mBank

2016

Disclosures regarding capital adequacy of mBank S.A. Group as at 31 December 2016

Warsaw, 1 March 2017
(update 27 July 2017)

Contents:

1. Introduction

On the basis of Regulation (UE) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 (hereinafter referred to as CRR Regulation) and on the basis of other regulations laying down implementing technical standards with regard to information disclosure, also in accordance with the Disclosure Policy of mBank SA (hereinafter referred to as mBank) available on website www.mbank.pl, information based on the data for mBank SA Group prudentially consolidated (hereinafter referred to as mBank Group) according to the requirements of the CRR Regulation are contained in the presented document.

Entities included in prudential consolidation according to the rules of the CRR Regulation were taken into account in the process of calculation of consolidated own funds and consolidated own funds requirements as at 31 December 2016. The scope of entities included in prudential consolidation is different from the scope of entities included in accounting consolidation based on International Financial Reporting Standards (hereinafter referred to as the IFRS).

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

2. Scope of prudential consolidation

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

The consolidated prudentially financial data of mBank Group as at 31 December 2016 (hereinafter referred to as Prudentially consolidated financial data for the year 2016) is presented in the Explanatory Note 48 of mBank Group IFRS Consolidated Financial Statements for 2016 (hereinafter referred to as the Consolidated financial statements for the year 2016).

The accounting policies applied for the preparation of the Prudentially consolidated financial data for 2016 are the same as those, which have been applied to the Consolidated financial statements for the year 2016, prepared in compliance with IFRS, except for the consolidation standards presented below. The consolidated profit presented in the Prudentially consolidated financial data for the year 2016 may be included in consolidated Common Equity Tier 1 for the purpose of the calculation of consolidated Common Equity Tier 1 capital ratio, consolidated Tier 1 capital ratio and consolidated total capital ratio with the prior permission of the Polish Financial Supervisory Authority (hereinafter referred to as PFSA) or the General Meeting decision on profit division.

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

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

The Prudentially consolidated financial data include the following entities:

1. mBank S.A.
2. mBank Hipoteczny S.A.
3. mCentrum Operacji Sp. z o.o.
4. mFaktoring S.A.
5. mFinance France S.A.
6. mFinanse S.A.
7. mLeasing Sp. z o.o.
8. Tele-Tech Investment Sp. z o.o.

Detailed information on consolidated entities included in accounting consolidation is presented in Explanatory Note 1 of the Consolidated financial statements for the year 2016.

Reconciliation between the IFRS Consolidated financial statements for the year 2016 and the Prudentially consolidated financial data for the year 2016 compliant with the CRR Regulation is presented below.

Reconciliation	Consolidated financial statements for the year 2016	Deconsolidation of entities not included in prudential consolidation	Prudentially consolidated financial data for the year 2016
ASSETS	**31.12.2016**	**31.12.2016**	**31.12.2016**
Cash and balances with the Central Bank	9,164,281	-	9,164,281
Loans and advances to banks	3,082,855	(815)	3,082,040
Trading securities	3,800,634	-	3,800,634
Derivative financial instruments	1,808,847	-	1,808,847
Loans and advances to customers	81,763,277	23,738	81,787,015
Hedge accounting adjustments related to fair value of hedged items	-	-	-
Investment securities	31,393,352	224,383	31,617,735
Investment in joint ventures	-	-	-
Intangible assets	582,663	-	582,663
Tangible assets	757,371	(4,461)	752,910
Current income tax assets	1,310	4	1,314
Deferred income tax assets	540,756	(364)	540,392
Other assets	848,156	(293,194)	554,962
TOTAL ASSETS	**133,743,502**	**(50,709)**	**133,692,793**
LIABILITIES AND EQUITY			
Liabilities			
Amounts due to the Central Bank	-	-	-
Amounts due to other banks	8,486,753	(1)	8,486,752
Derivative financial instruments	1,599,266	(1)	1,599,265
Amounts due to customers	91,417,962	44,434	91,462,396
Debt securities in issue	12,660,389	(1)	12,660,388
Hedge accounting adjustments related to fair value of hedged items	116,871	-	116,871
Other liabilities	2,178,790	(67,567)	2,111,223
Current income tax liabilities	104,999	(121)	104,878
Deferred income tax liabilities	1,208	-	1,208
Provisions	182,754	(47)	182,707
Subordinated liabilities	3,943,349	-	3,943,349
Total liabilities	**120,692,341**	**(23,304)**	**120,669,037**
E q u i t y			
Equity attributable to Owners of mBank S.A.	**13,023,756**	-	**13,023,756**
Share capital:	**3,551,096**	**-**	**3,551,096**
- Registered share capital	169,121	-	169,121
- Share premium	3,381,975	-	3,381,975
Retained earnings:	**9,486,979**	**-**	**9,486,979**
- Profit from the previous years	8,267,697	-	8,267,697
- Profit for the current year	1,219,282	-	1,219,282
Other components of equity	**(14,319)**	**-**	**(14,319)**
Non-controlling interests	**27,405**	**(27,405)**	**-**
Total equity	**13,051,161**	**(27,405)**	**13,023,756**
TOTAL LIABILITIES AND EQUITY	**133,743,502**	**(50,709)**	**133,692,793**

Below the reconciliation of equity is presented, from the items included in IFRS Consolidated financial statements for the year 2016 via the Prudentially consolidated financial data for the year 2016 compliant with the CRR Regulation, to the items included in own funds (in Common Equity Tier 1 capital) of mBank Group as at 31 December 2016.

Reconciliation	Consolidated financial statements for the year 2016	Deconsolidation of entities not included in prudential consolidation	Prudentially consolidated financial data for the year 2016	Items not included in own funds and regulatory adjustments	Own funds in part regarding Common Equity Tier 1 capital
Equity	**31.12.2016**	**31.12.2016**	**31.12.2016**	**31.12.2016**	**31.12.2016**
Share capital:	**3,551,096**	**-**	**3,551,096**	**(105)**	**3,550,991**
- Registered share capital	169,121	-	169,121	(105)	169,016
- Share premium	3,381,975	-	3,381,975	-	3,381,975
Retained earnings:	**9,486,979**	**-**	**9,486,979**	**(755,899)**	**8,731,080**
- Other supplementary capital	4,944,689	(72,870)	4,871,819	-	4,871,819
- Other reserve capital	97,887	(44,667)	53,220	-	53,220
- General banking risk reserve	1,131,453	-	1,131,453	-	1,131,453
- Undistributed profit from the previous years	2,093,668	117,537	2,211,205	-	2,211,205
- Profit from the current years	1,219,282	-	1,219,282	(755,899)	463,383
Other components of equity	**(14,319)**	**-**	**(14,319)**	**(22,838)**	**(37,157)**
- Exchange differences on translation of foreign operations	(6,004)	-	(6,004)	(1,482)	(7,486)
- Valuation of available for sale financial assets	(3,068)	-	(3,068)	(22,890)	(25,958)
- Cash flow hedges	(1,545)	-	(1,545)	1,545	-
- Actuarial gains and losses relating to post-employment benefits	(3,702)	-	(3,702)	(11)	(3,713)
Non-controlling interests	**27,405**	**(27,405)**	**-**	**-**	**-**
Regulatory adjustments	**-**	**-**	**-**	**(941,582)**	**(941,582)**
- Intangible assets	-	-	-	(547,658)	(547,658)
- IRB shortfall of credit risk adjustments to expected losses	-	-	-	(310,101)	(310,101)
- LLP's	-	-	-	(39,679)	(39,679)
- Fair value gains and losses arising from the institution's own credit risk related to derivative liabilities	-	-	-	(5,880)	(5,880)
- Own CET1 instruments	-	-	-	(398)	(398)
- Additional value adjustments	-	-	-	(37,866)	(37,866)
Total equity	**13,051,161**	**(27,405)**	**13,023,756**	**(1,720,424)**	**11,303,332**

The prudentially consolidated profit & loss account for mBank Group as at 31 December 2016 presents net profit and net profit for shareholders amounting to 1 219 282 thousand PLN.

3. Capital adequacy

One of the main tasks of the balance sheet management is to ensure an appropriate level of capital. Within the framework of the capital management policy of mBank Group, mBank prepares the guidelines for the most effective planning and use of capital basis which:

- are compliant with external and internal regulations in force,
- guarantee a continuity of financial targets achievement, which render an appropriate rate of return for shareholders,
- ensure the maintenance of a strong capital basis being a fundamental support for business development.

The capital management policy in mBank Group is based on two basic pillars:

- maintenance of an optimal level and structure of own funds with the application of available methods and means, like among others retention of net profit, subordinated loan or issue of shares,
- effective use of existing capital, among others through application of a set of measures of effective use of the capital, limitation of activities that do not provide an expected rate of return and development of products with lower capital absorption.

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

The capital strategic goals of mBank Group are aimed at maintaining the consolidated total capital ratio, as well as the consolidated Tier 1 capital ratio and the Common Equity Tier 1 capital ratio above the level required by the supervision authority. It allows to maintain safe business development meeting the supervisory requirements in the long perspective.

4. Own funds

The consolidated own funds consist of Common Equity Tier 1 capital, Additional Tier 1 capital and Tier 2 capital. Detailed information on particular elements of consolidated own funds of mBank Group as at 31 December 2016 is presented in point 4.1.

In point 4.2 the structure of consolidated own funds of mBank Group as at 31 December 2016 is presented.

4.1. Main information

COMMON EQUITY TIER 1 CAPITAL

Capital instruments and the related share premium accounts

The share capital, supplementary capital and reserve capital of mBank Group prudentially consolidated were included in Capital instruments and the related share premium accounts item as at 31 December 2016.

Capital instruments and the related share premium accounts	
Paid up capital	169 016
Supplementary capital from sales of shares over the nominal value	3 381 975
Other supplementary capital	4 871 819
Other reserve capitals	53 220
Total	**8 476 030**

Detailed information on share and supplementary capital is described in Explanatory Notes 38 and 39 of the Consolidated Financial Statements for 2016.

Retained earnings

In Retained earnings item the profit from the previous years of mBank Group prudentially consolidated as at 31 December 2016 in the amount of PLN 2 211 205 thousand were included. Detailed information regarding retained earnings is described in Explanatory Notes 40 of the Consolidated Financial Statements for 2016.

Accumulated other comprehensive income

Unrealised gains and losses constitute mBank Group prudentially consolidated own capital as at 31 December 2016 in the amount of PLN -14 319 thousand were presented in Accumulated other comprehensive income item.

The structure of accumulated other comprehensive income of mBank Group prudentially consolidated as at 31 December 2016 is described below.

Exchange differences from foreign units counting	-6,004
- unrealised gains	3,706
- unrealised losses	-9,710
Instruments available for sale	-3,068
- unrealized gains on debt instruments	70,216
- unrealised losses on debt instruments	-91,302
- unrealised gains on capital instruments	1,307
- deferred tax	16,711
Cash flow security	-1,545
- unrealised gains	1,065
- unrealised losses	-2,972
- deferred tax	362
Actuarial gains and losses on fringe benefits after employment period	-3,702
- actuarial gains	27
- actuarial losses	-4,597
- deferred tax	868
Total	**-14 319**

Funds for general banking risk

mBank Group transfers some of its net profit to the funds for general banking risk to cover unexpected risk and future losses. The funds for general banking risk can be distributed only on consent of shareholders at a general meeting. As at 31 December 2016 the funds for general banking risk of mBank Group prudentially consolidated amounted to PLN 1 131 453 thousand.

Independently reviewed interim profits

Verified net profit for the I, II and III quarter of 2016, reduced by every foreseeable charges, of mBank Group prudentially consolidated was included in the calculation of consolidated Common Equity Tier 1 capital as at 31 December 2016, in accordance with the permission of PFSA to include the net profit of mBank Group prudentially consolidated in Common Equity Tier 1 capital, obtained respectively on 21 June, 7 September and 14 December of 2016.

The net profit of mBank Group prudentially consolidated for the I, II and III quarter of 2016 reduced by every foreseeable charges amounted to PLN 463 383 thousand.

REGULATORY ADJUSTMENTS / DEDUCTIONS FROM THE COMMON EQUITY TIER 1 CAPITAL

Additional value adjustments

In accordance with Article 34 of the CRR Regulation, additional value adjustments have been calculated to all assets measured at fair value in accordance with the requirements of Article 105 of the CRR Regulation and included in Common Equity Tier 1 capital of mBank Group prudentially consolidated as at 31 December 2016 in the amount of PLN 37 866 thousand.

Intangible assets

In accordance with Article 37 of the CRR Regulation, intangible assets reduced by the amount of associated deferred tax liabilities are included in Common Equity Tier 1 capital. The value included in Common Equity Tier 1 capital of mBank Group prudentially consolidated as at 31 December 2016 amounted to PLN 547 658 thousand.

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

In accordance with Article 33(2) of the CRR Regulation, the fair value gains and losses arising from the institution's own credit risk related to derivative liabilities are not offset with those arising from its counterparty credit risk. As at 31 December 2016 the amount of PLN 5 880 thousand from fair value gains and losses was included in Common Equity Tier 1 capital of mBank Group.

Negative amount resulting from the calculation of expected loss amounts

mBank, being an institution calculating risk-weighted exposure amounts with the application of the AIRB approach, is obliged to include in calculation of own funds the negative amounts resulting from the calculation of expected loss amounts. According to Article 36 (1d), the negative amounts resulting from the calculation specified in Articles 158 and 159 of the CRR Regulation were included in consolidated Common Equity Tier 1 capital of mBank Group prudentially consolidated as at 31 December 2016 in the amount of PLN 310 101 thousand.

Direct and indirect holdings by an institution of own CET1 instruments

In direct and indirect holdings by an institution of own CET1 instruments item of consolidated Common Equity Tier 1 capital of mBank Group as at 31 December 2016 the synthetic holdings in the amount of PLN 398 thousand were included.

Net impairment losses

In net impairment losses item as at 31 December 2016 the net impairment losses on loans and advances for the IV quarter of the year 2016 were included in the amount of PLN 39 679 thousand. Applied approach is compliant with the provisions of the Commission delegated Regulation (EU) No 183/2014 of 20 December 2013 supplementing the CRR Regulation with regard to regulatory technical standards for specifying the calculation of specific and general credit risk adjustments.

Regulatory adjustments relating to unrealised gains and losses

In accordance with Article 467 and 468 of the CRR Regulation and the PFSA recommendation, in 2016 institutions could include in Common Equity Tier 1 capital calculation the unrealised losses related to assets or liabilities measured at fair value in 100% of their value and unrealised gains in 60% of their value. Regulatory adjustments in the amount of PLN 22 838 thousand regarding unrealised gains and losses as at 31 December 2016 constitute adjustments item to the item Accumulated other comprehensive income, mentioned above.

ADDITIONAL TIER 1 CAPITAL

In mBank Group, items that could be treated as Additional Tier 1 capital are not identified.

TIER 2 CAPITAL

Capital instruments and the related share premium accounts

According to the decision dated 14 February 2014 mBank obtained a written permission of PFSA to include in Tier 2 capital the amount of PLN 500 000 thousand constituting subordinated liabilities from the bonds issue dated 3 December 2013 with a total nominal value of PLN 500,000 and with 10 years maturity. The issue meets all the requirements of the CRR Regulation.

According to the decision dated 8 January 2015 mBank obtained a written permission of PFSA to include in Tier 2 capital the amount of PLN 750 000 thousand constituting subordinated liabilities from the bonds issue dated 17 December 2014 on total nominal value of PLN 750 000 thousand with redemption date on 17 January 2025. The issue meets all the requirements of the CRR Regulation.

As at 31 December 2016 the amount of PLN 1 250 000 thousand was included in consolidated Tier 2 capital in Capital instruments and the related share premium accounts item by virtue of the above mentioned two tranches of capital instruments.

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

According to Article 484 (5) of the CRR Regulation, below mentioned subordinated liabilities can be included in Tier 2 capital calculation with application of the rules of grandfathering and limits of grandfathering in transitional period ongoing from 1 January 2014 till 31 December 2021.

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

The specifics of the above liabilities are described in Explanatory Note 30 of the Consolidated Financial Statements for 2016.

As at 31 December 2016 the amount of PLN 690 907 thousand was included in consolidated Tier 2 capital from the virtue of the above mentioned tranche of capital instruments with application of the rules of grandfathering and limits of grandfathering.

In accordance with the provisions of Commission implementing Regulation (EU) No 1423/2013 of 20 December 2013 laying down implementing technical standards with regard to disclosure of own funds requirements for institutions according to the CRR Regulation (hereinafter referred to as Regulation No 1423/2013), the description of capital instruments' main features included in Tier 1 and Tier 2 capital of mBank Group prudentially consolidated as at 31 December 2016 is presented on subsequent pages of the current document, prepared based on Appendix No 2 to the Regulation No 1423/2013.

TOTAL CAPITAL

The amount of consolidated own funds of mBank Group prudentially consolidated as at 31 December 2016 was presented in Total capital item constituting the sum of consolidated Common Equity Tier 1 capital and consolidated Tier 2 capital.

The consolidated own funds of mBank Group as at 31 December 2016 amounted to PLN 13 244 239 thousand.

Capital instruments' main features of Tier 1 capital

Nr	Items	Common Equity Tier 1 capital
1	Issuer	mBank S.A.
2	Unique identifier (eg. CUSIP or Bloomberg identifier for private placement)	PLBRE000012
3	Governing law(s) of the instrument	Polish
	Regulatory treatment	
4	Transitional CRR rules	CET1 capital
5	Post-transitional CRR rules	CET1 capital
6	Eligible at solo/(sub-)consolidated / solo & (sub-)consolidated	Solo and (Sub-) consolidated
7	Instrument type (types to be specified by each jurisdiction)	Common shares
8	Amount recognised in regulatory capital (currency in million, as of most recent reporting date)	mPLN 169
9	Nominal amount of instrument	PLN 4
9a	Redemption price	N/A
10	Accounting classification	Equity capital
11	Number of shares issued	Registration year – Number of shares 1986 – 9,988,000 1986 – 12,000 1994 – 2,500,000 1995 – 2,000,000 1997 – 4,500,000 1998 – 3,800,000 2000 – 170,500 2004 – 5,742,625 2005 – 270,847 2006 – 532,063 2007 – 144,633 2008 – 30,214 2010 – 12,395,792 2011 – 16,072 2012 – 36,230 2013 – 35,037 2014 – 36,044 2015 – 28,867 2016 – 41,203
12	Perpetual or dated	Perpetual
13	Original maturity date	No maturity
14	Issuer call subject to prior supervisory approval	N/A
15	Optional call date, contingent call dates and redemption amount	N/A
16	Subsequent call dates, if applicable	N/A
	Coupons / dividends	
17	Fixed or floating dividend/coupon	Floating
18	Coupon rate and any related index	N/A
19	Existence of a dividend stopper	No
20a	Fully discretionary or mandatory (in terms of timing)	Fully discretionary
20b	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Fully discretionary

21	Fully discretionary, partially discretionary or mandatory (in terms of amount)	No
22	Nonculmulative or cumulative	N/A
23	Convertible or non-convertible	Non-convertible
24	If convertible or non-convertible, conversion trigger(s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts info	N/A
30	Write-down features	No
31	If write-down, write-down trigger(s)	N/A
32	If write-down, full or partial	N/A
33	If write-down, permanent or temporary	N/A
34	If write-down, description of write-up mechanism	N/A
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	N/A
36	Non-compliant transitional features	No
37	If yes, specify non-compliant features	N/A

Capital instruments' main features of Tier 2 capital

Nr	Tranche	170 mln CHF	500 mln PLN	750mln PLN
1	Issuer	mBank S.A.	mBank S.A.	mBank S.A.
2	Unique identifier (eg. CUSIP or Bloomberg identifier for private placement)	N/A	ISIN: PLBRE0005177 Series: BREO201223	ISIN: PLBRE0005185 Seria: MBKO170125
3	Governing law(s) of the instrument	English; Polish in terms of provisions relating to the subordinated status	Polish	Polish
	Regulatory treatment			
4	Transitional CRR rules	Tier 2; Art. 490 (5)	Tier 2; Art. 63	Tier 2; Art. 63
5	Post-transitional CRR rules	Ineligible	Tier 2	Tier 2
6	Eligible at solo/(sub-)consolidated / solo & (sub-)consolidated	Solo and (Sub-) consolidated	Solo and (Sub-) consolidated	Solo and (Sub-) consolidated
7	Instrument type (types to be specified by each jurisdiction)	Bond „instrumenty kapitałowe i pożyczki podporządkowane"-Polish Banking Act Art.127.2.2	Bond „instrumenty kapitałowe i pożyczki podporządkowane"-Polish Banking Act Art.127.2.2	Bond „instrumenty kapitałowe i pożyczki podporządkowane"-Polish Banking Act Art.127.2.2
8	Amount recognised in regulatory capital (currency in million, as of most recent reporting date)	mPLN 691	mPLN 500	mPLN 750
9	Nominal amount of instrument	In issuance currency: CHF 170 million; in reporting currency: PLN 699.94 million	In issuance currency: PLN 500 million; in reporting currency: PLN 500 million	In issuance currency: PLN 750 million; in reporting currency: PLN 750 million
9a	Issue price	100.00%	100.00%	100.00%
9b	Redemption price	100.00%	100.00%	100.00%
10	Accounting classification	Liability – amortised cost	Liability – amortised cost	Liability – amortised cost
11	Original date of issue	09-01-2008	03-12-2013	17-12-2014
12	Perpetual or dated	Perpetual	Dated	Dated
13	Original maturity date	No maturity	20-12-2023	17-01-2025
14	Issuer call subject to prior supervisory approval	Yes	Yes	Yes

15	Optional call date, contingent call dates and redemption amount	1) 09-01-2010 No minimum amount; at price100% 2) Redemption for tax reasons (PFSA consent required, notification of investors), at a price of 100%, at any Interest Payment Date. 3) Redemption due to a regulatory event (PFSA consent required, notification investors), at a price of 100%, at any Interest Payment Date	1) 20-12-2018 No minimum amount; at price100%; 2) Redemption due to a regulatory event (PFSA consent required, notification of investors) at a price of 100%, at any Interest Payment Date	1) 17-01-2020 No minimum amount; at price100%; 2) Redemption due to a regulatory event (PFSA consent required, notification of investors) at a price of 100%, at any Interest Payment Date
16	Subsequent call dates, if applicable	1) Issuer has call option (PFSA consent required, notification of investors), at a price of 100%, at any Interest Payment Date, after two years from the Issue Date 2) Redemption for tax reasons (PFSA consent required, notification of investors), at a price of 100%, at any Interest Payment Date. 3) Redemption due to a regulatory event (PFSA consent required, notification investors), at a price of 100%, at any Interest Payment Date	1) Redemption due to a regulatory event (PFSA consent required, notification of investors) at a price of 100%, at any Interest Payment Date	1) Redemption due to a regulatory event (PFSA consent required, notification of investors) at a price of 100%, at any Interest Payment Date
	Coupons / dividends			
17	Fixed or floating dividend/coupon	Floating	Floating	Floating
18	Coupon rate and any related index	CHF LIBOR 3M+2.2%; after 10 years from Issue Date: CHF LIBOR 3M+4.2%	WIBOR 6M+2.25%	WIBOR 6M+2.10%
19	Existence of a dividend stopper	Yes	No	No
20a	Fully discretionary or mandatory (in terms of timing)	Mandatory Please note: The Issuer does not have discretion over whether a coupon gets paid, but has some discretion of when it	Mandatory	Mandatory

		is paid (interest deferral)		
20b	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Mandatory	Mandatory	Mandatory
21	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Yes	No	No
22	Nonculmulative or cumulative	Cumulative (possibility of interest deferral)	Noncumulative	Noncumulative
23	Convertible or non-convertible	Nonconvertible	Nonconvertible	Nonconvertible
24	If convertible or non-convertible, conversion trigger(s)	Not applicable	Not applicable	Not applicable
25	If convertible, fully or partially	Not applicable	Not applicable	Not applicable
26	If convertible, conversion rate	Not applicable	Not applicable	Not applicable
27	If convertible, mandatory or optional conversion	Not applicable	Not applicable	Not applicable
28	If convertible, specify instrument type convertible into	Not applicable	Not applicable	Not applicable
29	If convertible, specify issuer of instrument it converts info	Not applicable	Not applicable	Not applicable
30	Write-down features	Yes	Not applicable	Not applicable
31	If write-down, write-down trigger(s)	Loss absorption	Not applicable	Not applicable
32	If write-down, full or partial	Fully or partially	Not applicable	Not applicable
33	If write-down, permanent or temporary	Temporary	Not applicable	Not applicable
34	If write-down, description of write-up mechanism	In the event the Issuer incurs Losses and following an appropriate resolution of the Ordinary Shareholders' Meeting of the Issuer, the Issuer shall allocate the principal of the Notes together with the Deferred Interest and Additional Interest Amount thereon to covering (pokrycie) such Losses (the "Sub-Debt Loss Allocation") provided that own funds in the funds in the form of undistributed profits for the last and previous financial years, reserve capitals (kapitał zapasowy and kapitały rezerwowe) and other reserves and its total paid up capital, have been previously allocated	Not applicable	Not applicable

		to cover such Losses. The Sub-Debt Loss Allocation shall be made as follow: (1) Deferred Interest and Additional Interest Amounts accrued but unpaid relating to the Notes shall be allocated in chronological order as they fell due. (2) If no Deferred Interest and Additional Interest Amount remain to be so allocated, principal of the Notes to be so allocated to cover the Losses as between Noteholders pro rata to the aggregate of the principal amounts then outstanding. The amounts of the principal of the Notes and, where appropriate, the Deferred Interest and Additional Interest Amount thereon allocated to covering the said Losses, may not be claimed by the Noteholders affected and thereon shall not give rise to any payment obligation from the Issuer to such Noteholders in respect of such amounts UNTIL the Ordinary Shareholders' Meeting of the Issuer approves the audited non-consolidated profit and loss account for any of its financial years following the date of covering the Losses and decides to allocated the Profits so that the Noteholders affected shall have the right to claim the amounts of the principal of the Notes and, where appropriate, the Deferred Interest and Additional Interest Amount		

		thereon previously allocated to cover the Losses. The Sub-Debt Profit Allocation will only be carried out if, and to the extent, the core capital (kapitał podstawowy) and other obligatory funds of the Issuer as required under the specific laws and regulations, have been previously restored to ensure the relevant CAR of the Issuer. If the Profit is insufficient to satisfy the full amounts of the principal of the Notes and where appropriate, the Deferred Interest and Additional Interest Amount thereon and all corresponding amounts due under Subordinated Profit Absorption Indebtedness, the total amount of principal and/or Deferred Interest and Additional Interest Amount payable in respect of the Notes on the basis of such Profit shall be such proportion of the amount to be paid under all Subordinated Profit Absorption Indebtedness which corresponds to the proportion which the aggregate principal amount of the Notes outstanding bears to the aggregate principal amount outstanding of all Subordinated Profit Absorption Indebtedness. For the avoidance of doubt, the amounts of the principal of the Notes and, where appropriate, the Deferred Interest and Additional Interest Amount thereon allocated to covering the Losses shall not bear		

		interest in the period between such allocation and the Sub-Debt Profit Allocation. "Losses" in respect of any period means balance sheet losses, in detail annual net results after taxes including extraordinary items and changes in reserves, as derived from the audited non-consolidated profit and loss account approved by the Ordinary Shareholders' Meeting of the Issuer for such period (equivalent expressed in CHF of the Losses shall be determined using CHFPLN fixing rate quoted by National Bank of Poland at 11AM (Warsaw time) on the date of the Ordinary Shareholders' Meeting, or if no such fixing quoted on that date, the spot rate quoted by the Calculation Agent. "Subordinated Profit Absorption Indebtedness" means any and all financing arrangements of the Issuer, including the Notes.		
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Senior Unsecured Bonds	Senior Unsecured Bonds	Senior Unsecured Bonds
36	Non-compliant transitional features	Yes	No	No
37	If yes, specify non-compliant features	Step-up, put option at any Interest Payment Date after the elapse of 5 years, Call option after only 2 years	Not applicable	Not applicable

4.2 Structure of consolidated own funds

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

Common Equity Tier 1 capital: instruments and reserves	Amount at disclosure date
Capital instruments and the related share premium accounts	8 476 030
Retained earnings	2 211 205
Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards)	- 14 319
Funds for general banking risk	1 131 453
Amount of qualifying items referred to in Article 484 (3) and the related share premium accounts subject to phase out from CET1	0
Public sector capital injections grandfathered until 1 January 2018	0
Minority Interests (amount allowed in consolidated CET1)	0
Independently reviewed interim profits net of any foreseeable charge or dividend	463 383
Common Equity Tier 1 (CET1) capital before regulatory adjustments	**12 267 752**
Common Equity Tier 1 capital: regulatory adjustments	
Additional value adjustments	- 37 866
Intangible assets (net related tax liability)	- 547 658
Fair value gains and losses arising from the institution's own credit risk related to derivative liabilities	-5 880
Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability where the conditions in Article 38 (3) are met)	0
Fair value reserves related to gains or losses of expected loss amounts	0
Negative amount resulting from the calculation of expected loss amounts	-310 101
Any increase in equity that results from securitised assets	0
Gains or losses on liabilities valued at fair values resulting from changes in own credit standing	0
Defined-benefit pension fund assets	0
Direct and indirect holdings by an institution of own CET1 instruments	-398
Holdings of the CET1 instruments of financial sector entities where those entities have reciprocal cross holding with the institution designed to inflate artificially the own funds of the institution	0
Direct and indirect holdings by an institution of own CET1 instruments of financial sector entities where the institution does not have a significant investment in these entities (amount above the 10% threshold and net of eligible short positions)	0
Direct, indirect and synthetic holding by the institution of CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above the 10% threshold and net of eligible short positions)	0
Exposure amount of the following items which qualify for a RW of 1250%, where the institution opts for the deduction alternative	0
Deferred tax assets arising for temporary differences (amount above 10% threshold, net of related tax liability where the conditions in 38 (3) are met)	0

Amount exceeding the 15% threshold	0
Net impairment losses	-36 679
Losses for the current financial year	0
Foreseeable tax charges relating to CET1 items	0
Regulatory adjustments applied to Common Equity Tier 1 in respect of amounts subject to pre-CRR treatment	0
Regulatory adjustments relating to unrealised gains and losses pursuant to Article 467 and 468 of the CRR Regulation	-22 838
Of which: filter for unrealised loss related to assets or liabilities measured at fair value	0
Of which: filter for unrealised gain related to assets or liabilities measured at fair value	-22 838
Amount to be deducted from of added to Common Equity Tier 1 capital with regard to additional filters and deductions required pre CRR	0
Qualifying AT1 deductions that exceed the AT1 capital of the institution	0
Total regulatory adjustments to Common equity Tier 1	**-964 420**
Common Equity Tier 1 capital	**11 303 332**
Additional Tier 1 capital: instruments	
Capital instruments and the related share premium accounts	0
Amount of qualifying items referred to in Article 484 (4) and the related share premium accounts subject to phase out from AT1	0
Public sector capital injections grandfathered until 1 January 2018	0
Qualifying Tier 1 capital included in consolidated AT1 capital (including minority interests not included in other items regarding Additional Tier 1 capital) issued by subsidiaries and held by third parties	0
Capital instruments and the related share premium accounts	0
Additional Tier 1 capital: regulatory adjustments	
Direct and indirect holding by an institution of own AT1 Instruments	0
Holdings of the AT1 instruments of financial sector entities where those entities have reciprocal cross holding with the institution designed to inflate artificially the own funds of the institution	0
Direct and indirect holdings of the AT1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above the 10% threshold and net of eligible short positions)	0
Direct and indirect holdings by the institution of the AT1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above the 10% threshold net of eligible short positions)	0
Regulatory adjustment applied to additional Tier 1 in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in CRR Regulation (i.e. CRR residual amounts)	0
Residual amounts deducted from Additional Tier 1 capital with regard to deduction from Common Equity Tier 1 capital during the transitional period pursuant to article 472 of CRR Regulation	0
Residual amounts deducted from Additional Tier 1 capital with regard to deduction from Tier 2 capital during the transitional period pursuant to article 472 of CRR Regulation	0
Amount to be deducted from of added to Additional Tier 1 capital with regard to additional filters and deductions required pre- CRR	0
Qualifying T2 deductions that exceed the T2 capital of the institution	0

Total regulatory adjustments to Additional Tier 1 capital	**0**
Additional Tier 1 capital	**0**
Tier 1 capital (CET1 + AT1)	**11 303 332**
Tier 2 capital: instruments and provisions	
Capital instruments and the related share premium accounts	1 250 000
Amount of qualifying items referred to in Article 484 (5) and the related share premium accounts subject to phase out from T2	690 907
Public sector capital injections grandfathered until 1 January 2018	0
Qualifying own funds instruments included in consolidate T2 capital (including minority interests and AT1 instruments not included in other items regarding Tier 2 capital) issued by subsidiary and held by third parties	0
Credit risk adjustments	0
Tier 2 capital before regulatory adjustments	**1 940 907**
Tier 2 capital: regulatory adjustments	
Direct and indirect holdings by an institution of own T2 instruments and subordinated loans	0
Holdings of the T2 instruments and subordinated loans of financial sector entities where those entities have reciprocal cross holding with the institution designed to inflate artificially the own funds of the institution	0
Direct and indirect holdings of the T2 instruments and subordinated loans of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions)	0
Direct and indirect holdings by the institution of own T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions)	0
Regulatory adjustments applied to Tier 2 in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in CRR Regulation (i.e. CRR residual amounts)	0
Residual amounts deducted from Tier 2 capital with regard to deduction from Common Equity Tier 1 capital during the transitional period pursuant to article 472 of CRR Regulation	0
Residual amounts deducted Tier 2 capital with regard to deduction from Additional Tier 1 capital during the transitional period pursuant to article 474 of CRR Regulation	0
Amount to be deducted from or added to Tier 2 capital with regard to additional filters and deductions required pre CRR	0
Total regulatory adjustments to Tier 2 capital	**0**
Tier 2 capital	**1 940 907**
Total capital (T1 + T2)	**13 244 239**
Risk weighted assets in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in CRR Regulation (i.e. CRR residual amounts)	0
Total risk weighted assets	**65 259 977**
Capital ratios and buffers	
Common Equity Tier 1 (as a percentage of risk exposure amount)	**17.32%**
Tier 1 (as a percentage of risk exposure amount)	**17.32%**
Total capital (as a percentage of risk exposure amount)	**20.29%**
Additional own funds requirement related to Pillar II adjustments to cover FX lending risk to unhedged borrowers*	3.25%
Institution specific buffer requirement (CET1 requirement in accordance with article 92 (1) (a) plus capital conservation and countercyclical buffer requirements, plus systematic risk buffer, plus the systemically important institution buffer (G-SLL or O-SII buffer), expressed as a percentage of risk exposure amount)	1.75%

of which: capital conservation buffer requirement	1.25%
of which: countercyclical buffer requirement	0%
of which: systemic risk buffer requirement	0%
of which: Global Systemically Important Institution (G-SII) or Other System Important Institution (O-SII) buffer	0.5%
Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)), after covering additional own funds requirement related to Pillar II adjustments	8.88%
Capital ratios and buffers	
Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	0
Direct and indirect holdings by an institution of the CET1 instruments of financial sector entities where the institution have a significant investment in these entities (amount below 10% threshold and net of eligible short positions)	18 134
Deferred tax assets arising for temporary differences (amount below 10% threshold, net related tax liability where the conditions in Article 38 (3) are met)	540 392
Applicable caps on the inclusion of provisions in Tier 2	
Credit risk adjustments included in T2 in respect of exposures subject to standardized approach (prior to the application of the cap)	0
Cap on inclusion of credit risk adjustment in T2 under standardised approach	0
Credit risk adjustments included in T2 in respect of exposures subject to internal ratings-based approach (prior to the application of the cap)	0
Cap on inclusion of credit risk adjustment in T2 under internal ratings-based approach	0
Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2013 and Jan 2022)	
Current cap on CET1 instruments subject to phase out arrangements	0
Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	0
Current cap on AT1 instruments subject to phase out arrangements	0
Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	0
Current cap on T2 instruments subject to phase out arrangements	699 941
Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	0

** Additional own funds requirement related to Pillar II adjustments imposed in 2016 based on an administrative decision of PFSA in accordance with EBA "Guidelines on capital measures for foreign currency lending to unhedged borrowers under the supervisory review and evaluation process (SREP)".*
Detailed information on additional own funds requirement related to Pillar II are available in section 5.4 Supervisory requirements regarding capital ratios.

5. Capital requirements

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

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

On 22 September 2016 mBank SA obtained approval from ECB and PFSA to the application of AIRB approach to the calculation of the capital requirement for credit risk for the specialized lending exposures - income producing real estate. On 25 July 2016 mLeasing obtained approval from ECB and PFSA to the application of the AIRB approach to the calculation of capital requirement for credit risk.

On 4 November 2014 mBank SA received conditional consent of PFSA to use AIRB approach to the calculation of capital requirement for credit risk with respect to non-mortgage retail exposures. On 6 May 2015 mBank SA received conditional consent of PFSA to use AIRB approach for retail mortgage loan portfolio (micro companies) and for the portfolio of commercial banks.

On 25 October 2016 mBank SA obtained approval from ECB and PSFA to the application of material change in LGD Corporate model which has been deployed in bank's production systems on 30 November 2016.

On 12 February 2016 mBank SA has submitted information document to ECB about the planned immaterial change in PD Corporate model (RC POL SME). On 7 April mBank SA obtained positive feedback from ECB with no restrictions to the intended change. Immaterial change of PD Corporate model (RC POL SME) has been deployed in bank's production systems on 30 May 2016.

In the calculation of the total capital ratio of mBank Group as of 31 December 2016, when calculating the total capital charge, the mBank Group applies the AIRB approach pursuant to the provisions of the CRR Regulation to calculate a capital charge for credit and counterparty credit risk and pursuant to obtained AIRB approvals.

In 2016 an adjustment of the application of the regulatory floor to the requirements of article 500 of the CRR Regulation was made, also complying with the provisions of the Commission Implementing Regulation (EU) No 680/2014 of 16 April 2014 laying down implementing technical standards with regard to supervisory reporting of institutions according to Regulation (EU) No 575/2013 of the European Parliament and of the Council with further amendments.

The adjustment was implemented to ensure a full comparability, transparency and compliance of the Bank's capital position presented in the financial statement and regulatory reporting with the approach used by the EU parent institution (Commerzbank AG) and observed in other EU member states. The method used by the Bank in the past followed the approach of the local supervisory authority to the issue at hand. PFSA within correspondence conducted by the Bank on the subject of the above mentioned adjustment, stated that it is not coherent with the local supervisory approach to own funds adequacy assessment which has been used so far and is still expected to be used.

According to article 500 of the CRR Regulation, in parallel to the calculation of Group capital ratios, Group own funds are compared with the floor requirement (so called "regulatory floor"). The Bank uses the alternative standardised approach verifying the requirements of article 500 of the CRR Regulation. mBank received permission to apply the standardised approach in order to meet requirements of article 14 of Resolution No. 76/2010 of the PFSA of 10 March 2010 on the scope and detailed procedures for determining capital requirements for particular risks, regarding adequacy assessment of capital base. At present, this requirement results from article 500 under the CRR Regulation.

5.2. Results of the internal capital adequacy assessment

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

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

In 2016 mBank calculated the economic capital at the 99,91% confidence level over a one-year time horizon, for all risk types. Diversification between different risks was not included while calculating total economic capital.

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

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

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

Risk Coverage Potential in mBank Group stays well above economic capital.

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

5.3. Additional information regarding AIRB

Description of the internal rating process, provided separately for each class of exposures

Corporates and Commercial Banks

The process of rating corporate banking clients is an integral part of the lending process. Without a rating it is impossible to make a credit decision.

There are two types of rating used to assess corporate clients and exposures:

1) PD-rating - (PD - Probability of Default) assessment of the client's risk of default construed as the probability of default (client's default on obligations) over a 12-month period,
2) EL-rating - (EL - Expected Loss) assessment of the probability of a loss, taking into account the client's risk of default, structure and nature of credit products, and type and size of accepted collateral.

In order to ensure unbiased assessment and management of credit risk, mBank applies uniform rules based, in particular, on the separation of credit risk assessment function from the sales function at all levels. The sales units make the initial assessment of a client and propose a PD-rating which is then subject to independent assessment and approval of Risk Line representatives. By approving the credit risk level, the Risk Line representatives take full responsibility for its correct assessment.

Correct assessment of credit risk requires complete, valid and reliable information on the client. At a further stage of the analysis, the information affects not only PD-rating, but also other risk parameters (Exposure at Default (EAD), Loss Given Default (LGD), and consequently EL-rating). In the template for credit applications mBank indicated a list of documents which the clients are obliged to submit for the purpose of assessing their risk level and required collateral. Furthermore, in the credit agreements mBank specifies a list of documents the clients undertake to submit to mBank for the purpose of verifying/updating their assessment and updating the valuation of collateral, and obliges the clients to notify mBank of any events affecting their creditworthiness. When submitted, the documents are verified in terms of compliance with mBank's requirements and formal correctness.

Acting in line with the Banking Law and Basel recommendations, when assessing credit risk mBank takes into account the mutual relations and links between entities, as they may lead to a situation when financial problems faced by one entity translate into financial problems of another. The relations referred to above are verified by way of analysing the entity's affiliation to a group of related entities (GPP), and then are taken into account in credit risk assessment, mainly through:

- calculating PD-rating based on consolidated data, provided that the entity draws up consolidated financial statements;
- including the PD-rating of the dominant entity in the assessment of its subsidiary, proportionally to the degree of the group's integration.

When assessing foreign entities (non-residents), mBank takes into account the risk of the country of their origin.

The assessment and PD-rating calculation for corporate clients take place in one of the following systems:

1) RC-POL,
2) Central Commerzbank PD model for Commercial Banks,
3) System for Property Insurance Institutions,
4) System for Life Insurance Institutions,
5) System for Investment Funds,
6) System for Pension Funds,
7) System for Local Governments (JST),
8) System for Specialist Lending Entities (SPL),
9) Brokerage operations – expert system for selected clients (who meet specific criteria) who conduct brokerage operations connected with the securities and commodities market,
10) Expert System – dedicated to the remaining corporate banking clients.

The RC-POL system covers 2 rating models (SME and Corporations) used depending on the amount of the client's annual net revenues from the sales of products, commodities and materials:

a) RC-POL SME revenues ≤ PLN 50 million,
b) RC-POL Corporations revenues > PLN 50 million.

The detailed principles for assigning corporate banking clients to a given rating system are set out in mBank's internal regulations.

The process of assigning PD-rating is supported by Credit System (SK), an IT application based on a workflow platform. The process takes place individually for each entity applying to mBank for a credit risk product. The calculation of PD-rating takes the following into account: analysis of financial data comprised in the annual financial statements, analysis of mid-year financial data, quality analysis and analysis of other factors.

The complete course of the PD-rating calculation process is registered in SK, including all the data which forms a basis for the assessment, and decisions of authorities approving the assessment.

Upon completing the analysis, the system automatically proposes the final PD-rating, which in exceptional and justified cases may be corrected on an expert basis (the so-called overruling). Usually, overruling may change the rating by 1 notch on a 25-point rating scale (full-scale overruling is possible in the case of non-residents and selected client classes). mBank systematically analyses all the events of overruling, which is aimed at preventing its excessive use. On the basis of results of the client's risk assessment and his financial needs, the amount and structure of the General Limit (LG) are determined. LG is the maximum permissible financial exposure of mBank to the Client. The LG structure defines: the permissible structure of credit products, amounts and terms, required minimum level and type of collateral, and other conditions specific to particular types of funding.

EL-rating, which determines the maximum risk acceptable by mBank in the case of a given client or GPP under the conditions established in the decision, constitutes a comprehensive assessment of the risk posed by the entire exposure to the client or GPP. Exposures to clients and GPP must go through a multi-level system of credit decisions. The key criteria qualifying exposures to particular decision-making levels include total exposure and EL-rating. When taking a decision on total exposure to a given client, mBank takes into account also the client's exposure to mBank Group subsidiaries (i.e. mLeasing, mBank Hipoteczny and mFaktoring). Clients generating high capital requirements must undergo a special decision-making procedure. In such a case, the decisions are made by mBank's Management Board.

PD-rating of each credit client is updated at least once a year based on the latest audited annual financial statements and the most recent information on the client. Once a quarter mBank reviews all its credit clients in order to check whether the PD-rating determined during the annual review is adequate to their current situation assessed on the basis of the latest mid-year data. Each quarterly monitoring may end with the reassignment of rating. Moreover, each time mBank obtains new and relevant information on its obligors or exposures in the time between the quarterly assessments, another analysis of their situation may be carried out and on the basis of its results mBank may decide to take new actions.
Once a year, the client's assessment is combined with a review of his exposures; consequently, a credit decision is made on further cooperation with the client.

Retail

The assessment of a retail banking customer, applying for a loan/change of loan terms, is focused, in accordance with the provisions of the Banking Law and PFSA recommendations, on two areas:

- assessment of the customer's credit capacity, which consists in determining the loan amount available to the customer;
- assessment of the customer's creditworthiness, that is assessment of default risk during the service of the loan, expressed in the form of PD Rating (PD – Probability of Default).

These areas are assessed independently from each other, that is the lack of credit capacity may not be compensated for with a very good PD Rating; and high credit capacity may not offset unacceptable PD Rating. In order to ensure the high accuracy of the determined PD Rating, data from all available sources are used, i.e.:

- data from the loan application (application scoring, specific for different product segments of the portfolio);
- data on customers behaviour in relations with mBank (internal behavioural scoring);
- data on customers behaviour in relations with other banks (external behavioural scoring based on BIK - Credit Bureau information).

Depending on the availability of data from individual areas and the context of making the assessment (customer's credit application / offer provided to the customer by mBank), the above data sources are used in various combinations. Each application for a credit product for individuals / small enterprises is registered in a loan application processing IT system. After registering the application, the information from internal and external data sources are downloaded. The verification results are again registered in the application processing system, and then the set of data required for calculating risk parameters is handed over to the decision-making engine, integrated with application processing system.

On the basis of the information obtained, PD score is calculated in the decision-making engine and the customer is assigned to the appropriate rating class (consistently within the Commerzbank Group). Moreover, risk parameters **LGD** (Loss Given Default) and **EL** (Expected Loss) are calculated on the basis of data related to the assessed transaction. At the subsequent stage of the process, decision rules based on threshold values of risk parameters (PD Rating, LGD, EL) are applied, in accordance with the rules of the decision-making policy accepted at mBank. The result of the assessment is then returned to the application system. The process of PD Rating assignment and the calculation of the remaining risk parameters is, thanks to the use of IT applications, strictly structured and automated.

Customer's rating and the values of other risk parameters are made available to persons taking credit decisions. The level of authority required for taking an individual credit decision is dependent, i.a. on the value of risk parameters (PD Rating / LGD / EL). In the case of retail customers, mBank does not allow for arbitrary rating amendments, hence the persons taking credit decisions are not allowed to modify the registered values. Taking a positive decision in spite of a negative assessment in the system (PD Rating or another risk parameter that is beyond the accepted range) is treated as a non-standard decision and requires approval by a superior decision-making level. MBank monitors the quality of loans granted on the basis of non-standard decisions that is independent from the quality monitoring of the entire credit portfolio.

In retail banking, risk parameter values (including PD Rating) are updated:

- periodically – on the basis of a monthly recalculation of behavioural scoring and updating the delinquency data,
- ad hoc – in the process of customer's applying for new loans.

The rating process is under constant supervision in terms of quality of data that are used. Data quality assessment is conducted by a dedicated unit.

Structure of internal rating systems and relation between internal and external ratings, use of internal estimates other than for AIRB capital purposes and control mechanisms for the rating systems, including discussion of independence, accountability, and rating systems review

Portfolio	Model name	Model type	Use test	Monitoring performed by modeling team
PD models:				
Corporate portfolio with the turnover <50 mPLN	RC-POL LT 50	• local • statistical with limited expert qualitative adjustment	• credit decision • limits • LLP • internal capital	• Internal data • Quarterly
Corporate portfolio with the turnover >50 mPLN	RC-POL GT 50	• local • statistical with limited expert qualitative adjustment	• credit decision • limits • LLP • internal capital	• Internal data • Quarterly
Retail mortgage portfolio	HMOP (application scoring model for mortgages exposures - component of PD Model)	• local • statistical with elements of expert knowledge	• credit decision • LLP • internal capital	• Internal data • Once a year
Retail non-mortgage portfolio	NML2, MF2 (application scoring models for non-mortgage exposures - component of PD Model)	• local • statistical with elements of expert knowledge	• credit decision • LLP • internal capital	• Internal data • Once a year
Retail portfolio –whole	BMOP2 (bureau scoring model - component of PD Model)	• local • Statistical with elements of expert knowledge	• credit decision • LLP • internal capital	• Internal data • Once a year
Retail portfolio - whole	BEH (behavioral scoring model - component of PD Model)	• local • Statistical with elements of expert knowledge	• credit decision • LLP • internal capital	• Internal data • Once a year
Retail portfolio - whole	PD Model	• local • statistical with elements of expert knowledge	• credit decision • LLP • internal capital	• Internal data • Once a year
Commercial Banks	PD Model	• Central Commerzbank model • statistical with limited expert qualitative adjustment	• credit decision • limits • LLP • internal capital	• Internal data • Quarterly
CCF/LGD models:				
Corporate portfolio	LGD/CCF	• local • statistical	• credit decision • limits • LLP • internal capital	• Internal data • Semiannually
Defaulted corporate portfolio	In Default Loss	• local • statistical	• internal capital	• Internal data • Semiannually

Retail mortgage portfolio	LGD for mortgage exposures (LGD ML)	• local • statistical with expert adjustment	• credit decision • LLP • internal capital	• Internal data • semiannually
Retail mortgage portfolio	CCF for mortgage exposures	• local • statistical	• LLP • internal capital	• Internal data • Semiannually
Retail non-mortgage portfolio	LGD for mortgage exposures (LGD NML)	• local • statistical with expert adjustment	• credit decision • LLP • internal capital	• Internal data • Semiannually
Retail non-mortgage portfolio	CCF for non-mortgage exposures	• local • statistical	• LLP • internal capital	• Internal data • Semiannually
Commercial Banks	LGD/CCF	• Central Commerzbank model • statistical	• credit decision • limits • LLP • internal capital	• Internal data • Semiannually

Rating systems' validation

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

In the case of AIRB models there is assured an independence of validation unit in the organizational structures of the Bank or the Group's subsidiary in relation to the units involved in the model's construction/maintenance, i.e. the model owner and users. The Validation Division of the Integrated Risk and Capital Management Department (Validation Unit) is responsible for the validation in mBank.

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

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

Depending on the materiality and complexity of the model, as well as the type of validation task to be performed, the validation may be advanced (covers both quantitative and qualitative elements) or basic (mainly focused on the quantitative analyses and selected qualitative elements). The validation results are documented in the validation report containing, in particular, an assessment used for the purpose of approving the model, and recommendations, if any, in form of precautionary and remedial actions, about the irregularities found.

Validation tasks are performed in accordance with the annual validation plan. Both validation plan and the results of performed validation tasks are approved by the Model Risk Committee.

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

Below we present results of historical verification (back-testing) of PD and LGD parameters based on comparison of average values of model results with realized empirical realizations within the observation period for each exposure classes qualifying for AIRB approach.

In the table below we present comparison of average 1-year PD (weighted by EAD) for retail, corporate and commercial banks portfolio which are not in default status as of Date along with realized default rate observed in particular portfolio as of Date + 1 year .

	Retail exposures		Corporate exposures		Commercial banks exposures	
Data	DR	PD_EAD	DR	PD_EAD	DR	PD_EAD
2013.12	1,42%	1,83%	1,92% **	1,77%	0,57% *	0,13%
2014.12	0,87%	1,51%	1,31%	1,54%	0,00%	0,34%
2015.12	0,80%	1,24%	0,85%	1,46%	0,00%	0,40%

** - One client in the default status (Low Default Portfolio specific)*

*** - Realization of corrective actions resulted in the re-calibration of PD model for Corporate exposures implemented in February 2015*

In the following table we preset average model LGD values as of 31.12.2016 for retail mortgage, retail non-mortgage, corporate and commercial banks portfolio based on long-term historical series for non-defaulted exposures and compared with observed (realized) loss rates based on historical observation from January 2006 till June 2016.

Indicators	Retail mortgage exposures	Retail non-mortgage exposures	Corporate exposures	Commercial banks exposures
Model LGD as of 31.12.2016 (average)	23,00%	47,57%	46,75%	24,50%
Empirical LGD (average from period 01.2006-06.2016)	15,72%	31,17%	38,56%	17,60%

Higher expected value of model LGD parameter compared to the empirical LGD observations in the analyzed period reflects required margin of conservatism for model estimates.

5.4. Supervisory requirements regarding capital ratios

According to provisions of the CRR Regulation the Bank and the Group are required to meet minimum regulatory level of capital ratios, i.e. to maintain a minimum total capital ratio above 8%, Tier 1 capital ratio above 6% and common equity Tier 1 capital ratio above 4,5%.

PFSA imposed higher minimum levels regarding capital ratios to be met by banks in Poland: 12% for total capital ratio and 9% for Tier 1 capital ratio.

As a result of the Act on Macro-prudential Supervision over the Financial System and Crisis Management in the Financial System (the Act) that entered into force in 2015 and transposed the CRD IV provisions to the Polish prudential regulations as of 31 December 2016 Bank was obliged to ensure adequate own funds to meet conservation capital buffer of 1,25% of the total risk exposure amount.

As of the end of 2016 the countercyclical capital buffer rate set for relevant exposures in Poland according with the article 83 of the Act amounted to 0%. mBank Group specific countercyclical capital buffer calculated in accordance with the provisions of the Act as the weighted average of the countercyclical buffer rates that apply in the countries where the relevant credit exposures of the Group are located, amounted to 0% as of December 31st, 2016.

In the fourth quarter of 2016 Bank received an administrative decision of the PFSA (KNF), in which mBank has been identified as other systemically important institution (O-SII). It imposed on mBank an OSII capital buffer of 0,5% of the total risk exposure amount, calculated in accordance with article 92(3) of CRR Regulation to be maintained on individual and consolidated levels.

Consequently, the combined buffer requirement set for the mBank Group as of the end of 2016 amounted to 1,75% (of the total risk exposure amount).

Additionally, as a result of risk assessment carried out by the PFSA within the supervisory review and evaluation process (SREP), in particular with regard to the evaluation of risk related to the portfolio of foreign exchange retail mortgage loans, mBank Group received an individual recommendation to maintain own funds on the consolidated level to cover additional capital requirement of 3,25% in order to mitigate the risk and 2,44% for Tier 1 capital. (On individual basis: 3,81% at the level of own funds and 2,86% at the level of Tier 1 capital).

The high level of additional capital requirement in Pillar II resulted from the fact that the PFSA applied one methodology to all banks in Poland. This did not take into account the results of internal models applied by mBank to the calculation of capital requirements for credit risk. According to PFSA's methodology, the calculation of the additional capital requirement for each and every bank uses the risk weight under the standardised approach (100%) as a starting point. Consequently, more than half of the additional capital requirement calculated by the PFSA for mBank Group comes from "aligning" the capital requirement to the requirement calculated under the standardised approach. The second important component with effect on an additional capital requirement within Pillar II was related to the BION score quantifying the risk of foreign exchange retail mortgage loans portfolio, taking into account the specific nature of the Bank portfolio, the following factors were taken into account:

- the share of loans with LTV >100% in total FX lending portfolio,
- the level of margin realised in the Bank on FX lending portfolio,
- sensitivity of total capital ratio to exchange rate and interest rate changes,
- Bank's readiness to absorb losses of a potential portfolio currency conversion.

The level of the required capital ratios for mBank Group encompasses in total:

- the basis requirement of PFSA addressed to banks in Poland to maintain the total capital ratio of 12% and the Tier 1 ratio of 9%;
- the combined buffer requirement of additional 1,75%;
- the additional capital charge in Pillar II resulting from foreign exchange mortgage loans portfolio – 3.25% (consolidated level) 3.81% (individual level).

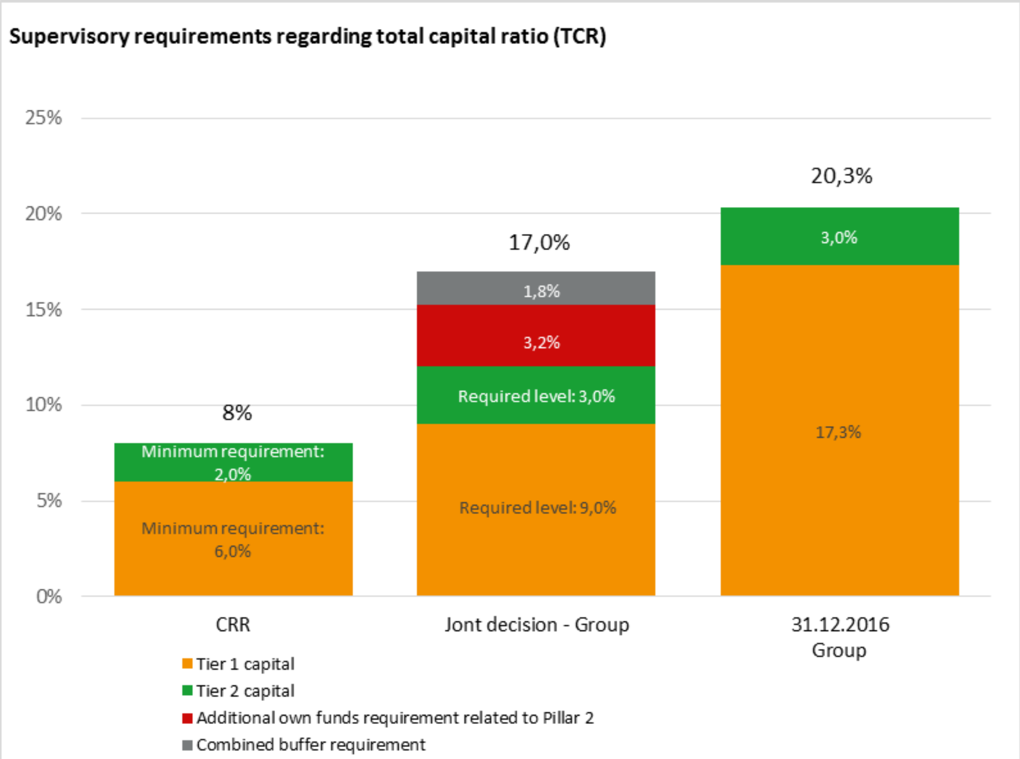
At the end of 2016 and 2015, capital ratios on consolidated basis and individual basis were above the required values. During whole 2015 capital ratios of mBank and mBank Group stayed above minimal values required in this period. Capital ratios on individual level and consolidated Common Equity Tier 1 ratio together with Tier 1 ratio stayed above the required values during whole 2016. Since the beginning of January 2016 consolidated total capital ratio of mBank Group should amount to at least 16.97% according to requirements in force at that time. Till 24 March 2016, i.e. the day on which the Ordinary General Meeting of mBank S.A. approved consolidated financial statements of mBank Group and decided not to pay a dividend from 2015 profit, consolidated total capital ratio of mBank Group stayed slightly below the required value. From 24 March 2016 till the end of 2016 consolidated total capital ratio of mBank Group stayed above the required value.

With a considerable surplus of own funds mBank Group comfortably meets the additional own funds requirement related to Pillar II and the combined buffer requirement.

mBank Group	**31 December 2016**		**31 December 2015**	
Capital ratio	**Required level**	**Reported level**	**Required level**	**Reported level**
Total capital ratio (TCR)	17,00%	20,29%	15,72%	17,25%
Tier 1 ratio (Tier 1 ratio)	13,19%	17,32%	11,79%	14,29%
Common Equity Tier 1 ratio (CET1 ratio)	12,57%	17,32%	-	14,29%

Without adjustment of the approach to the application of the regulatory floor to the requirements of article 500 of the CRR Regulation, capital ratios of mBank Group as of 31 December 2016 would amount to as follows: Total capital ratio = 18,35%, Common Equity Tier 1 ratio = 15,66%. Additionally, had the Group adjusted the approach to the application of the regulatory floor as of 31 December 2015 the capital ratios of mBank Group would not change.

The second component of the adequacy assessment of Group's capital base, alongside the calculation of capital ratios and their comparison with the required levels (taking account of the combined buffer requirement and the additional capital requirement within Pillar II), is verification whether Group meets requirements resulting from article 500 CRR Regulation. To this end, own funds are compared to the value of the regulatory floor accounting for 80% of the comparable standardised-driven total capital requirement. This parallel calculation is to ensure that the Group's own funds calculated under the internal rating based approach are sufficient and they do not fall below 80% of own funds that the Group would have to maintain under the standardised approach. mBank Group's own funds are well above the level determined by the regulatory floor.


Supervisory requirements regarding total capital ratio (TCR)
25%
20%
15%
10%
5%
0%
8%
Minimum requirement: 2,0%
Minimum requirement: 6,0%
17,0%
1,8%
3,2%
Required level: 3,0%
Required level: 9,0%
20,3%
3,0%
17,3%
CRR
Jont decision - Group
31.12.2016 Group
Tier 1 capital
Tier 2 capital
Additional own funds requirement related to Pillar 2
Combined buffer requirement

5.5. Quantitative data regarding capital adequacy

Capital ratios are calculated on the basis of total risk exposure amount that corresponds to the sum of risk exposure amounts for particular risk types that are calculated according to provisions of the CRR Regulation.

Total risk exposure amount of mBank Group consists of:

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

(in PLN thousand)

	2016		2015	
	Risk exposure amount	**Own funds requirement**	**Risk exposure amount**	**Own funds requirement**
TOTAL	65 259 977	5 220 799	69 391 743	5 551 339
for credit, counterparty credit risk	57 223 519	4 577 882	59 069 848	4 725 588
under AIRB approach	44 755 625	3 580 450	47 350 835	3 788 067
under standardised approach	12 466 389	997 312	11 718 792	937 503
Risk exposure amount for contributions to the default fund of a CCP	1 505	120	221	18
for market risk, including:	1 098 347	87 868	945 380	75 630
Foreign exchange risk	0	0	0	0
Commodities risk	0	0	0	0
Position risk	1 098 347	87 868	945 380	75 630
for operational risk	6 586 472	526 918	6 362 805	509 024
for credit valuation adjustment risk	213 304	17 064	262 151	20 972
for large exposures in the trading book	0	0	0	0
other	138 335	11 067	2 751 559	220 125
Total capital ratio	**20,29%**		**17,25%**	
Common Equity Tier 1 capital ratio	**17,32%**		**14,29%**	
Tier 1 capital ratio	**17,32%**		**14,29%**	

Risk weighted exposure amount for credit and counterparty credit risk with accompanying supervisory floor (see the definition below) accounted for 88% of total risk exposure amount of mBank Group. The table below presents changes in the risk weighted exposure amount in the course of 2016, resulting from main drivers of RWA movement.

mBank Group in PLNm	**Risk weighted exposure amount for credit and counterparty credit risk, including other amounts of risk exposure**
Risk weighted exposure amount as of 31 December 2015	**61 821**
Model updates	- 4 132
Book quality	- 2 790
Methodology and policy changes	- 143
Book size and structure	2 045
Foreign exchange movements	561
Total RWA movement	**- 4 459**
Risk-weighted exposure amount as of 31 December 2016	**57 362**

AIRB model updates

In the light of AIRB approach applied to calculation of risk-weighted exposure amount for credit and counterparty credit risk, model updates and model recalibrations were an important driver of RWA movement in 2016.

The coverage of the credit portfolio of mBank Group by AIRB approach amounted to 85% at the end of 2016. As of 31 December 2016 the AIRB approach was applied to the calculation of own funds requirement for credit and counterparty credit risk for the following portfolios:

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

In 2016 mBank Group received a confirmation from ECB and PFSA that high significance conditions which were specified in the conditional consent to the application of the advanced internal rating based approach (AIRB approach) to the calculation of own funds requirement for credit risk for mLeasing credit exposures, have been met. It allows to apply AIRB approach to the calculation of own funds requirement for credit risk for mLeasing credit exposures without any limitations.

In 2016 the implementation of the material change to the internal LGD model for mBank corporate portfolio (having satisfied the suspensive conditions) took place for which the

Group obtained the joint consent of the European Central Bank and of the PFSA on 15 September 2016.

In the case of portfolios with a conditional consent to the application of AIRB approach mBank Group applies supervisory floor. It means that where own funds requirement for credit risk calculated under AIRB approach is lower than the own funds requirement for credit risk calculated under standardised approach, it is necessary to supplement it up to the level of the own funds requirement calculated under the standardised approach.

With regard to mBank's retail non-mortgage exposures, retail microenterprises mortgage loan portfolio and commercial bank exposures, high significance conditions specified by the bank supervision have been met, awaiting formal confirmation by the bank supervision.

Asset quality

The category covers: rating migrations, reclassification to defaulted status, the returns to a non-defaulted status, changes related to the level of specific credit risk adjustments for defaulted exposures.

Methodology and policy changes

The value of the total risk exposure amount for 2016 was influenced by the following factors:

- the changes with respect to the calculation of the risk-weighted exposure amount for credit and counterparty credit risk that resulted from the changes of the regulatory provisions and the interpretations of the provisions of the CRR Regulation delivered by the European Banking Authority by means of the "Interactive Single Rulebook Q&A" on-line tool,

- the adjustment of the approach to the application of the regulatory floor in the light of the requirement of article 500 of the CRR Regulation. Bank uses the standardised approach for credit risk to meet this requirement. In October 2012, mBank received permission to apply the standardised approach in order to meet requirements of article 14 of Resolution No. 76/2010 of the PFSA of 10 March 2010 on the scope and detailed procedures for determining capital requirements for particular risks, regarding adequacy assessment of capital base. At present, this requirement results from article 500 under the CRR Regulation.

Book size and structure

The category includes: new credit exposures, sale of defaulted credit portfolios, changes related to the scope of subsidiaries subject to prudential consolidation, structural changes of the credit portfolio.

Foreign exchange movements

Due to the significant share of foreign currency credit portfolio in mBank Group portfolio, foreign exchange movements had a considerable influence on the level of risk-weighted exposure amount for credit and counterparty credit risk in 2016.

The table below presents the exposure values, risk weighted exposure amounts and own funds requirements for credit and credit counterparty risk for exposure classes within each approach used. It encompasses total exposure value (after, where applicable, on- or off-balance sheet netting) that is covered by guarantees, by eligible financial collateral and other eligible collateral.

in thousand PLN

	December 31, 2016						December 31, 2015					
	Gross exposure	**Net exposure**	**Total exposure covered by guarantees**	**Total exposure covered by eligible financial collateral and other eligible collateral***	**Risk weighted exposure amount**	**Own funds requirement**	**Gross exposure**	**Net exposure**	**Total exposure covered by guarantees**	**Total exposure covered by eligible financial collateral and other eligible collateral***	**Risk weighted exposure amount**	**Own funds requirement**
Credit and counterparty credit risk	**161 322 795**	**160 622 431**	**2 659 021**	**1 865 816**	**57 223 519**	**4 577 882**	**150 781 415**	**150 056 023**	**2 139 806**	**2 437 746**	**59 069 848**	**4 725 588**
AIRB approach	**100 008 251**	**100 008 251**	**2 134 101**	**147 542**	**44 755 625**	**3 580 450**	**94 055 607**	**94 055 607**	**1 553 133**	**192 243**	**47 350 835**	**3 788 067**
Corporates - SME	9 513 690	9 513 690	561 037	73 836	5 131 499	410 520	8 451 609	8 451 609	405 888	77 775	5 082 710	406 617
Corporates - Specialised Lending	8 733 205	8 733 205	0	0	5 937 710	475 017	7 547 538	7 547 538	0	0	5 405 292	432 423
Corporates - Other	22 617 304	22 617 304	1 428 318	73 394	12 617 430	1 009 394	21 440 048	21 440 048	1 107 886	114 454	14 789 603	1 183 168
Retail - Secured by real estate SME	2 359 608	2 359 608	0	0	1 098 692	87 895	2 314 412	2 314 412	0	0	1 281 631	102 530
Retail - Secured by real estate non-SME	27 526 627	27 526 627	0	0	6 930 867	554 469	28 781 015	28 781 015	0	0	8 601 759	688 141
Institutions	6 620 832	6 620 832	144 746	0	1 601 493	128 120	5 981 044	5 981 044	39 359	0	2 267 332	181 387
Retail - Other SME	7 522 411	7 522 411	0	312	2 738 607	219 089	5 862 899	5 862 899	0	14	2 314 140	185 131
Retail - Other non-SME	11 826 853	11 826 853	0	0	5 716 796	457 344	10 555 286	10 555 286	0	0	5 255 972	420 478
Other non-credit-obligation assets	3 287 721	3 287 721	0	0	2 982 531	238 602	3 121 756	3 121 756	0	0	2 352 396	188 192

Standardised Approach	**61 285 321**	**60 584 957**	**524 920**	**1 718 274**	**12 466 389**	**997 312**	**56 718 868**	**55 993 476**	**586 673**	**2 245 503**	**11 718 792**	**937 503**
Central governments or central banks	37 457 274	37 457 273	0	0	33 608	2 689	34 089 572	34 089 572	0	0	17 925	1 434
Regional governments or local authorities	1 002 684	1 002 072	0	0	262 711	21 017	1 256 511	1 255 683	0	0	318 321	25 466
Public sector entities	112 964	112 929	67 247	0	16 533	1 323	98 643	98 565	53 608	0	17 226	1 378
Multilateral Development Banks	359 971	359 971	0	0	0	0						
Institutions	446 438	446 379	0	3 981	136 462	10 917	418 695	418 690	0	2 217	142 707	11 417
Corporates	9 417 944	9 401 483	389 096	1 714 060	5 182 543	414 602	10 462 608	10 441 942	440 900	2 243 155	5 274 077	421 926
Retail	2 257 269	2 152 959	0	0	1 286 578	102 926	1 872 419	1 780 020	0	0	1 095 739	87 659
Secured by mortgages on immovable property	9 048 597	9 045 283	0	0	4 935 420	394 834	7 123 568	7 119 879	0	0	4 102 617	328 209
Exposures in default,	802 613	282 765	68 577	233	266 369	21 310	876 682	321 298	92 165	131	260 550	20 844
High risk exposures	19 601	19 601	0	0	29 401	2 352	13 793	13 793	0	0	20 690	1 655
Equities	336 651	280 927	0	0	293 801	23 504	481 247	428 907	0	0	445 187	35 615
Collective investments undertakings (CIU)	155	155	0	0	155	12	2 654	2 654	0	0	2 654	212
Other items	23 160	23 160	0	0	22 808	1 826	22 476	22 473	0	0	21 099	1 688
Risk exposure amount for contributions to the default fund of a CCP	**29 223**	**29 223**	**0**	**0**	**1 505**	**120**	**6 940**	**6 940**	**0**	**0**	**221**	**18**

* after the application of volatility adjustments

Breakdown of AIRB retail exposures by credit quality grade and by corresponding external rating grades as of 31 December 2016 (in PLN thousand).

The table below presents exposure values, the amount of undrawn commitments, the exposure-weighted average LGD and PD in percentage, the exposure-weighted average risk weight and risk-weighted exposure values.

mBank rating	S & P			Gross exposure		Exposure weighted average LGD	Exposure weighted average PD	Exposure weighted average risk weight	Risk weighted exposure amount
					Of which: off balance sheet exposures				
1,2	AAA	AAA	Investment grade	7 265	5 225	51,09%	0,03%	5,35%	284
1,4	AA+	AA		17 111	10 290	46,85%	0,03%	4,93%	663
1,6	AA, AA-			161 217	44 921	31,88%	0,05%	4,71%	6 906
1,8	A+, A	A		9 935 061	374 232	29,19%	0,07%	5,63%	553 113
2	A-			7 231 919	476 554	29,90%	0,11%	8,02%	566 507
2,2	BBB+	BBB		5 360 633	852 996	32,94%	0,17%	12,21%	614 179
2,4	BBB			4 047 137	997 739	36,28%	0,26%	18,48%	673 774
2,6				2 994 250	736 347	37,09%	0,38%	24,48%	648 556
2,8	BBB-			2 568 794	732 279	38,78%	0,56%	32,34%	719 757
3	BB+	BB	Non-investment grade	2 407 172	682 249	40,52%	0,81%	40,86%	851 420
3,2	BB			2 164 541	409 900	39,80%	1,15%	47,19%	904 531
3,4				1 877 744	284 073	39,22%	1,55%	53,07%	894 566
3,6	BB-			1 615 115	173 542	40,05%	2,08%	59,24%	863 430
3,8	B+	B		1 273 432	109 432	38,25%	2,72%	61,64%	716 798
4				1 172 611	109 347	39,47%	3,45%	66,51%	704 774
4,2	B			743 750	40 420	36,48%	4,35%	68,76%	476 732
4,4				544 750	20 698	34,98%	5,41%	70,46%	359 245
4,6				466 661	17 294	32,32%	6,76%	80,10%	358 410
4,8	B-			451 384	11 459	32,51%	8,42%	89,33%	385 109
5				365 312	10 275	33,71%	10,46%	101,07%	350 445
5,2	CCC+	CCC		340 677	5 081	32,53%	12,99%	117,48%	376 141
5,4				310 493	4 376	32,60%	16,24%	122,08%	360 780
5,6	CCC bis CC-			294 791	3 917	34,33%	20,14%	135,49%	378 339
5,8				416 278	4 989	33,88%	32,25%	138,50%	540 805
6	C, D-I, D-II	DEFAULT	DEFAULT	2 467 401	9 855	63,57%	100,00%	170,08%	4 179 698
TOTAL				**49 235 499**	**6 127 490**	**35,61%**	**6,59%**	**36,05%**	**16 484 962**

Breakdown of AIRB retail exposures by credit quality grade and by corresponding external rating grades as of 31 December 2015 (in PLN thousand).

The table below presents exposure values, the amount of undrawn commitments, the exposure-weighted average LGD and PD in percentage, the exposure-weighted average risk weight and risk-weighted exposure values.

mBank rating	S & P			Gross exposure		Exposure weighted average LGD	Exposure weighted average PD	Exposure weighted average risk weight	Risk weighted exposure amount
					Of which: off balance sheet exposures				
1,2	AAA	AAA	Investment grade	14 413	7 117	42,23%	0,03%	4,26%	492
1,4	AA+	AA		86 724	22 734	41,33%	0,03%	4,10%	3 115
1,6	AA, AA-			137 100	40 083	40,23%	0,04%	5,27%	6 215
1,8	A+, A	A		3 093 199	175 293	30,41%	0,07%	6,05%	183 246
2	A-			5 877 564	475 181	30,42%	0,11%	8,50%	485 501
2,2	BBB+	BBB		7 937 353	652 683	30,86%	0,16%	11,22%	866 271
2,4	BBB			5 125 779	929 017	33,71%	0,26%	17,22%	827 708
2,6				4 454 589	755 148	33,70%	0,39%	22,64%	933 151
2,8	BBB-			3 742 532	825 859	36,04%	0,56%	30,62%	1 029 225
3	BB+	BB	Non-investment grade	3 112 518	711 360	37,88%	0,81%	39,27%	1 072 097
3,2	BB			2 200 200	462 260	39,50%	1,14%	47,72%	927 571
3,4				1 818 210	282 021	39,34%	1,55%	54,36%	889 722
3,6	BB-			1 437 123	165 981	39,51%	2,08%	60,36%	787 931
3,8	B+	B		1 107 731	101 315	38,44%	2,73%	64,69%	657 427
4				967 579	99 324	39,13%	3,46%	69,66%	611 694
4,2	B			718 191	40 265	37,05%	4,34%	72,03%	480 999
4,4				512 415	20 337	34,49%	5,41%	77,26%	367 891
4,6				405 465	15 427	32,16%	6,73%	87,67%	339 564
4,8	B-			427 015	11 410	32,57%	8,40%	90,89%	364 361
5				412 984	9 940	34,47%	10,36%	110,35%	427 395
5,2	CCC+	CCC		378 655	6 906	32,65%	12,99%	129,58%	468 594
5,4				329 912	4 911	32,15%	16,09%	131,23%	411 764
5,6	CCC bis CC-			265 464	4 085	34,09%	20,01%	144,18%	365 940
5,8				462 109	4 486	32,10%	32,05%	146,35%	644 380
6	C, D-I, D-II	DEFAULT	DEFAULT	2 488 789	12 658	63,94%	100,00%	173,71%	4 301 245
TOTAL				**47 513 612**	**5 835 802**	**35,60%**	**6,91%**	**39,42%**	**17 453 502**

Breakdown of AIRB corporate exposures by credit quality grade and by corresponding external rating grades as of 31 December 2016 (in PLN thousand).

The table below presents exposure values, the amount of undrawn commitments, the exposure-weighted average LGD and PD in percentage, the exposure-weighted average risk weight and risk-weighted exposure values.

mBank rating	S & P			Gross exposure		Exposure weighted average LGD	Exposure weighted average PD	Exposure weighted average risk weight	Risk weighted exposure amount
					Of which: off balance sheet exposures				
1,4	AA+	AA	Investment grade	806 562	608 203	48,89%	0,03%	14,08%	42 503
1,6	AA, AA-			419 620	320 716	48,92%	0,04%	14,14%	30 698
1,8	A+, A	A		300 027	158 231	41,05%	0,07%	16,67%	35 341
2	A-			724 024	442 837	40,69%	0,11%	24,39%	90 382
2,2	BBB+	BBB		1 481 988	921 043	46,03%	0,17%	38,78%	336 917
2,4	BBB			2 545 794	928 956	35,45%	0,25%	39,61%	759 579
2,6				4 309 159	2 719 734	45,73%	0,38%	57,68%	1 437 874
2,8	BBB-			3 048 628	1 603 260	42,35%	0,58%	64,40%	1 518 928
3	BB+	BB	Non-investment grade	3 511 110	1 629 223	37,69%	0,83%	66,98%	1 636 512
3,2	BB			4 042 497	1 441 751	43,22%	1,11%	87,62%	2 933 146
3,4				3 374 601	1 207 255	40,46%	1,54%	95,15%	2 536 820
3,6	BB-			2 645 902	1 080 932	39,51%	2,09%	94,86%	1 818 897
3,8	B+	B		1 537 013	469 107	38,90%	2,76%	99,34%	1 259 231
4				724 030	169 241	35,01%	3,42%	91,78%	559 618
4,2	B			651 009	168 959	34,61%	4,37%	100,13%	543 073
4,4				406 528	73 543	32,73%	5,30%	102,60%	374 251
4,6				215 302	66 026	23,97%	6,83%	82,42%	151 056
4,8	B-			162 750	64 420	26,43%	8,53%	95,05%	108 969
5				91 623	2 629	24,37%	10,35%	95,80%	79 958
5,2	CCC+	CCC		38 487	7 661	20,84%	13,11%	94,15%	29 918
5,4				41 162	8 544	18,94%	15,96%	88,00%	31 354
5,6	CCC bis CC-			60 973	14 944	19,13%	20,11%	88,28%	46 957
5,8				130 849	46 145	19,39%	36,01%	98,66%	113 419
6	C, D-I, D-II	DEFAULT	DEFAULT	861 356	43 910	74,64%	100,00%	151,60%	1 273 528
TOTAL				**32 130 994**	**14 197 270**	**41,46%**	**5,06%**	**75,90%**	**17 748 929**

Breakdown of AIRB corporate exposures by credit quality grade and by corresponding external rating grades as of 31 December 2015 (in PLN thousand).

The table below presents exposure values, the amount of undrawn commitments, the exposure-weighted average LGD and PD in percentage, the exposure-weighted average risk weight and risk-weighted exposure values.

mBank rating	S & P			Gross exposure		Exposure weighted average LGD	Exposure weighted average PD	Exposure weighted average risk weight	Risk weighted exposure amount
					Of which: off balance sheet exposures				
1,4	AA+	AA	Investment grade	707 368	466 595	49,24%	0,03%	23,05%	63 364
1,6	AA, AA-			295 556	98 818	51,34%	0,04%	13,67%	31 952
1,8	A+, A	A		186 103	123 053	51,99%	0,06%	21,84%	21 956
2	A-			392 422	204 632	45,72%	0,11%	28,89%	80 871
2,2	BBB+	BBB		1 079 445	724 638	51,89%	0,18%	44,53%	265 093
2,4	BBB			1 922 212	789 741	46,64%	0,27%	55,19%	808 908
2,6				2 845 870	1 482 451	52,62%	0,39%	64,56%	1 198 811
2,8	BBB-			3 595 154	2 025 241	51,14%	0,57%	79,80%	1 973 153
3	BB+	BB	non-investment rating	3 265 518	1 394 863	42,05%	0,81%	80,14%	1 896 502
3,2	BB			3 440 977	1 196 828	46,70%	1,16%	99,85%	2 848 324
3,4				4 624 823	1 773 691	42,31%	1,55%	99,72%	3 565 241
3,6	BB-			2 248 156	666 641	42,95%	2,05%	104,73%	1 968 408
3,8	B+	B		1 274 124	351 628	37,12%	2,74%	94,66%	998 404
4	B+			950 811	223 758	39,44%	3,48%	105,03%	846 278
4,2	B			724 274	226 637	39,83%	4,35%	125,10%	726 552
4,4				474 995	103 225	40,97%	5,55%	142,33%	617 043
4,6				175 362	33 838	28,04%	6,80%	92,58%	133 224
4,8	B-			127 281	16 079	30,85%	8,21%	112,39%	134 343
5	B-			74 563	15 613	26,42%	10,47%	102,05%	56 659
5,2	CCC+	CCC		89 010	29 714	24,39%	12,99%	113,71%	98 726
5,4				81 618	2 146	19,25%	16,54%	83,87%	64 238
5,6	CCC bis CC-			30 578	7 974	16,56%	20,00%	79,84%	19 346
5,8				160 342	52 282	20,14%	36,11%	106,98%	144 264
6	C, D-I, D-II	DEFAULT	DEFAULT	1 125 095	51 665	71,00%	100,00%	119,69%	1 310 653
TOTAL				**29 891 657**	**12 061 751**	**45,89%**	**6,44%**	**88,07%**	**19 872 313**

Breakdown of AIRB specialised lending corporate exposures, including risk-weighted exposure values, under slotting approach by risk category as of 31 December 2016 (in PLN thousand).

Risk category	Gross exposure	Of which: off balance sheet exposures	Risk weighted exposure amount	Average risk weight
1	59 862	3 020	39 589	68,74%
2	7 832 599	1 482 069	5 563 214	86,06%
3	289 766	9 704	325 310	115,00%
4	3 839	0	9 597	250,00%
5*	547 139	9 020	0	0,00%
Total	**8 733 205**	**1 503 813**	**5 937 710**	**81,58%**

*exposures in default

Breakdown of AIRB specialised lending corporate exposures, including risk-weighted exposure values, under slotting approach by risk category as of 31 December 2015 (in PLN thousand).

Risk category	Gross exposure	Of which: off balance sheet exposures	Risk weighted exposure amount	Average risk weight
1	131 699	0	91 203	69,90%
2	6 464 319	1 144 279	4 659 711	86,12%
3	584 624	46 517	634 486	115,00%
4	7 957	0	19 892	250,00%
5*	358 939	276	0	0,00%
Total	**7 547 538**	**1 191 072**	**5 405 292**	**83,68%**

*exposures in default

Breakdown of AIRB bank exposures by credit quality grade and by corresponding external rating grades as of 31 December 2016 (in PLN thousand).

The table below presents exposure values, the amount of undrawn commitments, the exposure-weighted average LGD and PD in percentage, the exposure-weighted average risk weight and risk-weighted exposure values.

mBank rating	S & P			Gross exposure		Exposure weighted average LGD	Exposure weighted average PD	Exposure weighted average risk weight	Risk weighted exposure amount
					Of which: off balance sheet exposures				
1,2	**AAA**	AAA	Investment grade	19 295	6 952	42,02%	0,03%	21,39%	3 616
1,4	**AA+**	AA		1 324 530	622 426	41,64%	0,03%	11,72%	115 318
1,6	**AA, AA-**	AA		2 481 950	1 761 841	44,95%	0,04%	23,29%	344 691
1,8	**A+, A**	A		179 136	29 987	45,41%	0,06%	32,28%	52 988
2	**A-**	A		1 798 983	439 710	40,07%	0,10%	22,92%	347 408
2,2	**BBB+**	BBB		147 387	1 299	40,00%	0,17%	47,00%	69 014
2,4	**BBB**			91 091	1 767	37,62%	0,26%	39,33%	35 386
2,6	**BBB**			34 625	13 500	48,78%	0,40%	66,02%	17 958
2,8	**BBB-**			243 654	2 256	41,69%	0,61%	74,95%	181 274
3	**BB+**	BB	Non-investment grade	101 981	6 430	4,04%	0,82%	7,54%	7 486
3,2	**BB**			80 324	8 211	42,56%	1,11%	86,69%	66 160
3,4	**BB**			619	500	40,63%	1,61%	84,76%	291
3,6	**BB-**			33 314	-	34,29%	2,02%	97,44%	32 460
3,8	**B+**	B		50 355	12 245	49,09%	2,76%	153,00%	68 628
4	**B+**			100	100	53,13%	3,49%	144,74%	65
4,4	**B**			859	-	37,50%	5,42%	120,23%	1 032
5,2	**CCC+**	CCC		1 945	-	0,00%	12,98%	0,00%	-
5,6	**CCC bis CC-**			200	200	53,13%	20,33%	280,11%	252
6	**C, D-I, D-II**	DEFAULT	DEFAULT	30 484	-	72,57%	100,00%	844,59%	257 466
TOTAL				**6 620 832**	**2 907 424**	**41,65%**	**0,79%**	**32,33%**	**1 601 493**

Breakdown of AIRB bank exposures by credit quality grade and by corresponding external rating grades as of 31 December 2015 (in PLN thousand).

The table below presents exposure values, the amount of undrawn commitments, the exposure-weighted average LGD and PD in percentage, the exposure-weighted average risk weight and risk-weighted exposure values.

mBank rating	S & P			Gross exposure	Of which: off balance sheet exposures	Exposure weighted average LGD	Exposure weighted average PD	Exposure weighted average risk weight	Risk weighted exposure amount
1,2	**AAA**	AAA	Investment grade	8 009	6 308	39,36%	0,03%	30,10%	1 718
1,4	**AA+**	AA		651 904	459 999	48,36%	0,03%	16,66%	70 338
1,6	**AA, AA-**	AA		301 550	167 645	43,75%	0,04%	24,66%	53 876
1,8	**A+, A**	A		1 037 543	569 984	46,74%	0,06%	27,06%	203 375
2	**A-**	A		486 710	1 000	12,35%	0,11%	10,74%	52 232
2,2	**BBB+**	BBB		386 879	52 245	33,44%	0,18%	40,22%	145 096
2,4	**BBB**			609 150	47 807	19,84%	0,25%	32,14%	189 606
2,6	**BBB**			125 237	6 659	43,06%	0,42%	77,96%	95 659
2,8	**BBB-**			2 102 516	1 629 931	44,47%	0,57%	98,60%	1 216 453
3	**BB+**	BB	Non-investment grade	116 956	100 405	43,65%	0,73%	81,01%	54 022
3,2	**BB**			41 245	12 687	40,84%	1,12%	85,26%	33 317
3,4	**BB**			21 238	5 002	51,11%	1,41%	128,97%	24 137
3,6	**BB-**			7 167	4 356	40,63%	2,29%	105,35%	5 027
3,8	**B+**	B		8 870	0	39,03%	2,59%	95,94%	8 509
4	**B+**			49 417	2 732	50,93%	3,65%	157,50%	76 833
4,4	**B**			7 531	0	39,61%	5,55%	139,85%	10 532
5,2	**CCC+**	CCC		1 000	1 000	53,20%	12,83%	281,30%	1 407
5,4	**CCC+**			17 483	3 147	27,85%	16,15%	139,05%	23 736
5,8	**CCC bis CC-**			638	311	40,72%	47,34%	228,41%	1 457
6	**C, D-I, D-II**	DEFAULT	DEFAULT	0	0	53,13%	100,00%	664,06%	1
TOTAL				**5 981 044**	**3 071 218**	**37,37%**	**0,40%**	**51,48%**	**2 267 332**

6. Capital buffers

Provisions of CRD IV, in particular provisions regarding capital buffers, were transposed into a national legislation, which took place in 2015 with the endorsement of the Act on Macro-prudential Supervision over the Financial System and Crisis Management in the Financial System (Act) and with an update of the Banking Law. The act stipulates capital buffers banks in Poland should meet once buffers are implemented by competent authorities indicated in the Act.

As of 31 December 2016 mBank Group was obliged to ensure adequate own funds to meet conservation capital buffer of 1,25% of total risk exposure amount, as defined in the Act.
As of the end of 2016 the countercyclical capital buffer rate set for relevant exposures in Poland according with the article 83 of the Act amounted to 0%. The ratio shall be effective until it is changed by way of an ordinance of the Minister of Finance.

mBank Group calculates the bank-specific countercyclical capital buffer in accordance with the provisions of the Act as the weighted average of the countercyclical buffer rates that apply in the countries where the relevant credit exposures of the Group are located.

The amount of the Group institution-specific countercyclical capital buffer (in PLN thousand)

	31.12.2016
Total risk exposure amount	65 259 977
Institution specific countercyclical buffer rate (%)	0,00000
Institution specific countercyclical buffer requirement*	0

**Calculated as the institution-specific countercyclical buffer rate applied to the total risk exposure amount*

Geographical distribution of Group's credit exposures relevant for the calculation of the countercyclical capital buffer (in PLN thousand)

Breakdown by country	General credit exposures		Trading book exposure		Securitisation exposure		Own funds requirements				Own funds requirement weights [%]	Counter-cyclical capital buffer rate [%]
	Exposure value for SA	Exposure value for IRB	Sum of long and short position of trading book	Value of trading book exposure for internal models	Exposure value for SA	Exposure value for IRB	Of which: General credit exposures	Of which: Trading book exposures	Of which: Securitisation exposures	Total		
1. Poland	12 420 650	82 111 921	2 573 433				4 199 005	26 873		4 225 878	94,37909	0,00000
2. Czech Republic	3 343 070	7 581					139 289			139 289	3,11083	0,00000
3. Slovakia	964 913	402					40 638			40 638	0,90760	0,00000
4. Germany	23 383	140 995					8 713			8 713	0,19460	0,00000
5. Russia	54 773	74 160					43 882			43 882	0,98005	0,00000
6. United States	56 380	6 092					4 521			4 521	0,10096	0,00000
7. Bahamas	39 816						3 185			3 185	0,07114	
8. Belarus	0	37 872					4 837			4 837	0,10802	
9. Cyprus	6 378	24 227					2 157			2 157	0,04817	0,00000
10. Austria	0	23 276					1 578			1 578	0,03520	0,00000
11. United Kingdom	20 740	170					841			841	0,01878	0,00000
12. Netherlands	2	15 538					1 171			1 171	0,02615	0,00000
13. Thailand	12 428						497			497	0,01110	
14. Ireland	3 856	3 856					164			164	0,00367	0,00000
15. Belgium	2 030						163			163	0,00365	0,00000
16. France	0	165					7			7	0,00015	0,00000
17. Sweden	5	128					2			2	0,00005	1,50000
18. Malta	117						11			11	0,00025	0,00000
19. Andorra	110	110					3			3	0,00007	
20. Anguilla	69						5			5	0,00012	
21. Switzerland	2	65					2			2	0,00000	0,00000
22. Denmark	45						4			4	0,00008	0,00000
23. Hungary	37	37					1			1	0,00001	0,00000
24. Singapore	12	23					2			2	0,00005	
25. Israel	0	26					1			1	0,00003	
26. Indonesia	21	21					1			1	0,00003	0,00000
27. Liechtenstein	20						2			2	0,00004	
28. Ukraine	8						1			1	0,00002	
29. Estonia	4						0			0	0,00001	0,00000
30. Luxembourg	1						0			0	0,00000	0,00000
31. Other countries	4	-					0	-	-	0	0,00000	0,00000
Total	**16 948 874**	**82 446 665**	**2 573 433**	**0**	**0**	**0**	**4 450 683**	**26 873**	**0**	**4 477 557**	**100**	

In the fourth quarter of 2016, the Bank received an administrative decision of the PFSA that identified mBank as other systemically important institutions (O-SII) and imposed an OSII capital buffer of 0,5% of the total risk exposure amount, calculated in accordance with article 92.3 of the CRR Regulation, to be maintained on individual and consolidated levels.

The all-in-one combined buffer requirement set for the mBank Group as of the end of 2016 amounted to 1,75% of the total risk exposure amount.

7. Leverage ratio

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

Information regarding leverage ratio presented below are compliant with regulatory reporting provided by mBank to NBP. According to the instructions of the European Commission given to banks by NBP, calculations are made according to the rules of CRR Regulation taking into account Commission Delegated Regulation 2015/62 as of 10 October 2014 amending Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to the leverage ratio. Disclosures regarding leverage ratio follow the rules defined in Commission Implementing Regulation 2016/200 of 15 February 2016 laying down implementing technical standards with regard to disclosure of the leverage ratio for institutions, according to Regulation (EU) No 575/2013 of the European Parliament and of the Council.

The table below presents a reconciliation of the total exposure measure with the relevant information disclosed in published financial statements.

Table LRSum: Summary reconciliation of accounting assets and leverage ratio exposures (in PLN thousand)

		31/12/2016
1	**Total assets as per published financial statements**	**133 743 502**
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	-50 709
3	(Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting framework but excluded from the leverage ratio total exposure measure in accordance with Article 429(13) of Regulation (EU) No 575/2013)	0
4	Adjustments for derivative financial instruments	373 871
5	Adjustment for securities financing transactions (SFTs)	-1 564 936
6	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	8 491 198
EU-6A	(Adjustment for intragroup exposures excluded from the leverage ratio total exposure measure in accordance with Article 429(7) of Regulation (EU) No 575/2013)	0
EU-6B	(Adjustment for exposures excluded from the leverage ratio total exposure measure in accordance with Article 429(14) of Regulation (EU) No 575/2013)	0
7	Other adjustments	-3 617 584
8	**Leverage ratio total exposure measure**	**137 375 342**

The table below presents a breakdown of the total exposure measure applied to calculation of the leverage ratio, information on Tier 1 capital, leverage ratio and how the institution applies Article 499(2) of the CRR Regulation.

Table LRCom: Leverage ratio common disclosure (in PLN thousand)

		31/12/2016
	On-balance sheet exposures (excluding derivatives and SFTs)	
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	126 791 978
2	(Asset amounts deducted in determining Tier 1 capital)	-964 420
3	**Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets)**	**125 827 558**
	Derivative exposures	
4	Replacement cost associated with all derivatives transactions (ie net of eligible cash variation margin)	719 643
5	Add-on amounts for PFE associated with all derivatives transactions (mark- to-market method)	715 332
EU-5A	Exposure determined under Original Exposure Method	0
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework	0
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	0
8	(Exempted CCP leg of client-cleared trade exposures)	0
9	Adjusted effective notional amount of written credit derivatives	0
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	0
11	**Total derivatives exposures**	**1 434 975**
	SFT exposures	
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	1 621 499
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	0
14	Counterparty credit risk exposure for SFT assets	112
EU-14A	Derogation for SFTs: Counterparty credit risk exposure in accordance with Articles 429b(4) and 222 of Regulation (EU) No 575/2013	0
15	Agent transaction exposures	0
EU-15A	(Exempted CCP leg of client-cleared SFT exposure)	0
16	**Total securities financing transaction exposures**	**1 621 611**
	Other off-balance sheet exposures	
17	Off-balance sheet exposures at gross notional amount	28 559 354
18	(Adjustments for conversion to credit equivalent amounts)	-20 068 156
19	**Other off-balance sheet exposures**	**8 491 198**
	Exempted exposures in accordance with Article 429(7) and (14) of Regulation (EU) No 575/2013 (on and off balance sheet)	
EU-19A	(Intragroup exposures (solo basis) exempted in accordance with Article 429(7) of Regulation (EU) No 575/2013 (on and off balance sheet))	0
EU-19B	(Exposures exempted in accordance with Article 429 (14) of Regulation (EU) No 575/2013 (on and off balance sheet))	0
	Capital and total exposure mesure	
20	Tier 1 capital	**11 303 332**
21	Leverage ratio total exposure measure	**137 375 342**
	Leverage ratio	
22	Leverage ratio	**8,23%**

Choice on transitional arrangements and amount of derecognised fiduciary items		
EU-23	Choice on transitional arrangements for the definition of the capital measure	transitional
EU-24	Amount of derecognised fiduciary items in accordance with Article 429(11) of Regulation (EU) No 575/2013	0

Due to the fact that mBank Group as a significant subsidiary of a EU parent institutions which is of material significance for its local market, discloses information indicated in article 13(1) of CRR Regulation on a sub-consolidated basis, it does not publish information in the template 'LRSpl'.

Description of the factors that had an impact on the leverage ratio during the period to which the disclosed leverage ratio refers

Exposure value, Tier 1 capital and leverage ratio of mBank Group calculated in accordance with a transitional definition of Tier 1 capital as of 31 December 2016 and 31 December 2015 (in PLN thousand)

		31.12.2016	31.12.2015
Exposure value		**137 375 342**	**129 270 578**
Capital and regulatory adjustments			
	Tier 1 capital - transitional definition	11 303 332	9 914 534
	Regulatory adjustments - Tier 1 - transitional definition	-964 420	-1 338 700
Leverage ratio*			
	Leverage Ratio - using a transitional definition of Tier 1	8,23%	7,75%

*Leverage ratio calculated according to provisions of Commission Delegated Regulation (EU) 2015/62 of 10 October 2014 amending Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to the leverage ratio, according with transitional definition of Tier 1 capital.
Leverage ratio as of 31.12.2015 calculated according to provisions of CRR Regulation and transitional definition of Tier 1 capital, not taking account of provisions of Commission Delegated Regulation (EU) 2015/62 of 10 October 2014 would have amounted to 7,05%.

The leverage ratio of the Group in 2016 was driven by the following factors:

- inclusion in Common Equity Tier 1 capital the remaining part of the net profit of mBank Group for the year 2015, not included in Common Equity Tier 1 capital on the basis of the PFSA decision obtained in 2015;
- inclusion in Common Equity Tier 1 capital the verified net profit of the mBank Group for the first, second and third quarters of the year 2016, net of expected charges and dividends, on the basis of the PFSA decisions from 21 June 2016, 7 September 2016 and 14 December, 2016 respectively;
- classification of capital instruments issued within incentive programs in the period from January, 1st 2016 till July, 31st 2016 as instruments in Common Equity Tier 1 capital;
- change of calculation methodology for the additional value adjustments deducted from Common Equity Tier 1 capital;

- change of the limit for unrealized gains measured at the fair value included in the own funds calculation from 40% in 2015 to 60% in 2016;
- expansion of the mBank Group business activity;
- depreciation of the Polish currency against the foreign currencies in 2016;
- application of the Commission Delegated Regulation 2015/62 as of 10 October 2014 amending Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to the leverage ratio to the internal and external reporting with regard to leverage ratio.

Description of the processes used to manage the risk of excessive leverage

Capital Management Committee performs the essential role in management of risk of excessive leverage in mBank Group. Management of this risk comprises two fundamental perspectives: calculation and monitoring of leverage ratio and analysis of mismatches between assets and liabilities. First element of the procedure, calculation of the leverage ratio according to CRR requirements, is performed by the Integrated Risk and Capital Management Department. The second element, mismatches analysis, is reviewed by Financial Markets Risk Department. Actual leverage ratio is regularly monitored and compared to peer group. In order to assure fulfilment of regulatory requirement being in force in the future mBank Group sets internal target for leverage ratio equal to 6% in 2016 and 7% starting from 2017. Target shall be monitored and verified at least on a yearly basis.

mBank counteracts risk of excessive leverage taking into account potential increase in mentioned risk caused by own funds drop associated with expected or incurred losses. Annual planning process includes forecast of year end leverage ratio as well as plan of the ratio in a four-year time horizon. The forecast is updated depending on the macroeconomic environment. Moreover, in the light of rapidly changing market environment, mBank also examines capital adequacy in adverse macroeconomic scenarios, understood as risk scenario accepted by the Management Board.

Additionally, mBank maintains the set of potential measures (together with their implementation schedule) in order to raise Tier 1 capital or optimize balance sheet, possible to undertake in case of adverse leverage ratio development.

8. Credit risk mitigation techniques

8.1. Collateral valuation and management

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

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

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

As at 31 December 2016 mBank Group did not hold credit derivatives.

Collateral

Retail

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

<u>Retail properties</u>

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

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

Vehicles

In the case of new vehicles purchased from an authorised dealer, a credit analyst accepts the vehicle value based on the invoice. In the case of used vehicles, mBank's analyst makes a valuation of the vehicle based on a market value catalogue of vehicles, or accepts the value indicated on the motor hull insurance (AC) delivered by the customer, which includes a value verified by the insurance company. In the case where a specific vehicle model is not included in the catalogue, the analyst may require that the customer submits a valuation made by an appraiser. The same approach is also used in the case of doubts related to the value or the technical condition of a vehicle.

Insurance

In the case of bridging insurance (used as interim collateral up until the moment when the mortgage is registered) the value of the real property that constitutes a target collateral for the loan is accepted as the value of collateral. The sales of this type of insurance ceased in the third quarter 2013.

Corporates

The credit risk taken by mBank when granting credit products to clients may be mitigated by collateral. The types of collateral accepted by mBank, rules for establishing collateral, principles of evaluating and verifying value of collaterals and concerning management of collaterals are set out in detailed internal instructions of mBank. mBank's policy is based on the assumption that mBank's decision to grant a credit product entails an effort to obtain collateral of the highest quality and value adequate to the scale of risk taken. The collateral value should be correlated not only with the borrower's creditworthiness, but also with the amount of the product posing credit risk and the risk level arising from the specific qualities of the credit product. In the case of mortgage-secured loans, mBank uses level of LtV ratio in line of regulatory requirements. Under justified circumstances, mBank may refrain from asking for collateral.

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

On a regular basis, mBank monitors the quality of collateral. The monitoring covers in particular the effectiveness of the legal establishment of collateral, completeness of collateral documentation, update of collateral value and adequacy of collateral value and present amount of exposure. The process of valuing and monitoring collateral is supported by an IT application called Credit System. The system gathers information on:

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

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

8.2. Main types of collateral

Retail

Mortgage on real property

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

Partial transfer of ownership

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

Conditional transfer of ownership

For a selected group of car loans (additional restriction in terms of age of the car and the loan amount has to be satisfied) using higher than standard down payment the collateral can be in form of conditional transfer of ownership. The customer enters into an agreement on the transfer of ownership with mBank, by which they undertake to transfer the ownership of a vehicle to mBank in the case of a failure to repay the loan when due.

Bridging insurance

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

The „de minimis" guarantee

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

The COSME guarantee

The guarantee provided by Polish state bank Bank Gospodarstwa Krajowego within the governmental aid program addressed to entrepreneurs, covering the working capital loans and investment loans. The guarantee might secure up to the 80% of the loan amount and not more than PLN 0,48 million.

Corporates

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

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

The most frequently used collateral types include:

- property collateral. i.e. mortgage, registered pledge, transfer of ownership rights, assignment of rights to the creditor, security deposit or blockade of funds on bank account,
- personal collateral, i.e. guarantee (e.g. BGK guarantees de minimis and guarantees issued within COSME programme for exposures of SME and micro- companies), surety, bill of exchange, aval, loan repayment insurance.

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

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

8.3. Market or credit risk concentration

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

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

On a daily basis, mBank monitors exposures in terms of identification of large exposures and exceeding of concentration limit of exposures defined in line with CRR Regulation.

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

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

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

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

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

As at 31 December 2016 there was no substantial level of geographical concentration in the credit portfolio of mBank Group. In terms of exposure relating to countries other than Poland there was no substantial share of exposure with value loss.

9. Credit risk adjustments

9.1. Overdue and impaired exposures – definitions used

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

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

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

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

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

Corporate portfolio

For corporate portfolio loss events were divided into definite ('hard') loss events of which occurrence requires the client to be classified into the default category, and indefinite ('soft') loss events of which occurrence may imply that there is a need to classify the client into the default category. In the case of indefinite loss events, credit analyst assesses additionally whether the event impacted adversely the obligor's creditworthiness. Indefinite loss events have been introduced so that the credit analysts who are responsible for the identification of default cases pay attention to the cases that may potentially increase the credit risk of the debtor, which may result in the loss of the debtor's ability to repay the loan to the Bank.

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

- The number of days from which any exposure being the obligor's credit obligation becomes overdue is above 90 days and the overdue amount exceeds PLN 3,000.
- mBank has sold exposures with a significant economic loss related to the decrease of the debtor creditworthiness.
- mBank performed enforced restructuring of the exposure, which resulted in the change of the loan/transaction service schedule due to the lack of possibility of the obligor to meet his obligations under a loan/transaction agreement, as initially stipulated, which resulted in:

- reduction of financial obligations by remitting a part of these obligations, or
- postponing the repayment of the substantial part of the principal, interest or (if it refers to) commission; provided that the lack of approval for restructuring would cause more than 90 calendar days delay in repayment of substantial part of the obligation.

- filing by mBank, the parent or subsidiary entity of mBank a bankruptcy motion against the debtor or filing a similar motion in respect of credit obligations of the debtor towards mBank, the parent or subsidiary entity of mBank.
- bankruptcy of debtor or acquiring by him a similar legal protection resulting in his evasion of or delay in repayment of credit obligations towards the Bank, the parent or subsidiary entity of mBank.
- termination of part or whole credit agreement by mBank and the beginning of restructuring/collection procedures.
- client’s fraud.

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

a) governments and central banks,
b) banks,
c) corporations, including specialised lending,
d) local government units,

e) insurers,

f) pension fund managing companies, investment fund managing companies.

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

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

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

Retail portfolio

In mBank's retail banking in Poland, a debtor-oriented approach, including all exposures of the customers, is applied for the identification of impairment triggers. In the foreign branches transactional approach, in which each exposure is analyzed independently, is applied.

The main impairment trigger is a delay in repayment, which is identified in different ways depending on the abovementioned approach. In the retail banking in Poland, impairment trigger is identified, when the total of all customer's exposures past due more than 30 days exceeds PLN 500 and the eldest delay exceeds 90 days.

In the Czech and Slovak branches, an individual exposure is considered impaired when the overdue amount exceeds CZK 3000 or EUR 120, respectively, while the delay is more than 90 days.

Additionally, the following events are treated as impairment triggers in all branches:

a) enforced restructuring of debt,

b) debtor bankruptcy,

c) recognition of the contract as fraudulent,

d) sale of the exposure with considerable economic loss,

e) uncollectable status of debt,

f) payout of low downpayment insurance.

Additional conditions for loss events

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

- mBank has sold credit exposure with a significant economic loss,
- mBank agrees for enforced restructuring of the credit obligation, if it is likely that this will result in the reduction of the financial obligation resulting from the substantial remitting or postponing the repayment of the principal, interest or (if it refers to) fees or commissions,
- mBank applied for instigating enforcement proceeding against the debtor,
- an application for instigating bankruptcy proceedings or reorganisation proceedings against the debtor (resulting in a discontinuation of or delay in payment of the credit obligation to mBank),
- the debtor intends to challenge his credit obligation in court,
- disappearance of an active market for a component of financial assets due to financial difficulties of an issuer / a client.

9.2. Quantitative information

Specific and general credit risk adjustments

Corporates

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

The Bank measures impairment of loan exposures in accordance with the International Accounting Standards 39. The intranet application IMPAIRMENT-KORPO is a tool used to calculate impairment losses for impaired exposures granted to corporate customers and banks. The classification of customers to default portfolio and calculation of impairment write-off is as follows:

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

Retail

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

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

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

Credit risk of the counterparty

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

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

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

	31/12/2016						
	Standardised Approach		AIRB		Total		
(thousand PLN)	**Gross exposure**	**EAD**	**Gross exposure**	**EAD**	**Gross exposure**	**EAD**	**Average exposure in 2016**
Central governments or central banks	37 457 274	37 524 384	0	0	37 457 274	37 524 384	35 012 089
Local governments	1 002 684	1 313 557	0	0	1 002 684	1 313 557	1 127 865
Public sector entities	112 964	33 061	0	0	112 964	33 061	103 944
Institutions*	475 661	567 404	6 620 832	4 953 549	7 096 493	5 520 953	423 273
Multilateral Development Banks	359 971	359 971	0	0	359 971	359 971	257 036
Corporates	9 417 944	5 231 112	40 864 199	31 371 863	50 282 143	36 602 975	9 579 633
Retail	2 257 269	1 716 757	49 235 499	47 718 731	51 492 769	49 435 488	2 071 100
Mortgage-backed exposures	9 048 597	8 994 306	0	0	9 048 597	8 994 306	8 478 750
Exposures in default	802 613	213 812	0	0	802 613	213 812	871 054
High-risk exposures	19 601	19 601	0	0	19 601	19 601	16 643
Equity exposures	336 651	280 927	0	0	336 651	280 927	387 594
Collective investments undertakings (CIU)	155	155	0	0	155,202	155	1 971
Other	23 160	23 160	3 287 721	3 287 721	3 310 882	3 310 881	21 931
Total	**61 314 544**	**56 278 208**	**100 008 251**	**87 331 864**	**161 322 795**	**143 610 072**	**58 352 882**

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

31/12/2016		
Country	**Gross exposure**	**EAD**
Poland	147 490 879	132 842 663
Czech Republic	5 516 765	5 141 077
Slovakia	1 220 370	1 101 989
Other	7 094 781	4 524 343
Total	**161 322 795**	**143 610 072**

The residual maturity breakdown

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

	31/12/2016						
	1D - 3M	3M - 6M	6M - 12M	1Y - 5Y	> 5Y	No term	Total
AIRB approach	**6 906 139**	**6 227 448**	**14 070 647**	**16 975 067**	**35 517 790**	**20 311 160**	**100 008 251**
Institutions	2 130 063	917 698	1 628 548	1 023 259	314 650	606 614	6 620 832
Corporates - SME	736 334	1 022 909	2 170 971	2 465 433	1 171 279	1 946 765	9 513 690
Corporates - Specialised Lending	25 448	97 238	337 765	1 869 882	618 247	5 784 624	8 733 205
Corporates - Other	2 032 688	2 031 804	5 856 122	8 386 764	2 457 704	1 852 221	22 617 304
Retail - Secured by real estate SME	1 405	3 637	1 729	97 827	2 248 435	6 576	2 359 608
Retail - Secured by real estate non-SME	805	2 305	7 077	242 474	27 271 998	1 969	27 526 627
Qualifying revolving exposures	0	0	0	0	0	0	0
Retail - Secured by real estate non-SME	564 604	622 002	1 007 323	663 901	264 829	4 399 752	7 522 411
Retail - Other SME	1 414 792	1 529 855	3 061 112	2 225 527	1 170 648	2 424 918	11 826 853
Other non credit-obligation assets	0	0	0	0	0	3 287 721	3 287 721
Standardised Approach	**5 841 446**	**688 697**	**3 476 563**	**27 281 653**	**5 457 570**	**18 568 615**	**61 314 544**
Central governments or central banks	3 663 859	310 203	2 083 230	23 514 828	543 245	7 341 909	37 457 274
Regional governments or local authorities	2	1 235	53 883	671 529	200 448	75 587	1 002 684
Public sector entities	0	500	26 919	18 251	3	67 290	112 964
Multilateral Development Banks	0	2 002	0	357 969	0	0	359 971
Institutions	0	6 636	1 700	138 245	73 274	255 806	475 661
Corporates	2 089 074	265 028	1 113 595	1 819 172	711 028	3 420 047	9 417 944
Retail	63 585	83 865	148 072	206 957	644 015	1 110 775	2 257 269
Secured by mortgages on immovable property	8 920	11 153	7 286	483 194	3 251 334	5 286 710	9 048 597
Exposures in default	15 653	8 075	41 878	71 508	34 223	631 276	802 613
High risk exposures	0	0	0	0	0	19 601	19 601
Equities	0	0	0	0	0	336 651	336 651
Collective investments undertakings (CIU)	0	0	0	0	0	155	155
Other items	353	0	0	0	0	22 807	23 160

* Including: Risk exposure amount for contributions to the default fund of a CCP

Impaired and overdue exposures

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

	31/12/2016						
		Impaired and overdue exposures			Provision for impaired items and IBNI		
(thousand PLN)	Gross exposure	Standardised Approach	AIRB	Total	Standardised Approach	AIRB	Total
Central governments or central banks	37 457 274	-	-	-	(1)		(1)
Local governments	1 002 684	-	-	-	(612)		(612)
Public sector entities	112 964	-	-	-	(34)		(34)
Institutions	7 096 493	-	30 484	30 484	(59)	(2 492)	(2 551)
	359 971				0		0
Corporates*	50 282 143	-	1 408 494	1 408 494	(16 461)	(817 254)	(833 716)
Retail	51 492 768	-	2 467 401	2 467 401	(104 310)	(1 396 543)	(1 500 853)
Mortgage-backed exposures	9 048 597	-	-	-	(3 315)		(3 315)
Exposures in default	802 613	802 613	-	802 613	(519 848)		(519 848)
High-risk exposures	19 601	-	-	-	0		0
Equity exposures	336 651	-	-	-	0		0
Collective investments undertakings (CIU)	155				0		0
Other	3 310 881	-	-	-	0		0
Total	**161 322 795**	**802 613**	**3 906 380**	**4 708 993**	**(644 641)**	**(2 216 289)**	**(2 860 930)**

* Including: Risk exposure amount for contributions to the default fund of a CCP

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

31/12/2016		
Country	**Impaired and overdue exposures**	**Provision**
Poland	4 152 599	(2 430 521)
Czech Republic	83 862	(85 309)
Slovakia	30 547	(30 129)
Other	441 985	(314 971)
Total	**4 708 993**	**(2 860 930)**

Reconciliation of changes in the specific and general credit risk adjustment

The below table presents the distribution of movements in provisions for impaired exposures (in PLN thousand). It includes the 2016 opening and closing balances, provisions created, release of provisions and other adjustments.

Movements in provisions – 2016 (in PLN thousand)	Provision as at 01.01.2016	Provisions created	Release of provisions	Reclassification and foreign exchange difference	Write-offs	Provisions as at 31.12.2016
Individuals	**(1 532 502)**	**(889 879)**	**620 862**	**(13 980)**	**300 160**	**(1 515 339)**
Current accounts	(683 042)	(326 194)	222 533	(26)	172 350	**(614 379)**
Term loans, including:	(849 460)	(563 685)	398 329	(13 954)	127 810	**(900 960)**
Housing and mortgage loans	(491 329)	(291 120)	235 741	(9 110)	39 890	**(515 928)**
Corporate customers	**(1 442 251)**	**(434 161)**	**335 426**	**(6 007)**	**245 586**	**(1 301 407)**
Current accounts	(204 860)	(98 524)	64 928	10 870	37 096	**(190 490)**
Term loans, including:	(1 187 981)	(311 476)	251 131	(16 877)	208 280	**(1 056 923)**
Corporate and institutional customers	(157 515)	(38 664)	73 697	(19 847)	113 541	**(28 788)**
Medium and small enterprises	(1 030 466)	(272 812)	177 434	2 970	94 739	**(1 028 135)**
Other	(49 410)	(24 161)	19 367	-	210	**(53 994)**
Public sector	**(1 111)**	**(197)**	**565**	**(6)**	**-**	**(749)**
Total for balance sheet items	**(2 975 864)**	**(1 324 237)**	**956 853**	**(19 993)**	**545 746**	**(2 817 495)**
Off-balance sheet granted contingent liabilities	**(45 606)**	**(114 184)**	**116 446**	**(302)**	**-**	**(43 435)**
Total movements in provisions	**(3 021 470)**	**(1 438 421)**	**1 073 299**	**(20 295)**	**545 746**	**(2 860 930)**

10. Operational risk

Operational risk is understood as the risk of loss resulting from inadequate or faulty internal processes, systems, errors or actions of a bank employee or external events.

While organizing the operational risk management process, the bank takes into account regulatory requirements, which are the starting point for preparation of framework for the operational risk control and management system in the Group.

General principle of operational risk management in the bank is to minimize it, that is to reduce the causes of operational events, the probability of their occurrence and the severity of potential consequences. Cost vs benefits analysis is considered while deciding on an acceptable operational risk level.

Operational risk control and management consists of a set of activities aimed at identifying, monitoring, measurement, assessment, reporting as well as reduction, avoidance, transfer or acceptance of operational risk, the Bank is exposed to in particular areas of its operations. It is based on quantitative and qualitative methods and tools for operational risk control.

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

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

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

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

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

Losses are also monitored by risk categories:

- Internal fraud,
- External fraud,
- Malicious Damage,
- Employee practices and workplace safety,
- Clients, products and business practices,
- Disasters and public safety,
- Technology and interface failures,
- Execution, delivery and process management.

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

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

11. Risk takers remuneration

Information on the policy of variable remuneration

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

In March 2012, the Remuneration Committee of the Supervisory Board (hereinafter the Committee) was established. Since 1st April 2014 the Committee has been composed as follows:

1/ Dr Andre Carls – Committee Chairman

2/ Maciej Leśny – Committee Member

3/ Prof. Marek Wierzbowski – Committee Member

4/ Martin Zielke – Committee Member

As of 16 December 2016, due to Martin Zielke's resignation, Stephan Engels was appointed as a member of the Committee.

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

I. In general concerning mBank:
   1. issuing opinions on the remuneration policy (and proposed changes in this respect) at mBank and submitting its opinion to the Supervisory Board.
   2. annual verification of the adopted by the Supervisory Board remuneration policy and rules for so-called "risk takers" and eventual proposing of the modifications in this issue.
   3. verification of the bonus pool of mBank Group calculated on the basis of EVA/ROE index.
   4. annual assessment of appropriateness of the remuneration policies and procedures in place at mBank Group considering current regulatory requirements; submission of assessment to the Supervisory Board.

5. issuing recommendations to the Supervisory Board regarding general guidelines for the Management Board on the level and structure of remuneration for the senior management of mBank and monitoring the level and structure of remuneration, especially for the so-called "risk takers".
6. annual determination of mBank Group Results component of Non-Management Board Risk Takers (i.e. group performance status for non-Management Board Risk Takers of mBank Group).
7. verification of remuneration paid to risk takers. The amounts of bonuses and base remuneration paid to risk takers are reported on an annual basis to Remuneration Committee within 60 calendar days following the approval of the consolidated financial statements of mBank Group for a given year by the Annual General Meeting.
8. issuing opinions and monitoring variable remuneration for persons holding managerial positions in charge of risk management and compliance.

II. Concerning mBank Management Board Members:

1. consideration of matters concerning the rules and amounts of remuneration of members of the Management Board, including:
   a) approval of management contracts,
   b) determination of remuneration rates, amounts of severance payments and giving recommendations in this respect to the Supervisory Board.
2. approval and determination of the MBO Targets and results for Members of the Management Board.
3. annual completion of Risk Taker Scorecard for Management Board Members of mBank.
4. approval and determination of bonus amounts for Management Board Members, including discretionary bonuses.
5. recommending to the Supervisory Board a suspension in whole or a decrease in the amount of payment of the deferred part of bonus for Members of the Management Board under the provisions of the management contract.
6. recommending to the Supervisory Board a suspension in whole or in part or a decrease in the amount of payment of severance for Members of the Management Board under the provisions of the management contract.
7. annual determination of the situation of mBank Group in relation to Article 142 (1) of the Banking Law (i.e. solvency / liquidity status of mBank Group) for the purposes connected with determination of bonuses for the Management Board Members.

recommending to the Supervisory Board a suspension in whole or a decrease in the amount of payment of the above bonuses.

8. tabling opinions concerning approval for a Member of the Management Board to engage in competitive activity.
9. adopting other decisions and performing activities stipulated in or resulting from the management contracts concluded with the Management Board Members.

Subsequently, on 10 July 2012 the Management Board of BRE Bank (currently mBank) approved in the form of a resolution "The remuneration system in BRE Bank", "The policy and the remuneration rules applicable to risk-takers in the BRE Bank" including i.a. information about the criteria indicating that the employee is a risk-taker and the list of positions covered by the new rules of variable remuneration for mBank Group.

On 25 June 2012 the aforementioned documents were adopted by resolution of the Supervisory Board. Full information concerning the policy and the remuneration rules applicable to risk-takers were approved by the Remuneration Committee on 20 November 2012.

In the successive years the aforementioned documents have been verified and modified by the Management Board, Remuneration Committee of the Supervisory Board and the Supervisory Board.

Since this moment the most significant change constituted modifications approved:

1/ at the end of 2014 – the Management Board of mBank and then the Remuneration Committee of the Supervisory Board and the Supervisory Board conducted the annual verification of policies concerning remuneration and identification of positions having significant influence on the risk profile and accepted changes aimed at, among others, reflecting the provisions of the "Commission Delegated Regulation (EU) No 604/2014 of 4 March 2014 supplementing Directive 2013/36/EU of the European Parliament and of the Council with regard to regulatory technical standards with respect to qualitative and appropriate quantitative criteria to identify categories of staff whose professional activities have a material impact on an institution's risk profile" and "Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC".

2/ at the end of 2016 – the Management Board of mBank and then the Remuneration Committee of the Supervisory Board and the Supervisory Board conducted the annual verification of policies concerning remuneration and identification of positions having significant influence on the bank's risk profile and accepted changes aimed at, among others, implementing the EBA/GL/2015/22 guidelines on policy of remuneration issued by EBA (European Banking Authority) on 27 June 2016, applicable since 1 January 2017 and repealing the guidelines issued by CEBS on 10 December 2010. Although the provisions do not directly regulate the permissibility of the lack of the possibility to defer the variable component of risk takers' remuneration, based on the principle of proportionality and aiming at the unification of the rules for payment of variable remuneration in Commerzbank Group, a limit for the payment of variable remuneration for employees from the "Risk Taker II" group has been introduced: if the amount of variable remuneration is equal to or lower than the limit, the Management Board of the Bank (or the Supervisory Board, in the case of the subsidiaries of mBank S.A. Group) may decide not to defer the variable remuneration for the following years and to pay the variable remuneration in whole in the form of non-deferred cash instead.

The process of verification and implementation of appropriate amendments in the policies concerning remuneration and identification of positions having significant influence on the risk profile was coordinated by the Director of the Personnel Administration and Remuneration Department (organisational unit reporting directly to the President of the Management Board of mBank), supported by:

1/ Integrated Risk and Capital Management Department – in issues related to the selection of criteria indicating the positions having significant influence on the risk profile,

2/ Internal Audit Department – in issues related to the selection of criteria and the compliance of suggested solutions with the binding internal rules,

3/ Legal Department – in issues related to the selection of criteria and the compliance of suggested solutions with the binding internal and external rules,

and external consultants – in issues related to selection of criteria indicating the positions having significant influence on the risk profile, compliance of applicable policies with regulatory requirements and market practices in this scope.

The Remuneration Committee of the Supervisory Board held 4 meetings in 2016.

The most important information concerning the formation of remuneration

Members of the Management Board:

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

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

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

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

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

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

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

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

1/ team quantitative objectives (at the level of mBank Group) account for 35% to 55% of the objectives (Economic Profit, stable funding position ratio, cost to income ratio, ability to pay out dividends, net interest income ratio),

2/ individual quantitative objectives account for 10% to 50% of the objectives (objectives determined depending on the responsibility of a given member of a Management Board),

3/ individual qualitative objectives account for 40% of the objectives.

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

1/ 50% in the form of a cash payment,

2/ 50% in the form of a non-cash payment (mBank shares). The non-cash bonus is converted to shares at the average market price of mBank S.A. shares value on the Warsaw Stock Exchange for the 30 days preceding the granting date of the bonus, i.e. from the date of approval of the bonus amount by the Supervisory Board Remuneration Committee.

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

1/ 50% in the form of a cash payment,

2/ 50% in the form of a non-cash payment (mBank shares).

Employees not being members of the Management Board:

The Management Board of mBank conducts an assessment of the performance of the employee on an annual basis as well as for longer time intervals and in case it finds that the employee met the annual/long-term business-development objective - Management By

Objective ("MBO"), upon having taken into account the value of the total remuneration of the employee, it can decide on determining the amount of the so called discretionary bonus. The decision on the amount of the discretionary bonus is made at the sole discretion of the Management Board of mBank, which in accordance with its independent assessment and decision confirms reaching MBO, taking into account the situation on financial markets in the last/recent financial periods. The amount of the discretionary bonus cannot exceed the amount of annual base remuneration of the employee (total of base remuneration paid to the employee every month in the year for which the discretionary bonus is awarded).

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

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

2/ individual quantitative objectives account for 65% to 90% of the objectives (objectives determined depending on the responsibilities on a given position and objectives cascading by a member of the Management Board supervising this position). In particular, with a weight of up to 10% for objectives related to management efficiency.

3/ individual qualitative objectives account for up to 40% of the objectives.

In the case when the amount of variable remuneration agreed by the Management Board of mBank does not exceed the specified limit, the bonus in whole may be paid in the form of non-deferred cash. In the case when the amount of variable remuneration exceeds this limit, the remuneration is divided into a deferred and non-deferred part:

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

1/ 50% in the form of a cash payment,

2/ 50% in the form of a non-cash payment (mBank shares). The non-cash bonus is converted to shares at the average market price of mBank's shares listed on the Warsaw Stock Exchange for the period starting 30 days prior to the date of acquisition of the right to the bonus, i.e. the date of the bonus amount approval by the Management Board of mBank.

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

1/ 50% in the form of a cash payment,

2/ 50% in the form of a non-cash payment (mBank shares),

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

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

Members of the Management Board:

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

The Supervisory Board on the basis of recommendation issued by the Remuneration Committee of the Supervisory Board may make a decision on suspending in full or decreasing the amount of the deferred tranche due to the later assessment of the performance of the member of the Management Board over a period of time longer than 1 financial/accounting year (i.e. for the period of at least 3 years), which takes into account the business cycle of mBank as well as the risk related to the bank's operation, but only when the acts or omissions of the member of the Management Board had a direct and adverse impact on the bank's financial result and market position within the assessment period. The aforementioned assessment of the performance of member of the Management Board (over a longer period of time) will be made annually and communicated internally at the bank, together with the assessment of the performance of the member of the Management Board for a given period.

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

Employees not being members of the Management Board:

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

The Management Board of mBank may take a decision on suspending in full or decreasing the amount of the deferred tranche due to the later assessment of the performance of the employee over a period of time longer than 1 financial/accounting year (i.e. for the period of at least 3 years), which takes into account the business cycle of the Bank as well as the risk related to the bank's operation, but only when the acts or omissions of the employee had a direct and adverse impact on the financial result and market position of the Bank or mBank

Group in the assessment period. When assessing the acts or omissions of the employee, the Management Board of the Bank takes into account among others the MBO results of a given employee.

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

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

Members of the Management Board:

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

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

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

Employees not being members of the Management Board:

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

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

The below information for 2016 include the following personnel costs incurred in 2016: remuneration costs, regarding risk takers , remuneration for share-based payments.

2016 remuneration costs (in PLN thousand)	
Financial Markets Area	9 159
Corporate & Investment Banking Area	14 398
Retail Banking Area	14 698
Operations and IT Area	9 262
Finance Area	6 611
Risk Management Area	6 716
General Area	11 098
mBank	**71 942**

Aggregated quantitative data regarding remuneration of risk takers with a breakdown into :

I. *Senior management*

No	Information regarding	Value/Comments	
1.	Number of employees	80 persons including 8 persons serving as members of the Management Board in 2016	
2.	Base salary paid in 2016	PLN 42 397 739	
3.	2016 variable remuneration subject to PFSA 258/2011 Resolution, granted in 2017	*	
4.	Calculated for 2016 non-deferred component of the variable remuneration subject to PFSA 258/2011 Resolution, including:		
4.1.	Cash	*	
4.2.	Financial instrument – number of shares, amount of the component	*	
5.	Calculated for 2016, not yet granted deferred component of the variable remuneration subject to PFSA 258/2011 Resolution, including:		
5.1.	Cash	*	
5.2.	Financial instrument – number of shares, amount of the component	*	
6.	Deferred component of variable remuneration prior 2016, payment possible in 2016, including:		
6.1.	Cash	1 556 667	I deferred tranche of 2014
6.2.	Financial instrument – number of shares, amount of the component	PLN 6 704 504	Value of: 1) III tranche of the deferred bonus component settled in mBank shares, granted within the 2012 bonus 2) II tranche of the deferred bonus component settled in mBank shares, granted within the 2013 bonus 3) I tranche of the deferred bonus component settled in mBank shares, granted within the 2014 bonus
		15 832 shares	The conversion of the non-cash bonus to shares at the average market price of mBank's shares listed on the Warsaw Stock Exchange, calculated for the 30 days preceding the granting date of the bonus
7.	Deferred component of variable remuneration prior to 2016, payment not yet possible in 2016, including:		

7.1.	Cash	PLN 9 156 333	
7.2.	Financial instrument – number of shares, amount of the component	PLN 11 840 308	Value of the deferred bonus component settled in mBank shares, granted within 2013, 2014 and 2015 bonus
		31 110 shares	The conversion of the non-cash bonus to shares at the average market price of mBank's shares listed on the Warsaw Stock Exchange, calculated for the 30 days preceding the granting date of the bonus
8.	Value of deferred remuneration granted in the given accounting year, paid and reduced due to an adjustment related to results	-	
9.	Payments related to commencement and termination of employment relationship	PLN 287 625	
9.1.	Number of employees who receive such payments	2	
9.2.	The highest payment	PLN 233 625	
10.	Number of employees who received total remuneration in the amount exceeding EUR 1 M	1 (remuneration in the range between EUR 1M – 1,5M)	Pursuant to the requirements of Resolution 258/2011 information has been reported to the Financial Supervision Authority

**The fields have not been filled due to the fact that as at 1 March 2017, i.e. the date of publishing of this report, the variable remuneration for 2016 has not yet been approved by the competent authorities of mBank. This document will be modified with variable remuneration for 2016, granted in 2017, following approval of the financial statements for 2016 by the General Meeting of Shareholders.*

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

- lack of risk takers in this employees group in 2016.

12. Risk takers remuneration - update of the information after the approval of the variable part of remuneration, regarding 2016 year, by the competent authorities of mBank

Aggregated quantitative data regarding remuneration of risk takers with a breakdown into :

III. *Senior management*

No	Information regarding	Value/Comments	
1.	Number of employees	80 persons including 8 persons serving as members of the Management Board in 2016	
2.	Base salary paid in 2016	PLN 42 397 739	
3.	2016 variable remuneration subject to PFSA 258/2011 Resolution, granted in 2017	PLN 24 342 652	
4.	Calculated for 2016 non-deferred component of the variable remuneration subject to PFSA 258/2011 Resolution, including:		
4.1.	Cash	PLN 6 347 381	
4.2.	Financial instrument – number of shares, amount of the component	PLN 6 147 381	Value of the non-cash bonus settled in mBank's shares, granted within the 2016 bonus.
		15 785 shares	The conversion of the non-cash bonus to shares at the average market price of mBank S.A. shares listed on the Warsaw Stock Exchange, calculated for the period of 30 days preceding the granting date of the bonus
5.	Calculated for 2016, not yet granted deferred component of the variable remuneration subject to PFSA 258/2011 Resolution, including:		
5.1.	Cash	PLN 5 523 945	
5.2.	Financial instrument – number of shares, amount of the component	PLN 5 523 945	Value of the deferred bonus component settled in mBank's shares, granted within the 2016 bonus.
		14 079 shares	The conversion of the non-cash bonus to shares at the average market price of mBank S.A. shares listed on the Warsaw Stock Exchange, calculated for the period of 30 days preceding the granting date of the bonus
6.	Deferred component of variable remuneration prior 2016, payment possible in 2016, including:		
6.1.	Cash	PLN 1 556 667	I deferred tranche of 2014
6.2.	Financial instrument – number of shares, amount of the component	PLN 6 704 504	Value of: 1) III tranche of the deferred bonus component settled in mBank shares, granted within the

			2012 bonus 2) II tranche of the deferred bonus component settled in mBank shares, granted within the 2013 bonus 3) I tranche of the deferred bonus component settled in mBank shares, granted within the 2014 bonus
		15 832 shares	The conversion of the non-cash bonus to shares at the average market price of mBank's shares listed on the Warsaw Stock Exchange, calculated for the 30 days preceding the granting date of the bonus
7.	Deferred component of variable remuneration prior to 2016, payment not yet possible in 2016, including:		
7.1.	Cash	PLN 9 156 333	
7.2.	Financial instrument – number of shares, amount of the component	PLN 11 840 308	Value of the deferred bonus component settled in mBank shares, granted within 2013, 2014 and 2015 bonus
		31 110 shares	The conversion of the non-cash bonus to shares at the average market price of mBank's shares listed on the Warsaw Stock Exchange, calculated for the 30 days preceding the granting date of the bonus
8.	Value of deferred remuneration granted in the given accounting year, paid and reduced due to an adjustment related to results	PLN 800 000	Value of the variable part of remuneration for 2016, lost due to termination of the management contract.
9.	Payments related to commencement and termination of employment relationship	PLN 287 625	
9.1.	Number of employees who receive such payments	2	
9.2.	The highest payment	PLN 233 625	
10.	Number of employees who received total remuneration in the amount exceeding EUR 1 M	1 (remuneration in the range between EUR 1M – 1,5M)	Pursuant to the requirements of Resolution 258/2011 information has been reported to the Financial Supervision Authority