the scope of CATALYST: On Regulated Securities Market operated by BondSport SA and parallel regulated stock market operated by GPW in Warsaw SA:

- as at 31 December 2015 amounted to PLN 150 000 thousand,
- as at 31 December 2014 amounted to PLN 350 000 thousand,

The Bank did not register any breaches of contractual conditions associated with liabilities due to issued debt securities.

As at 31.12.2015

Debt financial instruments by type	Nominal value	Interest rate as at 31.12.2015	Guarantee / collateral	Redemption date	Amount of liability
Long-term issues (with original maturity of over 1 year)					
Mortgage covered bonds (PLN)	255 000	2.87%	Mortgage cover bonds register	2021-09-20	254 365
Mortgage covered bonds (PLN)	500 000	2.82%	Mortgage cover bonds register	2020-09-10	499 473
Mortgage covered bonds (EUR)	50 000	0.56%	Mortgage cover bonds register	2020-06-24	212 540
Mortgage covered bonds (EUR)	11 000	1.29%	Mortgage cover bonds register	2025-04-24	46 917
Mortgage covered bonds (PLN)	250 000	2.68%	Mortgage cover bonds register	2023-10-16	250 279
Mortgage covered bonds (EUR)	20 000	1.14%	Mortgage cover bonds register	2022-02-25	85 241
Mortgage covered bonds (PLN)	200 000	2.59%	Mortgage cover bonds register	2022-04-28	200 175
Mortgage covered bonds (EUR)	50 000	0.82%	Mortgage cover bonds register	2019-10-15	212 991
Mortgage covered bonds (EUR)	20 000	1.12%	Mortgage cover bonds register	2018-10-22	85 094
Mortgage covered bonds (PLN)	200 000	2.73%	Mortgage cover bonds register	2023-02-20	201 153
Mortgage covered bonds (PLN)	300 000	2.72%	Mortgage cover bonds register	2022-07-28	302 336
Mortgage covered bonds (EUR)	20 000	3.20%	Mortgage cover bonds register	2029-05-30	85 281
Mortgage covered bonds (EUR)	15 000	3.50%	Mortgage cover bonds register	2029-03-15	64 621
Mortgage covered bonds (EUR)	8 000	3.50%	Mortgage cover bonds register	2029-02-28	34 432
Mortgage covered bonds (EUR)	7 500	0.85%	Mortgage cover bonds register	2018-02-15	31 958
Mortgage covered bonds (EUR)	50 000	1.08%	Mortgage cover bonds register	2018-10-22	213 187
Mortgage covered bonds (EUR)	30 000	2.75%	Mortgage cover bonds register	2020-07-28	127 653
Mortgage covered bonds (PLN)	80 000	2.77%	Mortgage cover bonds register	2019-06-21	79 985
Public sector covered bonds (PLN)	150 000	3.59%	Public sector cover bonds register	2016-09-28	151 314
Mortgage covered bonds (PLN)	100 000	3.50%	Mortgage cover bonds register	2016-11-15	100 384
Mortgage covered bonds (EUR)	10 000	1.93%	Mortgage cover bonds register	2017-10-19	42 747
Mortgage covered bonds (PLN)	200 000	3.46%	Mortgage cover bonds register	2018-06-15	199 984
Mortgage covered bonds (PLN)	200 000	3.10%	Mortgage cover bonds register	2017-04-20	201 054
Mortgage covered bonds (PLN)	200 000	2.75%	Mortgage cover bonds register	2017-06-16	200 052
Mortgage covered bonds (PLN)	200 000	2.95%	Mortgage cover bonds register	2016-04-20	201 132
Bonds (PLN)	60 000	3.18%	no collateral	2019-01-21	60 286
Bonds (PLN)	20 000	3.24%	no collateral	2019-01-16	20 268
Debt securities in issue (carrying value)					**4 164 902**

for 2015 (in PLN thousand)

As at 31.12.2014

Debt financial instruments by type	Nominal value	Interest rate as at 31.12.2014	Guarantee / collateral	Redemption date	Amount of liability
Long-term issues (with original maturity of over 1 year)					
Mortgage covered bonds (PLN)	100 000	3.03%	Mortgage cover bonds register	2015-05-15	100 342
Mortgage covered bonds (PLN)	100 000	3.56%	Mortgage cover bonds register	2015-07-07	101 695
Public sector covered bonds (PLN)	100 000	3.99%	Public sector cover bonds register	2015-07-28	101 663
Mortgage covered bonds (PLN)	100 000	3.66%	Mortgage cover bonds register	2015-09-28	100 891
Public sector covered bonds (PLN)	100 000	3.23%	Public sector cover bonds register	2015-11-30	100 240
Mortgage covered bonds (PLN)	200 000	3.15%	Mortgage cover bonds register	2016-04-20	201 072
Public sector covered bonds (PLN)	150 000	4.09%	Public sector cover bonds register	2016-09-28	151 384
Mortgage covered bonds (PLN)	100 000	3.73%	Mortgage cover bonds register	2016-11-15	100 343
Mortgage covered bonds (PLN)	200 000	3.30%	Mortgage cover bonds register	2017-04-20	201 000
Mortgage covered bonds (PLN)	200 000	3.03%	Mortgage cover bonds register	2017-06-16	199 944
Mortgage covered bonds (PLN)	200 000	3.74%	Mortgage cover bonds register	2018-06-15	199 882
Mortgage covered bonds (PLN)	80 000	3.05%	Mortgage cover bonds register	2019-06-21	79 963
Mortgage covered bonds (PLN)	300 000	3.62%	Mortgage cover bonds register	2022-07-28	303 335
Mortgage covered bonds (PLN)	200 000	3.62%	Mortgage cover bonds register	2023-02-20	202 017
Mortgage covered bonds (EUR)	10 000	2.08%	Mortgage cover bonds register	2017-10-19	42 745
Mortgage covered bonds (EUR)	7 500	1.10%	Mortgage cover bonds register	2018-02-15	31 945
Mortgage covered bonds (EUR)	50 000	1.21%	Mortgage cover bonds register	2018-10-22	213 164
Mortgage covered bonds (EUR)	20 000	1.12%	Mortgage cover bonds register	2018-10-22	85 000
Mortgage covered bonds (EUR)	50 000	0.95%	Mortgage cover bonds register	2019-10-15	212 724
Mortgage covered bonds (EUR)	30 000	2.75%	Mortgage cover bonds register	2020-07-28	127 338
Mortgage covered bonds (EUR)	8 000	3.50%	Mortgage cover bonds register	2029-02-28	34 407
Mortgage covered bonds (EUR)	15 000	3.50%	Mortgage cover bonds register	2029-03-15	64 564
Mortgage covered bonds (EUR)	20 000	3.20%	Mortgage cover bonds register	2029-05-30	85 223
Bonds (PLN)	50 000	3.31%	no collateral	2015-03-16	50 072
Bonds (PLN)	20 000	4.14%	no collateral	2019-01-16	20 342
Bonds (PLN)	60 000	3.48%	no collateral	2019-01-21	60 293
Debt securities in issue (carrying value)					**3 171 588**

Movements in debt securities in issue

	31.12.2015	31.12.2014
As at the beginning of the period	**3 171 588**	**2 661 407**
Increase (due to)	**1 647 504**	**1 278 672**
- issue	1 540 713	1 154 178
- accrued interest	97 491	104 705
- exchange differences	9 300	19 789
Decrease (due to)	**(654 190)**	**(768 491)**
- redemption	(550 000)	(665 000)
- interest repayment	(104 190)	(103 491)
- exchange differences	-	-
As at the end of the period	**4 164 902**	**3 171 588**

Short-term (up to 1 year)	457 675	564 374
Long-term (over 1 year)	3 707 227	2 607 214

Fixed interest rate debt securities issued	529 239	396 532
Floating interest rate debt securities issued	3 635 663	2 775 056

29. Subordinated liabilities

SUBORDINATED LIABILITIES	Nominal value	Currency	Interest rate as at 31.12.2015	Maturity / redemption date	Balance of liability (PLN '000)
As at 31 December 2015					
mBANK S.A.	100 000	PLN	5.22%	19.12.2022	**100 242**
mBANK S.A.	100 000	PLN	5.23%	15.12.2025	**100 657**

SUBORDINATED LIABILITIES	Nominal value	Currency	Interest rate as at 31.12.2014	Maturity / redemption date	Balance of liability (PLN '000)
As at 31 December 2014					
mBANK S.A.	100 000	PLN	5.56%	19.12.2022	**100 257**

Movements in subordinated liabilities

	31.12.2015	31.12.2014
As at the beginning of the period	**100 257**	**100 268**
Increase (due to)	105 924	6 105
- taking a loan	100 000	-
- interest on a loan	5 924	6 105
Decrease (due to)	(5 282)	(6 116)
- repayment of interest on a loan	(5 282)	(6 116)
Subordinated liabilities as at the end of the period	**200 899**	**100 257**
Short-term (up to 1 year)	899	257
Long-term (over 1 year)	200 000	100 000

30. Other liabilities and provisions

30.1. Other liabilities

	31.12.2015	31.12.2014
Other liabilities (due to)	**20 272**	**14 001**
- accurals	16 924	11 474
- settlements with insurers	1 353	1 102
- provision for unused holidays	971	672
- liabilities due to income tax on salaries, social insurance contributions and VAT	956	744
- other	68	9
Total other liabilities	**20 272**	**14 001**
Short-term (up to 1 year)	20 272	14 001
Long-term (over 1 year)	-	-

for 2015 (in PLN thousand)

30.2. Provisions

	31.12.2015	31.12.2014
Provisions (due to)	**166**	**88**
- off-balance sheet contingent liabilities granted	18	1
- provisions for retirement and disability benefits	93	88
- provisions for litigations	55	-
Total provisions	**166**	**88**
Short-term (up to 1 year)	75	10
Long-term (over 1 year)	91	78

Change of the status of provisions to employee benefits after the period of employment - pension provisions

	31.12.2015	31.12.2014
Provisions as at the beginning of the period	**88**	**84**
- write-down on the provision	6	7
- interest cost	3	3
- actuarial gains and losses are recognised in other comprehensive income	(4)	17
- benefits paid	-	(23)
Provisions as at the beginning of the period	**93**	**88**
Expected provision settlement period:		
Short-term (up to 1 year)	2	9
Long-term (over 1 year)	91	79

31. Deferred income tax

Assets and liabilities for deferred income tax are calculated for all temporary differences in accordance with the balance sheet method, using an effective income tax rate that will be applicable in the year of occurrence of tax obligation (in 2015 and 2014: 19%).

Changes in assets and liabilities for deferred income tax are presented below.

Deferred income tax assets	As at 01.01.2015	Recognised in the income statement	Recognised in other comprehensive income	As at 31.12.2015
Interest accrued	12 066	(2 142)	-	**9 924**
Valuation of derivative financial instruments	2 208	(1 585)	-	**623**
Amount of impairment write-downs on receivables*	10 075	625	-	**10 700**
Provisions and other liabilities related to employment benefits	926	218	-	**1 144**
Impairment write-downs on inventories	-	48	-	**48**
Accruals	1 400	882	-	**2 282**
Revenues to be settled (commissions settled using the effective interest rate method)	7 869	(263)	-	**7 606**
Other	-	172	-	**172**
Total deferred income tax assets	**34 544**	**(2 045)**	**-**	**32 499**

Short-term (up to 1 year)	27 754
Long-term (over 1 year)	4 745

*Item "Amount of impairment write-downs on receivables" relates to write-offs updating the value of loans for which the Bank expects that their irrecoverability will be documented.

for 2015 (in PLN thousand)

Deferred income tax liabilities	As at 01.01.2015	Recognised in the income statement	Recognised in other comprehensive income	As at 31.12.2015
Interest accrued	(9 677)	1 852	-	**(7 825)**
Valuation of derivative financial instruments	(5 647)	945	-	**(4 702)**
Valuation of available-for-sale financial instruments	(408)	-	215	**(193)**
Provisions and other liabilities related to employment benefits	(5)	-	(1)	**(6)**
Prepaid costs	(4 834)	(7 439)	-	**(12 273)**
Foreign exchange differences	(2 356)	2 356	-	**-**
Difference between tax and balance sheet depreciation/amortisation	(191)	(96)	-	**(287)**
Total deferred income tax liabilities	**(23 118)**	**(2 382)**	**214**	**(25 286)**

Short-term (up to 1 year)	(25 286)
Long-term (over 1 year)	-

Deferred income tax assets (net)	As at 01.01.2015	Recognised in the income statement	Recognised in other comprehensive income	As at 31.12.2015
Total deferred income tax assets (net)	**11 426**	**(4 427)**	**214**	**7 213**

Short-term (up to 1 year)	2 468
Long-term (over 1 year)	4 745

Deferred income tax assets	As at 01.01.2014	Recognised in the income statement	Recognised in other comprehensive income	As at 31.12.2014
Interest accrued	4 728	7 338	-	**12 066**
Valuation of derivative financial instruments	176	2 032	-	**2 208**
Valuation of available-for-sale financial instruments	-	-	-	**-**
Amount of impairment write-downs on receivables*	8 188	1 887	-	**10 075**
Provisions and other liabilities related to employment benefits	229	697	-	**926**
Impairment write-downs on inventories	-	-	-	**-**
Accruals	484	916	-	**1 400**
Revenues to be settled (commissions settled using the effective interest rate method)	6 412	1 457	-	**7 869**
Foreign exchange differences	1 878	(1 878)	-	**-**
Total deferred income tax assets	**22 095**	**12 449**	**-**	**34 544**

Short-term (up to 1 year)	31 640
Long-term (over 1 year)	2 904

*Item "Amount of impairment write-downs on receivables" relates to write-offs updating the value of loans for which the Bank expects that their irrecoverability will be documented.

Deferred income tax liabilities	As at 01.01.2014	Recognised in the income statement	Recognised in other comprehensive income	As at 31.12.2014
Interest accrued	(5 473)	(4 204)	-	**(9 677)**
Valuation of derivative financial instruments	(1 895)	(3 752)	-	**(5 647)**
Valuation of available-for-sale financial instruments	(342)	-	(66)	**(408)**
Provisions and other liabilities related to employment benefits	(8)	-	3	**(5)**
Prepaid costs	(1 195)	(3 639)	-	**(4 834)**
Foreign exchange differences	-	(2 356)	-	**(2 356)**
Difference between tax and balance sheet depreciation/amortisation	(124)	(67)	-	**(191)**
Total deferred income tax liabilities	**(9 037)**	**(14 018)**	**(63)**	**(23 118)**

Short-term (up to 1 year)	(23 118)
Long-term (over 1 year)	-

for 2015 (in PLN thousand)

Deferred income tax assets (net)	As at 01.01.2014	Recognised in the income statement	Recognised in other comprehensive income	As at 31.12.2014
Total deferred income tax assets (net)	**13 058**	**(1 569)**	**(63)**	**11 426**

Short-term (up to 1 year)	8 522
Long-term (over 1 year)	2 904

Deferred tax recognised in the income statement	31.12.2015	31.12.2014
Interest accrued	(290)	3 134
Valuation of derivative financial instruments	(640)	(1 720)
Amount of impairment write-downs on receivables*	625	1 887
Provisions and other liabilities related to employment benefits	218	697
Impairment write-downs on inventories	48	-
Accruals	882	916
Revenues to be settled (commissions settled using the effective interest rate method)	(263)	1 457
Prepaid costs	(7 439)	(3 639)
Difference between tax and balance sheet depreciation/amortisation	(96)	(67)
Exchange differences	2 356	(4 234)
Other	172	-
Total deferred tax recognised in the income statement	**(4 427)**	**(1 569)**

*Item "Amount of impairment write-downs on receivables" relates to write-offs updating the value of loans for which the Bank expects that their irrecoverability will be documented.

The Bank activates impairment losses on loans in case of estimation that the most probable scenario will be documenting of irrecoverability in accordance with applicable tax regulations as a result of conducted debt collection activities.

Assets due to deferred tax are recognised in case when it is probable that there will be a taxable income in the future.

32. Differences between balance sheet changes of the state of an item and changes of those items recognised in operational activity in the statement of cash flows

The following table contains additional information for the statement of cash flows and presents differences between balance sheet changes of the state of an item and changes of the state of those items recognised in operational activity in the statement on cash flows.

`000 PLN	Year ended 31 December	
	2015	2014
Amounts due from other banks, change resulting from balance-sheet balances	(174 208)	(8 595)
Interest accrued and not yet received in the current year	8	1
Interest accrued in the previous year and received in the current year	(1)	(2)
Exclusion of change in cash and cash equivalents	174 208	8 595
Change in amounts due from other banks, in total	**7**	**(1)**
Derivative financial instruments, change resulting from balance-sheet values	(593)	(15 214)
Interest accrued and not received / not paid in the current year	7 207	9 748
Interest accrued in the previous year, and received / paid in the current year	(9 748)	(3 586)
Change in respect of derivative financial instruments, in total	**(3 134)**	**(9 052)**
Loans and advances to clients, change resulting from balance-sheet values	(2 066 002)	(1 280 741)
Interest accrued and not yet received in the current year	20 215	26 517
Interest accrued in the previous year and received in the current year	(24 090)	(25 479)
Change in loans and advances to clients	**(2 069 877)**	**(1 279 703)**
Investment securities available for sale, change resulting from balance-sheet values	(13 285)	(129 396)
Interest accrued and not yet received in the current year	5 259	3 060
Interest accrued in the previous year and received in the current year	(6 272)	(2 557)
Exclusion of change in cash and cash equivalents	(10 110)	(35 455)
Valuation recognised in other comprehensive income	(1 132)	349
Change in investment securities, in total	**(25 540)**	**(163 999)**
Amounts due to other banks, change resulting from balance-sheet values	979 107	777 146
Interest accrued and not paid in the current year	(3 642)	(6 256)
Interest accrued in the previous year and paid in the current year	6 356	3 807
Exclusion of change in cash from financing activities	(349 121)	(797 775)
Change in amounts due to other banks, in total	**632 700**	**(23 078)**
Amounts due to clients, change resulting from balance-sheet values	15 497	(45 155)
Interest accrued and not paid in the current year	(37)	(132)
Interest accrued in the previous year and paid in the current year	132	186
Change in amounts due to clients, in total	**15 592**	**(45 101)**
Debt securities in issue, change resulting from balance-sheet values	993 314	510 181
Interest accrued and not paid in the current year	(25 663)	(28 132)
Interest accrued in the previous year and paid in the current year	32 362	26 999
Exclusion of change in cash from financing activities	(990 713)	(489 178)
Change in debt securities in issue, in total	**9 300**	**19 870**
Subordinated liabilities, change resulting from balance-sheet values	100 642	(11)
Interest accrued and not paid in the current year	(900)	(259)
Interest accrued in the previous year and paid in the current year	258	270
Exclusion of change in cash from financing activities	(100 000)	
Change in subordinated liabilities, in total	**-**	**-**
Other liabilities and provisions, change resulting from balance-sheet values	6 349	(5 783)
Actuarial valuation of provisions for post-employment benefits recognised in other comprehensive income	4	(17)
Change in other liabilities and provisions, in total	**6 353**	**(5 800)**

33. Proceedings before a court, arbitration body or public administration authority

In both 2015 and 2014, the Bank did not conduct any proceedings before a court, arbitration body or public administration authority, which value consists at least 10% of the Bank's equity.

Information on proceedings before a court, arbitration body or public administration authority

1. As at 31 December 2015, before the District Court in Poznań there was an action brought by the Bank against debtor in rem of the Bank, who purchased mortgaged real property from the Bank's borrower. The value of dispute amounts to PLN 11 692 thousand. The District Court in Poznań suspended the proceedings due to the lack of a body in the company that would be authorised to act on its behalf. On 8 December 2015, the Bank filed a request with the District Court in Poznań, Commercial Department, to appoint a legal guardian.
2. The Bank is the assignee on the basis of agreement on transfer of receivables from insurance policy. The assignment was made to secure the loan granted to the borrower by the Bank. As a result of the fire in the real estate, the borrower incurred a loss. The Insurer paid a compensation which did not cover the damage. The Bank as entitled from policy, applied for compensation, by at first directing a request for payment, and then on 4 February 2014 filed a lawsuit in the District Court of Warsaw 20th Commercial Department for the amount of PLN 18 494 thousand against the Insurer for payment of damages. After the proceedings were instituted, the Insurer willingly partially satisfied demands of the Bank and paid to the Bank the net amount of PLN 6 523 thousand. On 24 February 2014, the Court issued a payment order in which it ordered the Insurer to pay the amount of PLN 18 494 thousand with statutory interest to the Bank. On 26 March 2014, the Insurer successfully brought a complaint against an order for payment. On 10 June 2014, the Bank submitted a reply to the objection of the Insurer and extended the claim of the lawsuit with the amount of PLN 1 324 thousand for capitalised interest with statutory interest for the period from the day of instituting an action to the day of payment. In November 2014 the case was referred to mediation, however, neither of the parties consent. The first hearing was held 17 September 2015, during which the court heard witnesses indicated by the Bank. The second hearing was held on 21 January 2016, during which the court heard a witness indicated by the Insurer. The next hearing was scheduled for 16 May 2016.
3. As at 31 December 2015 a lawsuit is pending before the District Court in Warsaw 24th Civil Department that was brought by the Capital City of Warsaw against mBank Hipoteczny S.A. for the payment of the amount of PLN 39 thousand for statutory interests from the annual fee for 2012 for perpetual usufruct of a real estate acquired by the Bank in the course of execution from the real estate (adjudication of right of perpetual usufruct by the court) situated in Warsaw at Nałęczowska 33/35 street. On 20 May 2015, the District Court in Warsaw issued a judgement in which it discontinued proceedings regarding the main claim (it was previously satisfied by the Bank), dismissed the claim of the City of Warsaw for payment of statutory interests in the amount of PLN 39 thousand and charged the Bank with the costs of proceedings in the amount of PLN 9 thousand. On 23 June 2015, the Bank submitted a complaint against the decision on charging the Bank with the costs of proceedings, demanding the change of the decision in this regard, i.e. not charging the Bank with the costs of proceedings. The plaintiff City of Warsaw timely appealed against the judgement in terms in which the claim for interests was dismissed. Both the complaint against costs and appeal for interests wait for scheduling in the Appeal Court in Warsaw as at 31 December 2015. As at 31 December 2015, the Bank had a provision for this purpose in the amount of PLN 55.5 thousand, from which PLN 18 thousand was recognised in costs in 2015 (Note 13), the remaining amount was recognised in the costs of the second half of 2014.
4. On 30 December 2015, the Bank filed for the order of payment of the amount of EUR 2 002 thousand against the borrower due to lack of loan repayment after termination of the loan agreement.

for 2015 (in PLN thousand)

34. Off-balance sheet liabilities

31.12.2015	Up to 1 year	From 1 to 5 years	Over 5 years	Total
1. Off-balance sheet liabilities granted and received	**1 036 620**	**125 079**	**-**	**1 161 699**
Liabilities granted	**865 853**	**125 079**	**-**	**990 932**
1. Financial liabilities:	865 853	125 079	-	990 932
a) Lending commitments	862 469	117 498	-	979 967
b) Operating lease liabilities	3 384	7 581	-	10 965
Liabilities received:	**170 767**	**-**	**-**	**170 767**
a) Financial liabilities received	170 767	-	-	170 767
2. Derivative financial instruments	**1 623 730**	**426 150**	**630 702**	**2 680 582**
1. Interest rate derivatives	400 000	426 150	630 702	1 456 852
2. Foreign exchange derivatives	1 223 730			1 223 730
Total off-balance sheet items	**2 660 350**	**551 229**	**630 702**	**3 842 281**

31.12.2014	Up to 1 year	From 1 to 5 years	Over 5 years	Total
1. Off-balance sheet liabilities granted and received	**1 089 041**	**166 956**	**-**	**1 255 997**
Liabilities granted	**918 862**	**166 956**	**-**	**1 085 818**
1. Financial liabilities:	918 862	166 956	-	1 085 818
a) Lending commitments	915 896	161 072	-	1 076 968
b) Operating lease liabilities	2 966	5 884	-	8 850
Liabilities received:	**170 179**	**-**	**-**	**170 179**
a) Financial liabilities received	170 179	-	-	170 179
2. Derivative financial instruments	**3 008 022**	**170 492**	**622 296**	**3 800 810**
1. Interest rate derivatives	1 700 000	170 492	622 296	2 492 788
2. Foreign exchange derivatives	1 308 022	-	-	1 308 022
Total off-balance sheet items	**4 097 063**	**337 448**	**622 296**	**5 056 807**

35. Pledge assets

The Bank, in accordance with the Act on the Bank Guarantee Fund as at 31 December 2015 held treasury bonds in the amount of PLN 2 070 thousand (of nominal value of PLN 2 000 thousand), while as at 31 December 2014 held treasury bonds in the amount of PLN 2 123 thousand (of nominal value of PLN 2 000 thousand) which constituted collateral of fund for the guaranteed deposits protection fund. Those assets are recognised in the balance sheet in the item "Investment securities available for sale".

The Bank secured issued mortgage and public sector covered bonds with receivables due to loans and advances that are described in Note 28.

The Bank additionally secured issued mortgage and public sector covered bonds with treasury bonds of total balance sheet value of PLN 66 343 thousand as at 31 December 2015 (PLN 200 614 thousand as at 31.12.2014).

36. Registered share capital

The total number of ordinary shares as at 31 December 2015 was 2 990 000 shares (31 December 2014: 2 850 000 shares) with nominal value of PLN 100 per share (31 December 2014: PLN 100 each). Increase of number of shares in 2015 took place due to a private placement carried out by mBank Hipoteczny S.A., without pre-emptive rights 140 000 ordinary shares of nominal value of each share of PLN 100 on the basis of resolution no. 1 of extraordinary general meeting of shareholders of mBank Hipoteczny S.A., which took place on 24 July 2015. The shares were covered and fully paid by mBank S.A. on 31 July 2015. On 19 August 2015 the first entry to the National Court Register of the new amount of share capital of mBank Hipoteczny S.A., increased as a result of new issuing, took place.

for 2015 (in PLN thousand)

Due to issuing of shares that took place in 2015:

- the share capital increased by 14 000 thousand and as at 31 December 2015 amounted to PLN 299 000 thousand,
- the supplementary capital from the sale of shares above the nominal value (share premium) increased by PLN 125 918 thousand and as at 31 December 2015 amounted to PLN 215 856 thousand.

The Bank did not issue preferred shares, there are no limitations of rights associated with shares. All shares participate equally in the dividend distribution. All issued shares were fully paid up. The Bank does not possess own shares.

After the increase the shareholder structure of mBank Hipoteczny S.A. is as follows:

Shareholder's name	Equity (PLN)	Shares		Voting rights at the General Shareholders' Meeting	
		Number of shares	%	Number of shares	%
mBank S.A.	299 000 000	2 990 000	100.00	2 990 000	100.00
Total	**299 000 000**	**2 990 000**	**100.00**	**2 990 000**	**100.00**

As MLV 45 sp. z o. o. spółka komandytowa ceased its activity, mBank reorganised the mBank Group S.A. Consequently, on 10 September 2015 an agreement on transfer of shares between MLV spółka z ograniczoną odpowiedzialnością spółka komandytowa and mBank S.A. was concluded on the basis on which all shares held by MLV 45 sp. z o. o. spółka komandytowa, in total 2 082 143 registered shares of mBank Hipoteczny S.A. of nominal value of PLN 100 each, constituting 69.63% of share capital of mBank Hipoteczny S.A., were purchased by mBank S.A.

The shareholder structure of mBank Hipoteczny S.A. as at 31 December 2015 is presented in the following table:

Shareholder's name	Equity (PLN)	Shares		Voting rights at the General Shareholders' Meeting	
		Number of shares	%	Number of shares	%
mBank S.A.	299 000 000	2 990 000	100.00	2 990 000	100.00
Total	**299 000 000**	**2 990 000**	**100.00**	**2 990 000**	**100.00**

The shareholder structure of mBank Hipoteczny S.A. as at 31 December 2014 is presented in the following table:

Shareholder's name	Equity (PLN)	Shares		Voting rights at the General Shareholders' Meeting	
		Number of shares	%	Number of shares	%
MLV 45 Sp. z o.o. spółka komandytowa	208 214 300	2 082 143	73.06	2 082 143	73.06
mBank S.A.	76 785 700	767 857	26.94	767 857	26.94
Total	**285 000 000**	**2 850 000**	**100.00**	**2 850 000**	**100.00**

The Bank is under no obligation due to approved payment of dividend.

for 2015 (in PLN thousand)

REGISTERED SHARE CAPITAL (STRUCTURE) AS AT 31 DECEMBER 2015							
Share type	**Type of preference**	**Type of restrictions**	**Number of shares**	**Series / issue at par value (PLN)**	**Means of covering share capital**	**Registration date**	**Right to dividend**
registered	-	-	500 000	50 000 000	cash	16.04.1999	01.01.2000
registered	-	-	850 000	85 000 000	cash	20.09.2000	01.01.2001
registered	-	-	400 000	40 000 000	cash	24.04.2006	01.01.2006
registered	-	-	1 000 000	100 000 000	cash	08.01.2013	01.01.2013
registered	-	-	100 000	10 000 000	cash	30.12.2014	01.01.2015
registered			140 000	14 000 000	cash	19.08.2015	01.01.2016
Total number of shares			**2 990 000**				
Total registered share capital				**299 000 000**			

37. Share premium

Share premium is formed from the share premium obtained from the issue of shares reduced by the direct costs incurred with that issue. This capital is intended to cover all losses that may result from the business activity of the Bank.

Increase of the supplementary capital from the sale of shares above the nominal value in 2015 results from the issue of shares that is described in Note 36.

38. Retained earnings

	31.12.2015	**31.12.2014**
Other supplementary capital	211 340	192 469
General banking risk reserve	36 500	33 000
Profit for the current year	18 791	22 371
Total retained earnings	**266 631**	**247 840**

Other supplementary capital and the fund for general banking risk are created from profit deductions and are intended for the purposes specified in the articles of association and other provisions of law.

The Bank is not required to allocate minimum of 8% of net profit to supplementary capital created statutorily until it reaches the level of the one third of the share capital of the Bank. The Bank may also allocate part of the profit to the fund for general banking risk to cover unexpected losses.

In accordance with the Resolution no. 2 of Ordinary General Meeting of mBank Hipoteczny S.A. dated 22 April 2015 the net profit of 2014 was allocated to:

- supplementary capital in the amount of PLN 18 871 thousand,
- fund for general banking risk in the amount of PLN 3 500 thousand.

The Bank intends to allocate the net profit of 2015 to supplementary capital and partially to the fund for general banking risk.

39. Other components of equity

	31.12.2015	**31.12.2014**
Available-for-sale financial assets	**825**	**1 742**
Unrealised gains on debt instruments	825	1 742
Actuarial gains and losses on post-employment benefits	**24**	**21**
Actuarial gains of the defined benefit pension plan	24	21
Total comprehensive income, net	**849**	**1 763**

for 2015 (in PLN thousand)

40. Dividend per share

mBank Hipoteczny S.A. does not plan to pay dividend for 2015 and did not pay dividend for 2014.

41. Cash and cash equivalents

For the needs of the cash flow account, the balance of cash and cash equivalents contains the following balances of maturity date shorter than three months from the day of purchase.

	31.12.2015	31.12.2014
Cash and balances with the central bank (Note 18)	7 521	7 669
Amounts due from other banks (Note 19)	205 180	30 972
Central bank's bills	469 863	479 973
Total cash and cash equivalents	**682 564**	**518 614**

42. Incentive programme for the Members of the Management Board and employees who have significant influence on the Bank's risk profile

2012 Incentive programme for the Members of the Management Board and employees who have significant influence on the Bank's risk profile (valid for 2012 and 2013)

On 19 September 2012 the Supervisory Board of the Bank accepted the regulation on variable remuneration for Management Board Members of BRE Bank Hipoteczny S.A. (currently mBank Hipoteczny S.A.) and the "Regulation variable remuneration for employees having significant influence on the Bank's risk profile".

According to the above rules the Management Board and the employees having significant influence on the Bank's risk profile receive part of their variable remuneration in the form of phantom shares - virtual, non-transferable shares, whose owner is not the owner of rights pertaining to the owner of ordinary shares. Phantom shares are awarded in the amount resulting from valuation of those shares for the assessment period. Valuation of phantom shares is calculated at the end of each reporting period as the quotient of the Bank' book value and the amount of ordinary shares.

<u>Variable remuneration for Management Board Members and the employees having significant influence on the Bank's risk profile is granted under the following rules:</u>

1) 50% of period bonus in cash,
2) 50% of period bonus in phantom shares instead of cash, of which:
   - 20% is granted in the year following the period of appraisal, to which the bonus relates, within 30 calendar days following the approval of the Bank's annual financial statements by the General Meeting of Shareholders,
   - 80% is provided in three equal tranches ("Deferred tranches").

The entitled person earns the right to the first, second and third deferred tranches respectively after the second, third and fourth calendar year following the end of the appraisal period, if:

- he or she was positively assessed on his or her duties by the Supervisory Board in case of Members of the Management Board or he or she achieved the level of appraisal for relevant year of at least 80% in case of other employees,
- he or she meets the conditions for employment with the Bank and
- Bank's result at the end of the first, second and third calendar year respectively following the end of the appraisal period is not lower than the result for that year assumed in the financial plan less 10%.

Each of the deferred tranches referred to above is granted within 30 calendar days following the approval of the Bank's annual financial statements for relevant year by the General Meeting of Shareholders.

Supervisory Board may modify the budgeted Bank's result depending on the market situation The last settlements of this program are planned in 2017.

2014 Incentive programme for the Members of the Management Board and employees who have significant influence on the Bank's risk profile

Beginning in 2014 the incentive programme for Members of the Management Board was modified as follows.

<u>Variable remuneration for Management Board Members is granted under the following rules:</u>

1) 60% of the bonus is paid in the year in which the bonus is granted, of which 50% in cash and another 50% in the form of phantom shares.
2) 40% of the bonus will be paid in three equal tranches in the next three following years after the year in which the bonus is granted, of which 50% in cash and another 50% in the form of phantom shares.

The Supervisory Board may decide to suspend in whole or reduce the amount of deferred tranche:

1) due to subsequent appraisal of Management Board performance in time perspective exceeding 1 fiscal year,
2) if at least one of the elements included in the Scorecard is not be met

Furthermore, the Supervisory Board may decide to suspend in whole or to reduce the amount of discretionary bonus for relevant fiscal year, as well as in terms of a deferred tranche in case of a balance sheet loss or threat of its occurrence or losing of liquidity by the Bank. Suspending in whole or reduction of a bonus, as well as any deferred tranche may also relate to a bonus and a deferred tranche paid to a member of the Management Board after expiration or termination of agreement.

Incentive programme for employees who have significant influence on the Bank's risk profile was not changed from its original content of 2012. Variable remuneration for employees having significant influence on the Bank's risk profile is granted under the following rules:

3) 50% of period bonus in cash,
4) 50% of period bonus in phantom shares instead of cash, of which:
   - 20% is granted in the year following the period of appraisal, to which the bonus relates, within 30 calendar days following the approval of the Bank's annual financial statements by the General Meeting of Shareholders,
   - 80% is provided in three equal tranches ("Deferred tranches").

The entitled person earns the right to the first, second and third deferred tranches respectively after the second, third and fourth calendar year following the end of the appraisal period, if:

- he or she was positively assessed on his or her duties by the Supervisory Board in case of Members of the Management Board or he or she achieved the level of appraisal for relevant year of at least 80% in case of other employees,
- he or she meets the conditions for employment with the Bank and
- Bank's result at the end of the first, second and third calendar year respectively following the end of the appraisal period is not lower than the result for that year assumed in the financial plan less 10%.

Each of the deferred tranches referred to above is granted within 30 calendar days following the approval of the Bank's annual financial statements for relevant year by the General Meeting of Shareholders.

Supervisory Board may modify the budgeted Bank's result depending on the market situation

The last settlements of this program are planned in 2018.

2015 Incentive programme for the Members of the Management Board and employees who have significant influence on the Bank's risk profile

On 26 June 2015, the Bank's Supervisory Board accepted new remuneration policy for persons having significant influence on the Bank's risk profile in mBank Hipoteczny S.A., hereinafter referred to as "Policy", which entered into force on 1 July 2015. In accordance with the accepted Policy, variable remuneration includes bonus granted to member of the Management Board or remaining employees for a given financial year. Variable remuneration is established in a transparent manner, possible to verify, ensuring effective implementation of the Policy.
The maximum level of the amount of variable remuneration components of persons covered by the Policy may not exceed 100% of the basic remuneration paid to a member of the Management Board or other employees for a given financial year. Variable remuneration is part of total remuneration (annual basic remuneration and variable remuneration) for Management Board members or other employees. Variable remuneration is established taking into account market practices, in both banking sector and nationwide market, verified on the basis of market payroll reports and remuneration policy of the mBank Group.

<u>Process for awarding and deferring variable remuneration for members of the Bank's Management Board:</u>

The amount of bonus for particular members of the Bank's Management Board is established by the Supervisory Board, taking into account whether a member of the Management Board completed an established annual/multi-annual business and development objective - Management By Objective ("MBO"). The decision on granting of a bonus and its amount is the exclusive competence of the Supervisory Board which according to its own assessment and decision confirms achieving of MBO, taking into account situation on financial markets in the last/previous financial periods.

Variable remuneration is granted in accordance with the following rules:

- 60% of the bonus will be paid in the year of bonus determination ("non-deferred bonus") as follows:
  - 50% of non-deferred bonus in form of cash payment and
  - 50% of non-deferred bonus in phantom shares
- 40% of the bonus will be paid in three equal tranches ("deferred trenches") in the next three following years after the year of granting of the bonus in the following way:
  - 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 phantom shares.

The Supervisory Board may decide to suspend in whole or reduce the amount of deferred tranche, if:

- if it finds that in a longer-term (period of at least 3 years) an employee through its actions or omissions directly and negatively impacted financial result and market position of the Bank or
- at least one of the elements included in the Scorecard is not be met (i.e. in case of at least one "YES" answer to questions raised by it) or
- the management contract will expire or will be terminated for reasons other than:
  - expiry of the period for which it was concluded,
  - dismissal of the member of the Management Board of the Bank in the duration of the contract, excluding reasons specified in detail in the contract,
  - adoption of new responsibilities within mBank Group,
  - retirement of the member of the Management Board.

<u>Process for awarding and deferring variable remuneration for remaining employees who have significant influence of the Bank's risk profile:</u>

The Management Board of the Bank establishes the amount of bonuses of particular employees who have significant influence on the Bank's risk profile taking into account whether they completed annual/multi-annual business and development objective - MBO. The decision on granting of a bonus and its amount is the exclusive competence of the Management Board of the Bank which according to its own assessment and decision confirms achieving of MBO, taking into account situation on financial markets in the last/previous financial periods.

for 2015 (in PLN thousand)

Variable remuneration is granted in accordance with the following rules:

- 60% of the bonus will be paid in the year of bonus determination ("non-deferred bonus") as follows:
  - 50% of non-deferred bonus in form of cash payment and
  - 50% of non-deferred bonus in phantom shares,
- 40% of the bonus will be paid in three equal tranches ("deferred trenches") in the next three following years after the year of granting of the bonus in the following way:
  - 50% of each of the deferred tranches in form of cash payment and
  - 50% of each of the deferred tranches in form of phantom shares.

The Management Board of the Bank may decide to suspend in whole or reduce the amount of deferred trench:

- if it finds that in a longer-term (period of at least 3 years) an employee through its actions or omissions directly and negatively impacted financial result and market position of the Bank in the assessment period. In the assessment of actions or omissions of an employee the Management Board of the Bank takes into account e.g. results of the MBO assessment of the employee,
- in case of termination of an employment contract with the exclusion of reasons specified in the employment contract/internal regulations of the Bank,
- additionally, the payment of deferred tranches depends on decision of, respectively, the Supervisory Board and the Management Board, who can decide to suspend in whole or reduce the amount of bonus for a given financial year, as well as in the scope of deferred tranche that has not been paid yet, in case of a balance sheet loss or threat of its occurrence or a risk of insolvency or losing of liquidity by the Bank.

The last settlements of this program are planned in 2019.

Accounting for incentive programmes

Payments of the remuneration programme for Management Board members and employees having a significant impact on the Bank's risk profile are accounted for in accordance with IAS 19 "Employee Benefits". Both the cash portion of the program as well as the phantom share portion settled in cash is recognised in expenses for the period with a corresponding credit to liabilities. Costs are recognised over time during the period of the right to benefits and included in "Overhead costs".

43. Transactions with related entities

The direct parent entity of mBank Hipoteczny S.A. is mBank S.A. The direct parent entity of mBank S.A. is Commerzbank AG.

All transactions between the Bank and related entities were typical and routine transactions, according to the Management Board concluded on conditions that did not vary from the market conditions, and their nature and conditions resulted from current operational activity conducted by the Bank. Transactions with related entities concluded in the scope of ordinary operational activity cover loans, deposits, liabilities arising from the issue of debt securities and derivative transactions.

The following table presents financial liabilities against mBank S.A. according to contractual due dates of the capital.

31.12.2015	Up to 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total
Term deposits	244 636	55 107	13 661	-	-	**313 404**
Loans received	-	85 283	170 671	1 458 325	799 240	**2 513 519**
Other financial liabilities with deferred payment term	-	-	-	113 011	-	**113 011**
Subordinated loan	-	-	-	-	200 899	**200 899**
Liabilities in respect of cash collateral	19 807	-	-	-	-	**19 807**
Covered bonds and bonds in issue	-	-	11 356	5 687	-	**17 043**
Derivative financial instruments	208	204	985	-	2 369	**3 766**
Other liabilities	1 430	-	-	-	-	**1 430**

for 2015 (in PLN thousand)

Other financial liabilities with deferred payment term relate to liability resulting from agreements on transfer of commercial loans secured with a mortgage concluded with mBank S.A. in 2015.

31.12.2014	Up to 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total
Term deposits	117 527	204 262	74 838	-	-	**396 627**
Loans received	-	-	171 038	1 057 183	-	**1 228 221**
Other financial liabilities with deferred payment term	-	-	346 533	-	-	**346 533**
Subordinated loan	-	-	-	-	100 257	**100 257**
Covered bonds and bonds in issue	-	-	88 080	315 883	8 392	**412 355**
Derivative financial instruments	3 812	1 296	4 289	45	-	**9 442**
Liabilities in respect of cash collateral	9 253	-	-	-	-	**9 253**

Other financial liabilities with deferred payment term relate to liability resulting from agreements on transfer of retail loans portfolio secured with mortgage established on real estates and agreement on transfer of commercial loan secured with mortgage established on real estates concluded with mBank S.A. in 2014.

<u>Key agreements concluded with mBank S.A. in 2015:</u>

1. In the scope of a framework agreement signed on 28 August 2014 on purchasing of portfolio of receivables due to loans secured with mortgage in order to refinance them through issuing of mortgage covered bonds and entrusting by mBank Hipoteczny S.A. of further service of purchased portfolios to mBank S.A., in 2015 the following agreements were concluded:
    - on 30 January 2015 mBank S.A. and mBank Hipoteczny S.A. concluded agreement on transfer of portfolio, under which mBank Hipoteczny S.A. purchased portfolio of loans secured with mortgage of total fair value of PLN 114 138 thousand from mBank S.A.;
    - on 31 March 2015 mBank S.A. and mBank Hipoteczny S.A. concluded agreement on transfer of portfolio, under which mBank Hipoteczny S.A. purchased portfolio of loans secured with mortgage of total fair value of PLN 104 171 thousand from mBank S.A.;
    - on 29 May 2015 mBank S.A. and mBank Hipoteczny S.A. concluded agreement on transfer of portfolio, under which mBank Hipoteczny S.A. purchased portfolio of loans secured with mortgage of total fair value of PLN 109 051 thousand from mBank S.A.;
    - on 31 August 2015 mBank S.A. and mBank Hipoteczny S.A. concluded agreement on transfer of portfolio, under which mBank Hipoteczny S.A. purchased portfolio of loans secured with mortgage of total fair value of PLN 157 309 thousand from mBank S.A.;
2. On 24 July 2015 mBank S.A. and mBank Hipoteczny S.A. concluded deposit agreement up to the amount of PLN 150 000 thousand.
3. In 2015 mBank S.A. and mBank Hipoteczny S.A. concluded the following agreements on transfer of commercial portfolio secured with mortgage:
    - on 23 September 2015, agreement on transfer of a commercial loan in the amount of EUR 9 742 thousand;
    - on 23 September 2015, agreement on transfer of a commercial loan in the amount of EUR 12 083 thousand;
    - on 25 September 2015, agreement on transfer of a commercial loan in the amount of EUR 15 226 thousand;
    - on 9 November 2015, agreement on transfer of a commercial loan in the amount of EUR 11 893 thousand;
    - on 7 December 2015, agreement on transfer of a commercial loan in the amount of EUR 2 774 thousand;
4. On 12 November 2015, mBank S.A. and mBank Hipoteczny S.A. concluded agreement on subordinated loan in the amount of PLN 100 000 thousand.
5. On 18 December 2015, mBank S.A. and mBank Hipoteczny S.A. concluded loan agreement to the amount of PLN 500 000 thousand.

The following table presents values of transactions of the Bank with related entities. The amounts of transactions include balances of assets and liabilities as at 31 December 2015 and 31 December 2014 and associated with them incomes and costs for 2015 and 2014.

(PLN '000)	Management and Supervisory Board and key workers of mBank Hipoteczny S.A./mBank S.A.		Other persons and entities related*		mBank Group companies**		mBANK S.A.		Commerzbank Group companies***	
As at the end of the period	**31.12.2015**	**31.12.2014**	**31.12.2015**	**31.12.2014**	**31.12.2015**	**31.12.2014**	**31.12.2015**	**31.12.2014**	**31.12.2015**	**31.12.2014**
Statement of finacial position										
Assets	3 377	1 723	108	-	2 265	4 317	236 950	68 412		-
Liabilities	-	-	-		352 506	4 374	3 182 879	2 502 849	638 718	425 888
Contingent liability										
Liability recived	-	-	-	-	-	-	170 767	170 179	-	-
Derivatives (purchase, sales)										
IRS contracts	-	-	-	-	-	-	1 056 852	2 492 788	-	-
FX SWAP contracts	-	-	-	-	-	-	1 218 294	1 306 742	-	-

(PLN '000)	Management and Supervisory Board and key workers of mBank Hipoteczny S.A./mBank S.A.		Other persons and entities related*		mBank Group companies**		mBANK S.A.		Commerzbank Group companies***	
Year ended	**31.12.2015**	**31.12.2014**	**31.12.2015**	**31.12.2014**	**31.12.2015**	**31.12.2014**	**31.12.2015**	**31.12.2014**	**31.12.2015**	**31.12.2014**
Income statement										
Interest income	58	31	-	-	1 344	291	14 953	18 305	-	-
Interest expense	-	-	-	-	-	(212)	(57 169)	(42 015)	(4 993)	(3 226)
Fee and commission income	-	-	-	-	1 020	1 686		-	-	-
Fee and commission expenses	-	-	-	-	(38)	(38)	(850)	(905)	-	-
Net trading income	-	-	-	-	-	-	3 902	12 859	-	-
Other operating income	-	-	-	-	-	-	181	240	-	-
Other operating expenses	-	-	-	-	-	(5)		-	-	-
Overhead costs, amortisation and depreciation	-	-	-	-	(1 320)	(1 099)	(3 602)	(3 364)	-	-

* Other persons and related entities include loans granted to close family members of Members of the Supervisory Board of mBank S.A.

** item mBank Group Companies include transactions with the following companies of mBank Group: Aspiro S.A., mCentrum Operacji Sp. z o.o., mCorporate Finance S.A., mLeasing, mLocum S.A., BRE Ubezpieczenia TUiR S.A (data include transactions with the company in 2014), BRE Ubezpieczenia Sp. z o.o. (company acquired by Aspiro S.A. on 2 March 2015),

*** item Commerzbank Group Companies include purchase transactions on secondary market of mortgage covered bonds by Comdirect Bank AG.

for 2015 (in PLN thousand)

Management Board composition and remuneration

As at 31 December 2015, the composition of the Management Board is as follows:

Piotr Cyburt – President of the Management Board
Marcin Romanowski – Member of the Management Board
Grzegorz Trawiński – Member of the Management Board
Marcin Wojtachnio – Member of the Management Board

As at 31 December 2014, the composition of the Management Board was as follows:

Piotr Cyburt – President of the Management Board
Marcin Romanowski – Member of the Management Board
Marcin Wojtachnio – Member of the Management Board

Mr Grzegorz Trawiński was appointed member of the Management Board of mBank Hipoteczny S.A. on 1 April 2015 by resolution no. 7/2015 of the Supervisory Board of mBank Hipoteczny S.A. dated 31 March 2015.

Information on the value of salaries and bonuses paid to the Members of the Management Board who were performing their functions at the end of 2015 as at 31 December 2015 and 31 December 2014 is presented below.

		Remuneration paid in 2015 (in PLN)		
		Gross remuneration paid in 2015	Other benefits	Cash settlement of discretionary award paid in 2015
1.	Piotr Cyburt	756 000	17 867	194 422
2.	Marcin Romanowski	730 800	8 105	187 221
3.	Grzegorz Trawiński	382 500	8 749	-
4.	Marcin Wojtachnio	502 500	15 647	218 438
	Total	**2 371 800**	**50 368**	**600 081**

		Remuneration paid in 2014 (in PLN)		
		Gross remuneration paid in 2015	Other benefits	Cash settlement of discretionary award paid in 2015
1.	Piotr Cyburt	756 000	8 484	-
2.	Marcin Romanowski	730 800	7 613	-
3.	Marcin Wojtachnio	480 000	6 264	90 000
	Total	**1 966 800**	**22 361**	**90 000**

As at 31 December 2015 the provision for awards/bonuses for employees and the Management Board of the Bank amounted to PLN 4 929 thousand, including the amount of the provision for variable remuneration for the Members of the Management Board and employees who have significant influence on the Bank's risk profile in the amount of PLN 2 008 thousand.

Variable remuneration program for the Members of the Management Board and employees who have significant influence on the Bank's risk profile is described in Note 42.

The Members of the Management Board, in accordance with concluded agreements and current period of performing the role of the Member of the Management board, in case of termination of management agreement, are entitled to severance in the amount of:

- 12 monthly remunerations - Chairman of the Management Board,
- 6 monthly remunerations - Members of the Management Board

for 2015 (in PLN thousand)

Supervisory Board Compensation

On 11 April 2014, Ordinary General Meeting of mBank Hipoteczny S.A. selected 6-person Supervisory Board of mBank Hipoteczny S.A. for the joint term of two years. On 3 July 2014 another member of the Supervisory Board was appointed who meets the requirements of independence within the meaning of the Act dated 7 May 2009 on expert auditors and their self-government, entities authorised to audit financial statements and public supervision - Mr Mariusz Tokarski. In 2015 there were changes on the positions of Chairman and Vice-Chairman of the Supervisory Board of mBank Hipoteczny S.A. By Resolution of the Supervisory Board no. 33/2015, Mr Hans-Dieter Kemler was appointed Chairman of the Supervisory Board of mBank Hipoteczny S.A. By Resolution of the Supervisory Board no. 34/2015, Mrs Lidia Jabłonowska-Luba was appointed Vice-Chairman of the Supervisory Board of mBank Hipoteczny S.A. On 28 September 2015 Mr Cezary Kocik resign from his function of the Chairman of the Supervisory Board of mBank Hipoteczny S.A.

Composition of mBank Hipoteczny S.A. Supervisory Board as at 31 December 2015:

1.	Hans-Dieter Kemler	-	Chairman of the Supervisory Board, Member of the Audit Committee, Member of the Risk Committee
2.	Lidia Jabłonowska-Luba	-	Vice-Chairman of the Supervisory Board, Chairperson of the Risk Committee
3.	Joerg Hessenmueller	-	Member of the Supervisory Board, Chairman of the Audit Committee, Member of Risk Committee
4.	Cezary Kocik	-	Member of the Supervisory Board
5.	Michał Popiołek	-	Member of the Supervisory Board, Member of the Risk Committee
6.	Dariusz Solski	-	Member of the Supervisory Board, Member of the Audit Committee,
7.	Tokarski Mariusz	-	Member of the Supervisory Board, Member of the Audit Committee,

In 2015 the Supervisory Board worked without remuneration, excluding Mr Mariusz Tokarski, who as a Member of the Supervisory Board received remuneration for 2015 in the amount of PLN 36 thousand.

Composition of mBank Hipoteczny S.A. Supervisory Board as at 31 December 2014:

1.	Cezary Kocik	-	Chairman of the Supervisory Board
2.	Hans-Dieter Kemler	-	Vice-Chairman of the Supervisory Board, Member of the Audit Committee, Member of the Risk Committee
3.	Joerg Hessenmueller	-	Member of the Supervisory Board, Chairman of the Audit Committee, Member of Risk Committee
4.	Lidia Jabłonowska-Luba	-	Member of the Supervisory Board, Chairperson of the Risk Committee
5.	Michał Popiołek	-	Member of the Supervisory Board, Member of the Risk Committee
6.	Dariusz Solski	-	Member of the Supervisory Board, Member of the Audit Committee,
7.	Tokarski Mariusz	-	Member of the Supervisory Board, Member of the Audit Committee,

In 2014 the Supervisory Board worked without remuneration, excluding Mrs Jolanta Daniewska, who as a Member of the Supervisory Board of previous term, for the period of expiry of this term received remuneration for 2014 in the amount of PLN 12 thousand and Mr Mariusz Tokarski, who received remuneration for 2014 in the amount of PLN 18 thousand (for the period from the dy of appointment until 31 December 2014).

According to the wording of paragraph 14 section 1 point 5 of the Articles of Association of mBank Hipoteczny S.A., the General Meeting, in a form of resolution, makes a decision regarding appointment or dismissal of the Supervisory Board members and determination of principles of their remuneration.

According to the wording of paragraph 3 section 1 point 9 of the Rules and Regulations of the Supervisory Board of mBank Hipoteczny S.A., establishing of terms and conditions of contracts and remuneration for members of the Management Board of the Bank lies within the competence of the Supervisory Board.

44. Information about the registered audit company

By Resolution no. 18/2015 dated 22 April 2015, the Supervisory Board of mBank Hipoteczny S.A., acting under paragraph 26 para. 8) of the Articles of Association of the Bank, appointed Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością s. k. as auditor for audit of financial statement of the Bank for 2015.

Due to the above decision of the Supervisory Board, the Bank concluded agreement with Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością s. k. to conduct audit of financial statement for 2015.

Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością s. k. with registered office in Warsaw, Rondo ONZ 1, 00-124 Warszawa, entered into the list of auditors authorised to audit financial statements under number 130.

The total amount of remuneration of Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością s. k. for 2015 amounted to PLN 300 thousand.

The total amount of remuneration of Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością s. k. (previously Ernst & Young Audit sp. z o.o.) for 2014 amounted to PLN 483 thousand.

45. Capital ratio/capital adequacy

The guiding principle of managing of capital in the Bank is maintaining of the capital on the level ensuring stable development of the Bank and covering of both minimum capital requirement and Other risk categories recognised by the Bank as significant. Capital management is based of principles specified in the Banking Law and good practices.

The main aim of capital management is ensuring capital resources to the Bank that will be sufficient to cover risk exposures, and in particular ensuring of implementation of required capitalisation within the limits of risk appetite.

The Bank manages the capital for risk covering using system of limits and early warning indicators, basing the core of the concept on principles formulated within consolidated supervision in the Capital Group, supporting implementation of strategic capital objectives. The Bank acts within Principles of capital management and planning policy which aim is to ensure effective use of available capital.

Effective use of capital is an integral part of the capital management policy oriented at reaching an optimal rate of return on capital and as a result forming a stable fundament of reinforcement of the capital basis in future periods. This enables to maintain the Common Equity Tier 1 capital ratio (calculated as a quotient of Common Equity Tier 1 capital to the total risk exposure amount) and the total capital ratio (calculated as a quotient of own funds to the total risk exposure amount) at least on the level required by the supervision authority.

Strategic capital objectives of the Bank are oriented towards maintaining of both total capital ratio and a Common Equity Tier 1 capital ratio on the level appropriately higher than level required by the supervising institution. It allows to maintain safe business development meeting the supervisory requirements in the long perspective.

Capital ratios

Starting from 1 January 2014, calculation of capital ratios, own funds and total amount of exposure to risk of the Bank is based on provisions of Regulation of the European Parliament and of the Council (EU) no. 575/2013 dated 26 July 2013 on prudential requirements for credit institutions and investment firms, amending regulation (EU) no. 648/2012 (hereinafter referred to as CCR Regulation) and on the basis of implementing regulations of the Commission (EU) supplementary to the CCR Regulation.

The total capital ratio of mBank Hipoteczny S.A. as at 31 December 2015 amounted to 13.81% (13.31% as at 31 December 2014) and the Common Equity Tier 1 capital ratio of mBank Hipoteczny S.A. amounted to 11.94% (10.95% as at 31 December 2014).

Own Funds

In accordance with CCR Regulation, own funds include a Common Equity Tier 1 capital, Additional Tier 1 capital and Tier 2 capital, wherein mBank Hipoteczny S.A., as at 31` December 2015, does not identify items which would qualify as Additional Tier 1 capital.

Common Equity Tier 1 capital of mBank Hipoteczny S.A. includes:

- capital instruments and the related share premium accounts,
- retained earnings,
- accumulated other comprehensive incomes,
- funds for general banking risk,
- independently identified profits from the current period,
- items reducing Tier 1 capital (including: additional value adjustments, intangible assets, AIRB shortfall of credit risk adjustments to expected losses, net impairment losses and regulatory adjustments relating to unrealised profits and losses).

Tier 2 capital of mBank Hipoteczny S.A. includes subordinated liabilities.

Own funds of the Bank as at 31 December 2015 amounted to PLN 740 012 thousand (as at 31 December 2014 they amounted to PLN 563 947 thousand).

Total risk exposure amount

The total Bank's risk exposure amount contains:

- risk weighted exposure amounts for credit risk, counterparty credit risk, dilution risk and free deliveries,
- total operational risk exposure amount,

In the calculation of capital ratios of the Bank, the total amount of exposures to risk is determined taking into account the amount of exposure to credit risk with application of internal ratings method using supervisory approach in terms of assignment of exposures due to specialist crediting to risk categories (IRB slotting approach method).

The total amount of risk exposures of the Bank as at 31 December 2015 amounted to PLN 5 358 363 thousand, where the amount of risk exposure due to credit risk constituted PLN 5 188 556 thousand.

The total amount of risk exposures of the Bank as at 31 December 2014 amounted to PLN 4 236 952 thousand, where the amount of risk exposure due to credit risk constituted PLN 4 078 327 thousand.

Internal capital

The Bank adjusts its own funds to the level and type of risk, the Bank is exposed to, and to the nature, the scale and the complexity of its operations. For this purpose the Bank developed and implemented the process of assessment of internal capital adequacy, so called ICAAP process (Internal Capital Adequacy Assessment Process), which is used to maintain own funds on the level adequate to the profile and level of risk of the Bank's business activity.

The internal capital is the amount of capital estimated and required to cover all material risks identified in the activity of the Bank. The internal capital is the total sum of the economic capital to cover risks included in the process of the economic capital calculation and the capital required to cover other risks (including hard to quantify risks).

Internal capital adequacy assessment process in the Bank is performed continuously and consists of five stages implemented by organisational units of the Bank.

The process consists of the following elements:

- risk inventory in the business activity of the Bank,
- calculation of internal capital for coverage of risk,
- stress tests,
- planning of economic capital,
- monitoring consisting in a permanent identification of risk involved in the Bank's operations and analysis of the level of capital for risk coverage.

for 2015 (in PLN thousand)

Internal capital adequacy assessment process is subject to approval of the Supervisory Board of mBank Hipoteczny S.A. The entire internal capital adequacy assessment process of the Bank is subject to annual reviews. The Management Board of mBank Hipoteczny S.A. is responsible for internal capital adequacy assessment process.

Capital adequacy	31.12.2015	31.12.2014
Common Equity Tier 1 Capital	**640 012**	**463 947**
Own funds	**740 012**	**563 947**
Risk weighted exposure amounts for credit risk, counterparty credit risk, dilution risk and deliveries with deferred settlement date:	5 188 556	4 078 327
- using internal rating method	3 715 701	3 429 080
- using standard method	1 472 855	649 247
Total operational risk exposure amount	169 807	158 625
Total risk exposure amount	**5 358 363**	**4 236 952**
Common Equity Tier 1 capital ratio	**11.94%**	**10.95%**
Total capital ratio	**13.81%**	**13.31%**
Internal capital	**444 893**	**349 008**

Own funds	31.12.2015	31.12.2014
Own funds	**740 012**	**563 947**
TIER 1 CAPITAL	**640 012**	**463 947**
Common Equity Tier 1 Capital	**640 012**	**463 947**
Capital instruments eligible as CET1 Capital	514 855	374 938
Paid up capital instruments	299 000	285 000
Share premium	215 855	89 938
Retained earnings	4 956	13 816
Retained earnings from previous years	-	-
Profit or loss eligible	4 956	13 816
Other accumulated comprehensive income	849	1 762
Other reserves	211 340	192 469
General banking risks founds	36 500	33 000
(-) Intangible assets	(8 048)	(4 964)
(-) Other intangible assets gross amount	(8 152)	(5 074)
Deferred tax liabilities associated to other intangible assets	104	110
(-) IRB shortfall of credit risk adjustments to expected losses	(108 764)	(133 465)
Other transitional adjustments to CET1 Capital	(509)	(1 762)
CET1 capital elements or deductions - other	(11 167)	(11 847)
Additional Tier 1 capital	-	-
TIER 2 CAPITAL	**100 000**	**100 000**
Capital instruments and subordinated loans eligible as T2 capital	100 000	100 000

46. Events after the balance sheet date

- KNF decision on appropriation to Tier 2 capital of mBank Hipoteczny S.A. of the value of the funds from the new subordinated loan

The Financial Supervision Authority on 7 January 2016 approved the appropriation of funds in the amount of PLN 100 000 thousand to the Tier 2 capital of the Bank in accordance with terms and conditions of subordinate loan agreement no. 35/2015 dated 12 November 2015 concluded between mBank Hipoteczny S.A. and mBank S.A.

- Collection of receivables from a customer following his bankruptcy

As at 31 December 2015 the Bank had a receivable in the amount of PLN 1 734 thousand on which a 100% impairment write-down was created due to a client’s bankruptcy, as disclosed in Note 13. On 7 January 2016, following a court’s decision, dated 4 January 2016, on the final plan of distribution of the client’s assets, the Bank collected a part of the receivable in the amount of PLN 906.5 thousand.

- Rating change

On 7 March 2016 Fitch Ratings Ltd. (Fitch) upgraded the long term international IDR („Issuer Default Rating”) of mBank Hipoteczny S.A. from „BBB-” (positive outlook) to „BBB” (stable outlook), which resulted directly from improved IDR of Commerzbank AG, upgraded from „BBB” to „BBB+” and of mBank S.A., upgraded from „BBB-” to „BBB”. As a result of the above rating action the short-term international IDR of the Bank was upgraded from “F3” to “F2” and its support rating was confirmed at “2”.
On 7 March 2016 Fitch Ratings Ltd. (Fitch) upgraded the rating for mortgage and public sector covered bonds issued by the Bank from „BBB” (positive outlook) to „BBB+” (positive outlook for mortgage covered bonds, stable outlook for public sector covered bonds).

- Mortgage covered bonds issue

On 9 March 2016 the Bank issued PLN 300 000 thousand 5-year floating-rate mortgage covered bonds.

Warsaw, 14 March 2016