2015

Disclosures regarding capital adequacy of mBank S.A. Group as at 31 December 2015

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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 2015. 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 2015 (hereinafter referred to as Prudentially consolidated financial data for the year 2015) is presented in the Explanatory Note 48 of mBank Group IFRS Consolidated Financial Statements for 2015 (hereinafter referred to as the Consolidated financial statements for the year 2015).

The accounting policies applied for the preparation of the Prudentially consolidated financial data for 2015 are the same as those, which have been applied to the Consolidated financial statements for the year 2015, 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 2015 may be included in consolidated Common Equity Tier 1 for the purpose of the calculation of consolidated Common Equity Tier 1 capital ratio, consolidated Tier 1 capital ratio and consolidated total capital ratio with the prior permission of the Polish Financial Supervisory Authority (hereinafter referred to as PFSA) or the General Meeting decision on profit division.

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

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

The Prudentially consolidated financial data include the following entities:

1. mBank S.A.
2. Dom Maklerski mBanku S.A.
3. mBank Hipoteczny S.A.
4. mCentrum Operacji Sp. z o.o.
5. mFaktoring S.A.
6. mLeasing Sp. z o.o.
7. Aspiro Sp. z o.o.
8. Tele-Tech Investment Sp. z o.o.

9. mFinance France S.A.
10. mWealth Management S.A.

Detailed information on consolidated entities included in accounting consolidation is presented in Explanatory Note 1 of the Consolidated financial statements for the year 2015.

Reconciliation between the IFRS Consolidated financial statements for the year 2015 and the Prudentially consolidated financial data for the year 2015 compliant with the CRR Regulation is presented below.

Reconciliation	Consolidated financial statements for the year 2015	Deconsolidation of entities not included in prudential consolidation	Prudentially consolidated financial data for the year 2015
ASSETS	**31.12.2015**	**31.12.2015**	**31.12.2015**
Cash and balances with the Central Bank	5 938 133	(1)	5 938 132
Loans and advances to banks	1 897 334	(101)	1 897 233
Trading securities	557 541	-	557 541
Derivative financial instruments	3 349 328	-	3 349 328
Loans and advances to customers	78 433 546	31 127	78 464 673
Hedge accounting adjustments related to fair value of hedged items	130	-	130
Investment securities	30 736 949	243 500	30 980 449
Investment in joint ventures	7 359	(7 359)	-
Intangible assets	519 049	-	519 049
Tangible assets	744 522	(4 544)	739 978
Current income tax assets	1 850	(129)	1 721
Deferred income tax assets	366 088	(8 881)	357 207
Other assets	971 192	(268 225)	702 967
TOTAL ASSETS	**123 523 021**	**(14 613)**	**123 508 408**
LIABILITIES AND EQUITY			
Liabilities			
Amounts due to the Central Bank	-	-	-
Amounts due to other banks	12 019 331	-	12 019 331
Derivative financial instruments	3 173 638	-	3 173 638
Amounts due to customers	81 140 866	44 159	81 185 025
Debt securities in issue	8 946 195	-	8 946 195
Hedge accounting adjustments related to fair value of hedged items	100 098	-	100 098
Other liabilities	1 764 091	(55 952)	1 708 139
Current income tax liabilities	50 126	-	50 126
Deferred income tax liabilities	981	-	981
Provisions	225 416	-	225 416
Subordinated liabilities	3 827 315	-	3 827 315
Total liabilities	**111 248 057**	**(11 793)**	**111 236 264**
E q u i t y			
Equity attributable to Owners of mBank S.A.	**12 242 346**	**29 798**	**12 272 144**
Share capital:	**3 535 758**	**-**	**3 535 758**
- Registered share capital	168 956	-	168 956
- Share premium	3 366 802	-	3 366 802
Retained earnings:	**8 273 782**	**29 798**	**8 303 580**
- Profit from the previous years	6 972 536	10 736	6 983 272
- Profit for the current year	1 301 246	19 062	1 320 308
Other components of equity	**432 806**	**-**	**432 806**
Non-controlling interests	**32 618**	**(32 618)**	**-**
Total equity	**12 274 964**	**(2 820)**	**12 272 144**
TOTAL LIABILITIES AND EQUITY	**123 523 021**	**(14 613)**	**123 508 408**

Below the reconciliation of equity is presented, from the items included in IFRS Consolidated financial statements for the year 2015 via the Prudentially consolidated financial data for the year 2015 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 2015.

Reconciliation	Consolidated financial statements for the year 2015	Deconsolidation of entities not included in prudential consolidation	Prudentially consolidated financial data for the year 2015	Items not included in own funds and regulatory adjustments	Own funds in part regarding Common Equity Tier 1 capital
Equity	**31.12.2015**	**31.12.2015**	**31.12.2015**	**31.12.2015**	**31.12.2015**
Share capital:	**3 535 758**	**-**	**3 535 758**	**(40)**	**3 535 718**
- Registered share capital	168 956	-	168 956	(40)	168 916
- Share premium	3 366 802	-	3 366 802	-	3 366 802
Retained earnings:	**8 273 782**	**29 798**	**8 303 580**	**(1 018 870)**	**7 284 710**
- Other supplementary capital	4 883 602	(73 088)	4 810 514	-	4 810 514
- Other reserve capital	103 972	(44 449)	59 523	-	59 523
- General banking risk reserve	1 095 453	-	1 095 453	-	1 095 453
- Undistributed profit from the previous years	889 509	128 273	1 017 782	-	1 017 782
- Profit from the current years	1 301 246	19 062	1 320 308	(1 018 870)	301 438
Other components of equity	**432 806**	**-**	**432 806**	**(269 197)**	**163 609**
- Exchange differences on translation of foreign operations	(6 426)	-	(6 426)	(26)	(10 220)
- Valuation of available for sale financial assets	442 354	-	442 354	(268 656)	177 480
- Cash flow hedges	859	-	859	(515)	344
- Actuarial gains and losses relating to post-employment benefits	(3 981)	-	(3 981)	(14)	(3 995)
Non-controlling interests	**32 618**	**(32 618)**	**-**	**-**	**-**
Regulatory adjustments	**-**	**-**	**-**	**(1 069 502)**	**(1 069 502)**
- Intangible assets	-	-	-	(484 409)	(484 409)
- IRB shortfall of credit risk adjustments to expected losses	-	-	-	(300 203)	(300 203)
- LLP's	-	-	-	(213 585)	(213 585)
- Fair value gains and losses arising from the institution's own credit risk related to derivative liabilities	-	-	-	(4 418)	(4 418)
- Own CET1 instruments	-	-	-	(306)	(306)
- Additional value adjustments	-	-	-	(66 581)	(66 581)
Total equity	**12 274 964**	**(2 820)**	**12 272 144**	**(2 357 609)**	**9 914 535**

The prudentially consolidated profit & loss account for mBank Group as at 31 December 2015 presents net profit and net profit for shareholders amounting to 1 320 308 thousand PLN.

3. Capital adequacy

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

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

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

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

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

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

4. Own funds

The consolidated own funds consist of Common Equity Tier 1 capital, Additional Tier 1 capital and Tier 2 capital. Detailed information on particular elements of consolidated own funds of mBank Group as at 31 December 2015 is presented in point 4.1. In point 4.2 the structure of consolidated own funds of mBank Group as at 31 December 2015 is presented.

4.1. Main information

COMMON EQUITY TIER 1 CAPITAL

Capital instruments and the related share premium accounts

The share capital, supplementary capital and reserve capital of mBank Group were included in Capital instruments and the related share premium accounts item as at 31 December 2015.

Capital instruments and the related share premium accounts	
Paid up capital	168 916
Supplementary capital from sales of shares over the nominal value	3 366 802
Other supplementary capital	4 810 514
Other reserve capitals	59 523
Total	**8 405 755**

Detailed information on share and supplementary capital is described in Explanatory Notes 38 and 39 of the Consolidated Financial Statements for 2015.

Retained earnings

In Retained earnings item the profit from the previous years of mBank Group as at 31 December 2015 in the amount of PLN 1 017 782 thousand were included. Detailed information regarding retained earnings is described in Explanatory Notes 40 of the Consolidated Financial Statements for 2015.

Accumulated other comprehensive income

Unrealised gains and losses constitute mBank Group own capital as at 31 December 2015 in the amount of PLN 432 806 thousand were presented in Accumulated other comprehensive income item. The structure of accumulated other comprehensive income of mBank Group as at 31 December 2015 is described below.

Exchange differences from foreign units counting	**-6 426**
- unrealised gains	6 324
- unrealised losses	-12 750
- deferred tax	0
Instruments available for sale	**442 354**
- unrealized gains on debt instruments	361 479
- unrealised losses on debt instruments	-1 881
- unrealised gains on capital instruments	168 075
- unrealised losses on capital instruments	0
- deferred tax	-85 319
Cash flow security	**859**
- unrealised gains	1 061
- unrealised losses	0
- deferred tax	-202
Actuarial gains and losses on fringe benefits after employment period	**-3 981**
- actuarial gains	30
- actuarial losses	-4 944
- deferred tax	933
Total	**432 806**

Funds for general banking risk

mBank Group transfers some of its net profit to the funds for general banking risk to cover unexpected risks and future losses. The funds for general banking risk can be distributed only on consent of shareholders at a general meeting. As at 31 December 2015 pthe funds for general banking risk amounted to PLN 1 095 453 thousand.

Independently reviewed interim profits

Verified net profit for the 1st half of 2015, 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 2015. The net profit of mBank Group for the 1st half of 2015 reduced by every foreseeable charges amounted to PLN 301 438 thousand. In accordance with the decision from 9 October 2015 mBank obtained a permission of PFSA to include the net profit of mBank Group in Common Equity Tier 1 capital in the amount of PLN 301 438 thousand.

REGULATORY ADJUSTMENTS / DEDUCTIONS FROM THE COMMON EQUITY TIER 1 CAPITAL

Additional value adjustments

In accordance with Article 34 of the CRR Regulation, additional value adjustments have been calculated to all assets measured at fair value in accordance with the requirements of Article 105 of the CRR Regulation and included in Common Equity Tier 1 capital of mBank Group as at 31 December 2015 in the amount of PLN 66 581 thousand.

Intangible assets

In accordance with Article 37 of the CRR Regulation, intangible assets reduced by the amount of associated deferred tax liabilities are included in Common Equity Tier 1 capital. The value included in Common Equity Tier 1 capital of mBank Group as at 31 December 2015 amounted to PLN 484 409 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 2015 the amount of PLN 4 418 thousand from fair value gains and losses was included in Common Equity Tier 1 capital of mBank Group.

Negative amount resulting from the calculation of expected loss amounts

mBank, being an institution calculating risk-weighted exposure amounts with the application of the AIRB approach, is obliged to include in calculation of own funds the negative amounts resulting from the calculation of expected loss amounts. According to Article 36 (1d), the negative amounts resulting from the calculation specified in Articles 158 and 159 of the CRR Regulation were included in consolidated Common Equity Tier 1 capital of mBank Group as at 31 December 2015 in the amount of PLN 300 203 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 2015 the synthetic holdings in the amount of PLN 306 thousand were included.

Net impairment losses

In net impairment losses item as at 31 December 2015 the net impairment losses on loans and advances for the 2nd half of the year 2015 were included in the amount of PLN 213 585 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 2015 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 40% of their value. Regulatory adjustments in the amount of PLN 269 197 thousand regarding unrealised gains and losses as at 31 December 2015 constitute adjustments item to the item Accumulated other comprehensive income, mentioned above.

ADDITIONAL TIER 1 CAPITAL

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

TIER 2 CAPITAL

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 2015 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 above mentioned two tranches of capital instruments.

On the basis of PFSA consent dated 8 January 2015 for prepayment of subordinated loan in the amount of CHF 90 000 thousand, granted in accordance with agreement of subordinated loan signed on 11 June 2008 between mBank and Commerzbank Aktiengesellschaft with maturity date on 24 June 2018 and included in Tier 2 based on the written consent of the Commission for Banking Supervision, the subordinated loan has been prepaid in 2015.

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

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

According to the decision No. 657 of 21 December 2006 mBank obtained a written consent of the Commission for Banking Supervision to include in Tier 2 capital the amount of CHF 80 000 thousand received from the bonds issue on 20 December 2006 with undefined maturity.

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

The specifics of the above liabilities are described in Explanatory Note 31 of the Consolidated Financial Statements for 2015.

As at 31 December 2015 the amount of PLN 806 058 thousand was included in consolidated Tier 2 capital from the virtue of above mentioned three tranches 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 2 capital of mBank Group as at 31 December 2015 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 as at 31 December 2015 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 2015 amounted to PLN 11 970 593 thousand.

Capital instruments' main features

Nr	Tranche	80 mln CHF	170 mln CHF	500 mln PLN	750mln PLN
1	Issuer	mBank	mBank	mBank	mBank
2	Unique identifier (eg. CUSIP or Bloomberg identifier for private placement)	N/A	N/A	ISIN: PLBRE0005177 Series: BREO201223 BBGID: BBG005kWQ060	ISIN: PLBRE0005185 Seria: MBKO170125 BBGID: BBG007R23BT1
3	Governing law(s) of the instrument	English; Polish in terms of provisions relating to the subordinated status	English; Polish in terms of provisions relating to the subordinated status	Polish	Polish
	Regulatory treatment				
4	Transitional CRR rules	Tier 2	Tier 2	Tier 2	Tier 2
5	Post-transitional CRR rules	Ineligible	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	Solo and (Sub-) consolidated
7	Instrument type (types to be specified by each jurisdiction)	Bond „zobowiązania z tytułu papierów wartościowych o nieokreślonym terminie wymagalności"- Polish Banking Act Art.127.3.2.d	Bond „zobowiązania z tytułu papierów wartościowych o nieokreślonym terminie wymagalności"- Polish Banking Act Art.127.3.2.d	Bond „zobowiązania podporządkowane" – Polish Banking Act Art.127.3.2.b	Bond „zobowiązania podporządkowane" – Polish Banking Act Art.127.3.2.b
8	Amount recognised in regulatory capital (currency in million, as of most recent reporting date)	PLN 806		PLN 500	PLN 750
9	Nominal amount of instrument	In issuance currency: CHF 80 million; in reporting currency: PLN 315.2 million	In issuance currency: CHF 170 million; in reporting currency: PLN 669.7 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%	100.00%
9b	Redemption price	100.00%	100.00%	100.00%	100.00%
10	Accounting classification	Liability – amortised cost	Liability – amortised cost	Liability – amortised cost	Liability – amortised cost

11	Original date of issue	20-12-2006	09-01-2008	03-12-2013	17-12-2014
12	Perpetual or dated	Perpetual	Perpetual	Dated	Dated
13	Original maturity date	No maturity	No maturity	20-12-2023	17-01-2025
14	Issuer call subject to prior supervisory approval	Yes	Yes	Yes	Yes
15	Optional call date, contingent call dates and redemption amount	1) 20-12-2008 No minimum amount; at price100% 2) Redemption for tax reasons (PFSA consent required, notification of investors), at a price of 100%, at any Interest Payment Date. 3) Redemption due to a regulatory event (PFSA consent required, notification investors), at a price of 100%, at any Interest Payment Date	1) 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) 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	Floating
18	Coupon rate and any related index	CHF LIBOR 3M+1.4%; after 10 years from Issue Date: CHF LIBOR 3M+3.4%	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	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 is paid (interest deferral)	Mandatory Please note: The Issuer does not have discretion over whether a coupon gets paid, but has some discretion of when it is paid (interest deferral)	Mandatory	Mandatory
20b	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Mandatory	Mandatory	Mandatory	Mandatory
21	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Yes	Yes	No	No
22	Nonculmulative or cumulative	Cumulative (possibility of interest deferral)	Cumulative (possibility of interest deferral)	Noncumulative	Noncumulative

23	Convertible or non-convertible	Nonconvertible	Nonconvertible	Nonconvertible	Nonconvertible
24	If convertible or non-convertible, conversion trigger(s)	Not applicable	Not applicable	Not applicable	Not applicable
25	If convertible, fully or partially	Not applicable	Not applicable	Not applicable	Not applicable
26	If convertible, conversion rate	Not applicable	Not applicable	Not applicable	Not applicable
27	If convertible, mandatory or optional conversion	Not applicable	Not applicable	Not applicable	Not applicable
28	If convertible, specify instrument type convertible into	Not applicable	Not applicable	Not applicable	Not applicable
29	If convertible, specify issuer of instrument it converts info	Not applicable	Not applicable	Not applicable	Not applicable
30	Write-down features	Yes	Yes	Not applicable	Not applicable
31	If write-down, write-down trigger(s)	Loss absorption	Loss absorption	Not applicable	Not applicable
32	If write-down, full or partial	Fully or partially	Fully or partially	Not applicable	Not applicable
33	If write-down, permanent or temporary	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 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.	Not applicable	Not applicable

35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Senior Unsecured Bonds	Senior Unsecured Bonds	Senior Unsecured Bonds	Senior Unsecured Bonds
36	Non-compliant transitional features	Yes	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	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	Amounts subject to pre-CRR Regulation treatment or prescribed residual amount of CRR Regulation
Capital instruments and the related share premium accounts	8 405 755	0
Retained earnings	1 017 782	0
Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards)	432 806	0
Funds for general banking risk	1 095 453	0
Amount of qualifying items referred to in Article 484 (3) and the related share premium accounts subject to phase out from CET1	0	0
Public sector capital injections grandfathered until 1 January 2018	0	0
Minority Interests (amount allowed in consolidated CET1)	0	0
Independently reviewed interim profits net of any foreseeable charge or dividend	301 438	0
Common Equity Tier 1 (CET1) capital before regulatory adjustments	**11 253 234**	**0**
Common Equity Tier 1 capital: regulatory adjustments		
Additional value adjustments	- 66 581	0
Intangible assets (net related tax liability)	-484 409	0
Fair value gains and losses arising from the institution's own credit risk related to derivative liabilities	-4 418	0
Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability where the conditions in Article 38 (3) are met)	0	0
Fair value reserves related to gains or losses of expected loss amounts	0	0
Negative amount resulting from the calculation of expected loss amounts	-300 203	0
Any increase in equity that results from securitised assets	0	0
Gains or losses on liabilities valued at fair values resulting from changes in own credit standing	0	0
Defined-benefit pension fund assets	0	0
Direct and indirect holdings by an institution of own CET1 instruments	-306	0

Holdings of the CET1 instruments of financial sector entities where those entities have reciprocal cross holding with the institution designed to inflate artificially the own funds of the institution	0	0
Direct and indirect holdings by an institution of own CET1 instruments of financial sector entities where the institution does not have a significant investment in these entities (amount above the 10% threshold and net of eligible short positions)	0	0
Direct, indirect and synthetic holding by the institution of CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above the 10% threshold and net of eligible short positions)	0	0
Exposure amount of the following items which qualify for a RW of 1250%, where the institution opts for the deduction alternative	0	0
Deferred tax assets arising for temporary differences (amount above 10% threshold, net of related tax liability where the conditions in 38 (3) are met)	0	0
Amount exceeding the 15% threshold	0	0
Net impairment losses	-213 585	0
Losses for the current financial year	0	0
Foreseeable tax charges relating to CET1 items	0	0
Regulatory adjustments applied to Common Equity Tier 1 in respect of amounts subject to pre-CRR treatment	0	0
Regulatory adjustments relating to unrealised gains and losses pursuant to Article 467 and 468 of the CRR Regulation	-269 197	0
Of which: filter for unrealised loss related to assets or liabilities measured at fair value	0	0
Of which: filter for unrealised gain related to assets or liabilities measured at fair value	-269 197	0
Amount to be deducted from of added to Common Equity Tier 1 capital with regard to additional filters and deductions required pre CRR	0	0
Qualifying AT1 deductions that exceed the AT1 capital of the institution	0	0
Total regulatory adjustments to Common equity Tier 1	**-1 338 699**	**0**
Common Equity Tier 1 capital	**9 914 535**	**0**
Additional Tier 1 capital: instruments		
Capital instruments and the related share premium accounts	0	0
Amount of qualifying items referred to in Article 484 (4) and the related share premium accounts subject to phase out from AT1	0	0
Public sector capital injections grandfathered until 1 January 2018	0	0
Qualifying Tier 1 capital included in consolidated AT1 capital (including minority interests not included in other items regarding Additional Tier 1 capital) issued by subsidiaries and held by third parties	0	0
Capital instruments and the related share premium accounts	0	0

Additional Tier 1 capital: regulatory adjustments		
Direct and indirect holding by an institution of own AT1 Instruments	0	0
Holdings of the AT1 instruments of financial sector entities where those entities have reciprocal cross holding with the institution designed to inflate artificially the own funds of the institution	0	0
Direct and indirect holdings of the AT1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above the 10% threshold and net of eligible short positions)	0	0
Direct and indirect holdings by the institution of the AT1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above the 10% threshold net of eligible short positions)	0	0
Regulatory adjustment applied to additional tier 1 in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in CRR Regulation (i.e. CRR residual amounts)	0	0
Residual amounts deducted from Additional Tier 1 capital with regard to deduction from Common Equity Tier 1 capital during the transitional period pursuant to article 472 of CRR Regulation	0	0
Residual amounts deducted from Additional Tier 1 capital with regard to deduction from Tier 2 capital during the transitional period pursuant to article 472 of CRR Regulation	0	0
Amount to be deducted from of added to Additional Tier 1 capital with regard to additional filters and deductions required pre- CRR	0	0
Qualifying T2 deductions that exceed the T2 capital of the institution	0	0
Total regulatory adjustments to Additional Tier 1 capital	**0**	**0**
Additional Tier 1 capital	**0**	**0**
Tier 1 capital (CET1 + AT1)	**9 914 535**	**0**
Tier 2 capital: instruments and provisions		
Capital instruments and the related share premium accounts	1 250 000	0
Amount of qualifying items referred to in Article 484 (5) and the related share premium accounts subject to phase out from T2	806 058	0
Public sector capital injections grandfathered until 1 January 2018	0	0
Qualifying own funds instruments included in consolidate T2 capital (including minority interests and AT1 instruments not included in other items regarding Tier 2 capital) issued by subsidiary and held by third parties	0	0
Credit risk adjustments	0	0
Tier 2 capital before regulatory adjustments	**2 056 058**	

Tier 2 capital: regulatory adjustments		
Direct and indirect holdings by an institution of own T2 instruments and subordinated loans	0	0
Holdings of the T2 instruments and subordinated loans of financial sector entities where those entities have reciprocal cross holding with the institution designed to inflate artificially the own funds of the institution	0	0
Direct and indirect holdings of the T2 instruments and subordinated loans of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions)	0	0
Direct and indirect holdings by the institution of own T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions)	0	0
Regulatory adjustments applied to tier 2 in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in CRR Regulation (i.e. CRR residual amounts)	0	0
Residual amounts deducted from Tier 2 capital with regard to deduction from Common Equity Tier 1 capital during the transitional period pursuant to article 472 of CRR Regulation	0	0
Residual amounts deducted Tier 2 capital with regard to deduction from Additional Tier 1 capital during the transitional period pursuant to article 474 of CRR Regulation	0	0
Amount to be deducted from or added to Tier 2 capital with regard to additional filters and deductions required pre CRR	0	0
Total regulatory adjustments to Tier 2 capital	**0**	**0**
Tier 2 capital	**2 056 058**	**0**
Total capital (T1 + T2)	**11 970 593**	**0**
Risk weighted assets in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in CRR Regulation (i.e. CRR residual amounts)	0	0
Total risk weighted assets	**69 391 743**	**0**
Capital ratios and buffers		
Common Equity Tier 1 (as a percentage of risk exposure amount)	**14.29%**	**0**
Tier 1 (as a percentage of risk exposure amount)	**14.29%**	**0**
Total capital (as a percentage of risk exposure amount)	**17.25%**	**0**

Institution specific buffer requirement (CET1 requirement in accordance with article 92 (1) (a) plus capital conservation and countercyclical buffer requirements, plus systematic risk buffer, plus the systemically important institution buffer (G-SLL or O-SlI buffer), expressed as a percentage of risk exposure amount)	0	0
of which: capital conservation buffer requirement	0	0
of which: countercyclical buffer requirement	0	0
of which: systemic risk buffer requirement	0	0
of which: Global Systemically Important Institution (G-SII) or Other System Important Institution (O-SII) buffer	0	0
Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	0	0
Capital ratios and buffers		
Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	0	0
Direct and indirect holdings by an institution of the CET1 instruments of financial sector entities where the institution have a significant investment in these entities (amount below 10% threshold and net of eligible short positions)	20 911	0
Deferred tax assets arising for temporary differences (amount below 10% threshold, net related tax liability where the conditions in Article 38 (3) are met)	391 847	0
Applicable caps on the inclusion of provisions in Tier 2		
Credit risk adjustments included in T2 in respect of exposures subject to standardized approach (prior to the application of the cap)	0	0
Cap on inclusion of credit risk adjustment in T2 under standardised approach	0	0
Credit risk adjustments included in T2 in respect of exposures subject to internal ratings-based approach (prior to the application of the cap)	0	0
Cap on inclusion of credit risk adjustment in T2 under internal ratings-based approach	0	0
Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2013 and Jan 2022)		
Current cap on CET1 instruments subject to phase out arrangements	0	0
Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	0	0
Current cap on AT1 instruments subject to phase out arrangements	0	0
Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	0	0
Current cap on T2 instruments subject to phase out arrangements	984 850	0
Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	0	0

5. Capital requirements

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

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

On 7 March 2014 mBank SA received conditional consent of PFSA to the application of AIRB approach to the calculation of the capital requirement for credit risk for the specialized lending exposures - income producing real estate. At the same time mLeasing received the consent of 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 banks.

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

In 2015 in the calculation of the total capital ratio of mBank Group as of 31 December 2015 total risk exposure amount took account of the risk weighted exposure amount for credit risk determined under the AIRB approach pursuant to provisions of CRR and also of the 80% of comparative total risk exposure amount calculated taking account of the risk weighted exposure amount for credit risk determined under the standardised approach (i.e. regulatory floor), according to provisions of CRR Regulation.

5.2. Results of the internal capital adequacy assessment

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

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

In 2015 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 is 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

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) System for Property Insurance Institutions,
3) System for Life Insurance Institutions,
4) System for Investment Funds,
5) System for Pension Funds,
6) System for Local Governments (JST),
7) System for Specialist Lending Entities (SPL),
8) Brokerage operations – expert system for selected clients (who meet specific criteria) who conduct brokerage operations connected with the securities and commodities market,
9) 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 30 million,
b) RC-POL Corporations revenues > PLN 30 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).

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 <30 mio PLN	RC-POL LT 30	• local • statistical with limited expert qualitative adjustment	• credit decision • limits • LLP • internal capital	• Internal data • Quarterly
Corporate portfolio with the turnover >30 mio PLN	RC-POL GT 30	• 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	BMOP (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
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

Rating systems' validation

Validation is an internal, complex process of independent and objective assessment of model operation, which, 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 required 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, 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, about the irregularities found.

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

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

5.4. Supervisory requirements regarding capital ratios

According to provisions of CRR 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 risk assessment carried out by the Polish Supervisory Authority (PFSA) within the supervisory review and evaluation process, in particular with regard to evaluation of risk related to portfolio of foreign exchange retail mortgage loans, mBank received an individual recommendation to maintain own funds to cover additional capital requirement of 4,39 p.p. in order to mitigate the risk (3,29 p.p. for Tier 1 capital).

One common methodology applied by PFSA to calculate additional capital requirement for all Polish banks, irrespective of the approach mBank used to calculate own funds requirements for credit risk, resulted in a higher additional capital requirement for mBank, which applies Advanced Internal Ratings-Based Approach approved by the competent authorities. The methodology assumes that for all banks additional capital requirement is calculated on the basis of risk weight under standardised approach (100%), regardless of the results generated by internal models. Consequently more than half of additional capital requirement defined by PFSA is to match the capital requirement of mBank to the standardised approach.

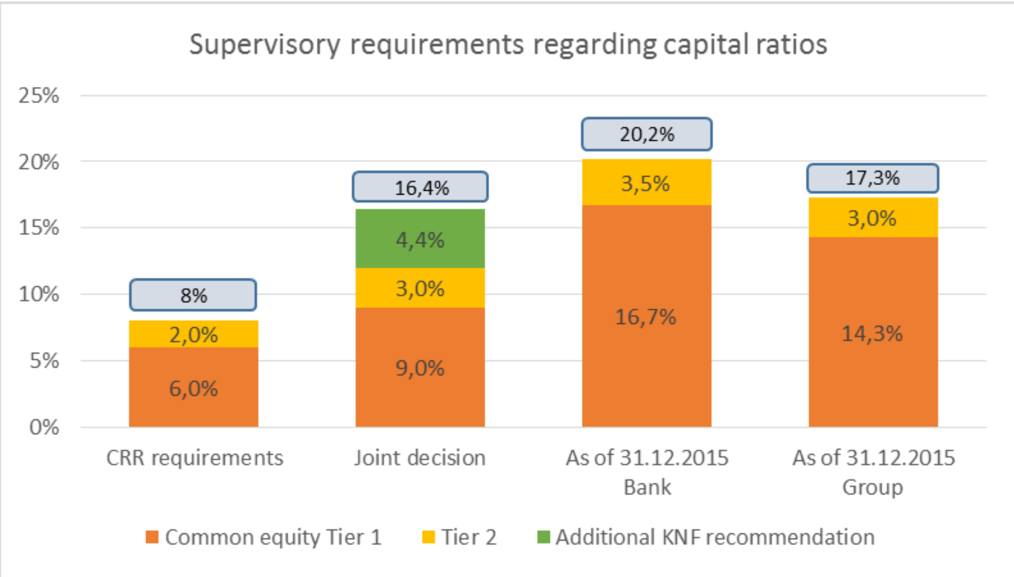
As of 31 December 2015 Bank has met PFSA recommendation, capital ratios of mBank standalone and on consolidated basis stood above the target capital ratios, i.e. 16.39% at the level of own funds and 12.29% at the level of Tier 1 capital.

The total capital ratio of mBank as of 31 December 2015 amounted to 20.18% and Common Equity Tier 1 capital ratio for amounted to 16.70%.

The consolidated total capital ratio of mBank Group amounted to 17.25%. Additionally the consolidated Common Equity Tier 1 capital ratio of mBank Group amounted to 14.29%.

Taking into account the above described additional capital requirement as well as the conservation buffer of 1.25% enforced on 1 January 2016 on the basis of the Act on Macro-prudential Supervision over the Financial System and Crisis Management in the Financial System, starting from 1 January 2016 the Bank as well as mBank Group should maintain, on the stand alone and consolidated level respectively, the Common Equity Tier 1 ratio on the level not lower than 13.54% and the total capital ratio on the level not lower than 17.64%, which compares against 14.29% and 17.25% respectively reported by mBank Group as of 31

December 2015. As of 31 January 2016 on consolidated level the reported total capital ratio was below the afore-mentioned target ratio of 17.64%, whereas consolidated Common Equity Tier 1 ratio remained to well exceed the new target ratio, similar to the respective ratios on mBank stand alone level. The Management Board of mBank believes that with the decisions to be made by the upcoming mBank Ordinary General Meeting (planned on 24 March 2016) the Group will exceed the total capital ratio target level of 17.64%.



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 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 regulatory and supervisory floors.

(in PLN thousand)

	2015*		2014*	
	Risk exposure amount	**Own funds requirement**	**Risk exposure amount**	**Own funds requirement**
TOTAL	69 391 743	5 551 339	66 499 897	5 319 992
for credit, counterparty credit	59 069 848	4 725 588	56 601 711	4 528 137
under AIRB approach	47 350 835	3 788 067	43 613 901	3 489 112
under standardised approach	11 718 792	937 503	12 987 810	1 039 025
Risk exposure amount for contributions to the default fund of a CCP	221	18	0	0
for market risk (standardised approach), including:	945 380	75 630	1 002 192	80 176
Foreign exchange risk	0	0	0	0
Commodities risk	0	0	371	30
Position risk	945 380	75 630	1 001 821	80 146
for operational risk (standardised approach)	6 362 805	509 024	6 413 869	513 110
for credit valuation adjustment risk (standardised approach)	262 151	20 972	266 809	21 345
for large exposures in the trading book	0	0	0	0
other (floor)	2 751 559	220 125	2 215 316	177 225
Total capital ratio	**17.25%**		**14.66%**	
Common equity tier 1 capital ratio	**14.29%**		**12.24%**	
Tier 1 capital ratio	**14.29%**		**12.24%**	

*according with CRR Regulation provisions

Risk weighted exposure amount for credit and counterparty credit risk with accompanying supervisory floor (see the definition below) accounted for 89% of total risk exposure amount of mBank Group. The table below presents changes in the risk weighted exposure amount in the course of 2015, resulting from main drivers of RWA movement.

mBank Group in PLNm	**Risk weighted exposure amount for credit, counterparty credit risk, including supervisory floor**
Risk weighted exposure amount as of 31 December 2014	**58 817**
Model updates	2 215
Book quality	- 2 045
Methodology and policy changes	- 1 027
Book size and structure	3 103
Foreign exchange movements	758
Total RWA movement	**3 004**
Risk-weighted exposure amount as of 31 December 2015.	**61 821**

Model updates

In the light of AIRB approach applied to calculation of risk-weighted exposure amount for credit, counterparty credit risk, model updates and model recalibrations were an important driver of RWA movement in 2015. This category covers changes related to the expanded application of the AIRB approach to calculation of own funds requirement for credit and counterparty credit risk resulting from supervisory AIRB decisions obtained in 2015 for the subsequent portfolios.

In 2015 mBank Group obtained a consent to the application of the advanced internal rating based approach (AIRB approach) to the calculation of own funds requirement for credit risk for further credit portfolios. As a result the coverage of the credit portfolio by AIRB approach rose to 85% as of the end of 2015. As of December 31st 2015 AIRB approach was applied to the calculation of own funds requirement for credit risk for the following portfolios:

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

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 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, high significance conditions determined by the bank supervision have been met, awaiting formal confirmation by the bank supervision.

With regard to the conditional consent to the application of AIRB approach to the calculation of own funds requirement for credit risk for mBank retail non-mortgage exposures, high significance conditions specified by the bank supervision have been met, awaiting formal confirmation by the bank supervision.

In the case of mBank retail microenterprises mortgage loan portfolio and bank exposures mBank is obliged to include the supervisory floor in its calculations till high significance conditions are met, that is before May 2016. Fulfilment of the conditions has to be confirmed by the bank supervision.

Simultaneously mBank Group applies regulatory floor when calculating consolidated total risk exposure amount and capital ratios as of December 31st 2015 in order to comply with CRR Regulation provisions. It means that when total risk exposure amount (AIRB driven) is lower than 80% of the comparable total risk exposure amount (standardised driven), the Bank includes the difference in the calculation.

Book 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

Changes related to the accounting presentation of the balance sheet exposures and methodology changes related to risk-weighted exposure amount calculation resulting from the changes of regulatory provisions, technical standards or EBA answers available in “Single Rulebook Q&A” tool had an influence on risk-weighted exposure amount in course of 2015.

Book size and structure

The category covers drivers of RWA movement such as: 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 2015.

Detailed segmentation regarding risk weighted exposure amount and own funds requirement for credit and credit counterparty risk for each approach used.

in thousand PLN

	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**
Credit and counterparty credit risk	**150 781 415**	**150 056 023**	**2 139 806**	**2 437 746**	**59 069 848**	**4 725 588**
AIRB approach	**94 055 607**	**94 055 607**	**1 553 133**	**192 243**	**47 350 835**	**3 788 067**
Corporates - SME	8 451 609	8 451 609	405 888	77 775	5 082 710	406 617
Corporates - Specialised Lending	7 547 538	7 547 538	0	0	5 405 292	432 423
Corporates - Other	21 440 048	21 440 048	1 107 886	114 454	14 789 603	1 183 168
Retail - Secured by real estate SME	2 314 412	2 314 412	0	0	1 281 631	102 530
Retail - Secured by real estate non-SME	28 781 015	28 781 015	0	0	8 601 759	688 141
Institutions	5 981 044	5 981 044	39 359	0	2 267 332	181 387
Retail - Other SME	5 862 899	5 862 899	0	14	2 314 140	185 131
Retail - Other non-SME	10 555 286	10 555 286	0	0	5 255 972	420 478
Other non-credit-obligation assets	3 121 756	3 121 756	0	0	2 352 396	188 192

	December 31, 2014*					
	Gross exposure	**Net exposure**	**Total exposure covered by guarantees**	**Total exposure covered by eligible financial collateral and other eligible collateral*****	**Risk weighted exposure amount**	**Own funds requirement**
Credit and counterparty credit risk	**143 800 387**	**143 211 571**	**2 075 489**	**10 535 257**	**56 601 711**	**4 528 137**
AIRB approach	**79 675 553**	**79 675 553**	**1 380 707**	**180 990**	**43 613 901**	**3 489 112**
Corporates - SME	7 084 639	7 084 639	374 436	119 811	4 325 250	346 020
Corporates - Specialised Lending	7 102 046	7 102 046	0	0	4 998 130	399 851
Corporates - Other	20 488 314	20 488 314	1 006 271	60 965	15 020 128	1 201 610
Retail - Secured by real estate SME	0	0	0	0	0	0
Retail - Secured by real estate non-SME	27 512 670	27 512 670	0	0	9 031 991	722 559
Institutions	0	0	0	0	0	0
Retail - Other SME	4 887 383	4 887 383	0	214	2 148 907	171 913
Retail - Other non-SME	9 644 211	9 644 211	0	0	5 154 740	412 379
Other non-credit-obligation assets	2 956 290	2 956 290	0	0	2 934 755	234 780

Standardised Approach	**56 718 868**	**55 993 476**	**586 673**	**2 245 503**	**11 718 792**	**937 503**	**64 124 834**	**63 536 018**	**694 782**	**10 354 267**	**12 987 810**	**1 039 025**
Central governments or central banks	34 089 572	34 089 572	0	0	17 925	1 434	29 486 417	29 486 416	0	0	53 237	4 259
Regional governments or local authorities	1 256 511	1 255 683	0	0	318 321	25 466	1 668 709	1 667 466	0	0	387 325	30 986
Public sector entities	98 643	98 565	53 608	0	17 226	1 378	142 623	142 284	60 889	700	39 287	3 143
Institutions	418 695	418 690	0	2 217	142 707	11 417	8 535 075	8 533 222	1 103	2 755 019	1 595 957	127 676
Corporates	10 462 608	10 441 942	440 900	2 243 155	5 274 077	421 926	14 719 953	14 702 970	296 078	7 598 431	5 118 708	409 497
Retail	1 872 419	1 780 020	0	0	1 095 739	87 659	1 976 039	1 959 435	56 019	0	1 080 009	86 401
Secured by mortgages on immovable property	7 123 568	7 119 879	0	0	4 102 617	328 209	5 764 829	5 751 259	0	0	3 555 432	284 434
Exposures in default,	876 682	321 298	92 165	131	260 550	20 844	1 171 039	673 922	265 051	117	444 814	35 585
High risk exposures	13 793	13 793	0	0	20 690	1 655	29 426	29 183	15 642	0	15 695	1 256
Equities	481 247	428 907	0	0	445 187	35 615	587 452	546 589	0	0	654 245	52 340
Collective investments undertakings (CIU)	2 654	2 654	0	0	2 654	212	0	0	0	0	0	0
Other items	22 476	22 473	0	0	21 099	1 688	43 272	43 272	0	0	43 101	3 448
Risk exposure amount for contributions to the default fund of a CCP	**6 940**	**6 940**	**0**	**0**	**221**	**18**	**0**	**0**	**0**	**0**	**0**	**0**

* according with CRR Regulation provisions
** after the application of volatility adjustments

Breakdown of AIRB retail exposures by credit quality grade as of 31 December 2015 (in PLN thousand)

mBank rating	S & P			Gross exposure	Of which: off balance sheet exposures	Exposure weighted average LGD	Exposure weighted average PD	Exposure weighted average risk weight	Risk weighted exposure amount
1,2	AAA	AAA	Investment grade	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 as of 31 December 2015 (in PLN thousand)

mBank rating	S & P			Gross exposure	Of which: off balance sheet exposures	Exposure weighted average LGD	Exposure weighted average PD	Exposure weighted average risk weight	Risk weighted exposure amount
1,4	AA+	AA	Investment grade	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 exposures 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

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 and with an update of the Banking Law. The act defined capital buffers in force beginning from January 2016, all banks in Poland should meet. As of 31 December 2015 there were no requirements regarding capital buffers mBank Group should address.

7. Leverage ratio

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

Till December 31st 2016 the European Commission will present to the European Parliament and the Council a report on the impact and effectiveness of the leverage ratio. Where appropriate, the report shall be accompanied by a legislative proposal on the introduction of an appropriate number of levels of the leverage ratio that institutions following different business models would be required to meet.

Informations regarding leverage ratio presented below are compliant with regulatory reporting provided by mBank to NBP. According to the instructions of European Commission given to banks by NBP, calculations are made according to the rules of CRR Regulation without taking into account Commission Delegated Regulation 2015/62 as of 10 October 2014, until European Commission implementing regulation will be updated.

Leverage Ratio calculated as of 31 December 2015 according Commission Delegated Regulation will amount to 7.75%.

Exposure value, Tier 1 capital and leverage ratio of mBank Group calculated in accordance with a transitional definition of Tier 1 as of 31 December 2015 and 31 December 2014 (in PLN thousand)

		31.12.2015	31.12.2014
Exposure value, of which:		**141 909 298**	**128 154 434**
	SFT exposure according to CRR 220	82 698	268 709
	SFT exposure according to CRR 220	0	0
	Derivatives: Market value	768 623	899 451
	Derivatives: Add-on Mark-to-Market Method	787 331	800 727
	Derivatives: Original Exposure Method	0	0
	Undrawn credit facilities, which may be cancelled unconditionally at any time without notice	138 536	155 405
	Medium/ low risk trade related off-balance sheet items	418 959	309 373
	Medium risk trade related off-balance sheet items and officially supported export finance related off-balance sheet items	51 789	36 788
	Other off-balance sheet items	22 577 493	20 247 669
	Other assets	117 083 869	105 436 312
Capital and regulatory adjustments			
	Tier 1 capital - transitional definition	9 914 534	8 142 307
	Amount to be added due to CRR 429 (4), 2nd subparagraph - transitional definition	0	0
	Regulatory adjustments regarding own credit risk	0	0
	Regulatory adjustments - Tier 1 - transitional definition	-1 338 700	-1 118 895
Leverage ratio			
	Leverage Ratio - using a transitional definition of Tier 1	7.05%	6.41%

*Leverage ratio calculated taking account of the transitional provisions;, as of December 2014 calculated as an average of the monthly leverage ratios over the last quarter of 2014, as of December 2015 calculated as monthly leverage ratio for December 2015.

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

The leverage ratio of the Group in 2015 was driven by the following factors:

- including in Common Equity Tier 1 capital the net profit of mBank Group for the year 2014, reduced by every foreseeable charges,
- including in Common Equity Tier 1 capital the verified net profit of mBank Group for the 1st half of 2015, reduced by every foreseeable charges, on the basis of the PFSA permission from 20 October 2015,
- including 40% of unrealised gains measured at fair value in the own funds calculation according with PFSA guidelines,
- including subsidiaries: Aspiro Sp. z o.o. (in March 2015), Tele-Tech Investment Sp. z o.o. (in July 2015) and mWealth Management S.A. (in December 2015) into the scope of prudential consolidation,
- expansion of mBank Group business activity.

Reconciliation of the total exposure measure with the relevant information disclosed in published financial statements

(in PLN thousand)

	31.12.2015
Total: assets and off-balance sheet commitments granted	**149 703 449**
of which: assets	**123 523 021**
of which: off-balance sheet commitments granted	**26 180 428**
Total exposure value for leverage ratio	**141 909 298**

Exposure value for calculation of the leverage ratio differs from total assets as per published financial statements as a result of: adjustments for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation, adjustments for derivative financial instruments, adjustments for securities financing transactions, adjustments for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures) and other adjustments.

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

Capital Management Committee constitutes the main role in management of risk of excessive leverage in mBank Group. Management of this risk covers two fundamental perspectives: calculation and monitoring of leverage ratio and analysis of mismatches between assets and liabilities. First element of the procedure, meaning calculation of the leverage ratio according to CRR requirements, is performed by the Integrated Risk and Capital Management Department. The second element, meaning mismatches analysis is reviewed by Financial Markets Risk Department. Actual leverage ratio is regularly monitored and compared to peer group. Starting from 2016, in order to assure fulfilment of regulatory requirement being in force in the future mBank Group sets internal target at the level of 6% which shall be monitored and verified at least on a yearly basis. Once a year, during planning process, leverage ratio is additionally planned in a four-year time horizon.

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. Taking stress tests results into consideration, mBank Group's minimum required level of leverage ratio in 2016 is equal to 5%. The results of stress testing process are taken into consideration while making decisions in the capital management area, in particular decisions regarding dividend policy and initiating contingency plans.

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 2015 mBank Group did not hold credit derivatives.

Collateral

Retail

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

<u>Retail properties</u>

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

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

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

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

<u>Vehicles</u>

In the car loan segment, mBank mitigates credit risk by the own contribution policy. When determining the collateral portfolio structure, mBank diversifies requirements related to own contribution depending on the age of the vehicle and its value. The approved minimum required levels of own contribution take account of loss of vehicle's value during the lending period and the possibility of selling it in the case of enforcement.

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

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

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

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

<u>Insurance</u>

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

Corporates

The credit risk taken by mBank when granting credit products to clients may be mitigated by collateral. The types of collateral accepted by mBank, 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 downpayment 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.

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.

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 definite 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.

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

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:

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

	31/12/2015						
	Standardised Approach		AIRB		Total		Average gross exposure in 2015
(mPLN)	Gross exposure	EAD	Gross exposure	EAD	Gross exposure	EAD	
Central governments or central banks	34 090	34 181	-	-	34 090	34 181	31 259
Local governments	1 257	1 592	-	-	1 257	1 592	1 411
Public sector entities	99	34	-	-	99	34	160
Institutions	419	519	5 981	4 404	6 400	4 923	8 458
Corporates*	10 470	5 426	37 439	29 685	47 909	35 111	50 473
Retail	1 872	1 462	47 514	46 005	49 386	47 467	48 862
Mortgage-backed exposures	7 124	7 046	-	-	7 124	7 046	6 439
Exposures in default	877	229	-	-	877	229	934
High-risk exposures	14	14	-	-	14	14	15
Equity exposures	481	429	-	-	481	429	511
Other	22	21	3 122	3 122	3 144	3 143	3 147
Total	**56 725**	**50 953**	**94 056**	**83 216**	**150 781**	**134 169**	**151 670**

* 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 million:

31/12/2015		
Country	Gross exposure	EAD
Poland	139 220	125 425
Czech Republic	4 322	3 980
Slovakia	1 039	944
Other	6 200	3 820

The residual maturity breakdown

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

	31/12/2015						
	1D - 3M	**3M - 6M**	**6M - 12M**	**1Y - 5Y**	**> 5Y**	**No term**	**Total**
AIRB approach	5 245 115	5 785 538	12 951 004	14 831 448	36 942 897	18 299 605	94 055 607
Corporates - SME	601 093	1 030 901	1 745 952	2 128 365	1 216 047	1 729 251	8 451 609
Corporates - Specialised Lending	82 987	36 692	103 191	1 202 456	842 748	5 279 464	7 547 538
Corporates - Other	1 685 439	1 684 177	5 705 076	7 627 380	2 981 091	1 756 885	21 440 048
Retail - Secured by real estate SME	3 306	1 303	3 416	76 795	2 225 401	4 191	2 314 412
Retail - Secured by real estate non-SME	897	1 870	6 621	215 975	28 554 253	1 399	28 781 015
Institutions	1 053 342	1 033 435	1 521 456	1 251 975	66 984	1 053 852	5 981 044
Retail - Secured by real estate non-SME	450 289	531 715	886 972	571 488	168 315	3 254 120	5 862 898
Retail - Other SME	1 367 762	1 465 445	2 978 320	1 757 014	888 058	2 098 687	10 555 286
Other non credit-obligation assets	0	0	0	0	0	3 121 756	3 121 756
Standardised Approach	9 663 041	1 603 090	4 338 090	18 573 162	7 837 756	14 710 669	56 725 808
Central governments or central banks	6 972 521	925 163	2 816 998	15 672 244	2 338 199	5 364 447	34 089 572
Regional governments or local authorities	10 068	748	41 496	473 907	586 175	144 117	1 256 511
Public sector entities	0	38 946	1 000	4 738	9	53 950	98 643
Institutions	12	0	7 492	20 824	0	390 367	418 695
Corporates*	2 568 087	518 263	1 155 138	1 741 252	939 233	3 547 575	10 469 548
Retail	78 908	99 415	168 235	172 769	914 725	438 367	1 872 419
Secured by mortgages on immovable property	16 311	13 566	23 604	162 450	2 981 583	3 926 054	7 123 568
Exposures in default	15 514	6 989	121 180	324 978	77 832	330 189	876 682
High risk exposures	0	0	0	0	0	13 793	13 793
Equities	0	0	0	0	0	481 247	481 247
Other items	1 620	0	2 947	0	0	20 563	25 130

* 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 million:

	31/12/2015						
		Impaired and overdue exposures			Provision for impaired items and IBNI		
(mPLN)	Gross exposure	Standardized approach	AIRB	Total	Standardized approach	AIRB	Total
Central governments or central banks	34 090	-	-	-	-	-	-
Local governments	1 257	-	-	-	1	-	1
Public sector entities	99	-	-	-	-	-	-
Institutions	6 400	-	-	-	-	-	-
Corporates	47 909	-	1 484	1 484	20	949	969
Retail	49 386	-	2 489	2 489	92	1 404	1 496
Mortgage-backed exposures	7 124	-	-	-	-	-	-
Exposures in default	877	877	-	877	555	-	555
High-risk exposures	14	-	-	-	-	-	-
Equity exposures	481	-	-	-	-	-	-
Other	3 144	-	-	-	-	-	-
Total	**150 781**	**877**	**3 973**	**4 850**	**668**	**2 353**	**3 021**

* 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 million:

31/12/2015		
Country	**Impaired and overdue exposures**	**Provision**
Polska	4 236	2 571
Czechy	86	83
Słowacja	31	31
inny	497	336

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 2015 opening and closing balances, provisions created, release of provisions and other adjustments.

Movements in provisions – 2015 (in PLN thousand)	Provision as at 01.01.2015	Provisions created	Release of provisions	Reclassification and foreign exchange difference	Write-offs	Provisions as at 31.12.2015
INDIVIDUALS	**(1 480 413)**	**(1 154 655)**	**932 620**	**169 578**	**368**	**(1 532 502)**
Current accounts	(593 854)	(429 843)	260 277	80 195	183	**(683 042)**
Term loans, including:	(886 559)	(724 812)	672 343	89 383	185	**(849 460)**
Housing and mortgage loans	(541 352)	(454 401)	429 254	75 034	136	**(491 329)**
Other	-	-	-	-	-	**-**
CORPORATE CUSTOMERS	**(1 309 059)**	**(751 328)**	**547 963**	**(6 538)**	**76 711**	**(1 442 251)**
Current accounts	(241 111)	(150 230)	150 225	6 341	29 915	**(204 860)**
Term loans, including:	(1 061 730)	(552 420)	396 823	(12 879)	42 225	**(1 187 981)**
Corporate and institutional customers	(193 948)	(173 802)	205 938	(184)	4 481	**(157 515)**
Medium and small enterprises	(867 782)	(378 618)	190 885	(12 695)	37 744	**(1 030 466)**
Other	(7 007)	(48 678)	1 704	-	4 571	**(49 410)**
Transfer to fixed assets for sale	789	-	(789)	-	-	**-**
Public sector	**(1 369)**	**(8 462)**	**8 780**	**(64)**	**4**	**(1 111)**
Off-balance sheet granted contingent liabilities	**(49 613)**	**(146 689)**	**150 761**	**(65)**	**-**	**(45 606)**
Total movements in provisions	**(2 840 454)**	**(2 061 134)**	**1 640 124**	**162 911**	**77 083**	**(3 021 470)**

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. Resolutions and recommendations of the Polish Financial Supervision Authority (in particular Recommendation M) are the starting point for preparation of framework for the operational risk control and management system in the Group.

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

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

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

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

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

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

- Asset management,
- Retail brokerage services.

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

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

Losses are also monitored by risk categories:

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

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

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

11. Risk takers remuneration

Information on the policy of variable remuneration

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

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

1/ Dr Andre Carls – Chairman

2/ Maciej Leśny – Member

3/ Prof. Marek Wierzbowski – Member

4/ Martin Zielke – Member

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 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 were 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 at the end of 2014. The Management Board of mBank and then the Remuneration Committee of the Supervisory Board conducted the annual verification of policies concerning remuneration and identification of positions having significant influence on the risk profile and accepted the changes which were aimed at, among others, reflecting the provisions of the "Commission Delegated Regulation (EU) No 604/2014 of 4 March 2014 supplementing Directive 2013/36/EU of the European Parliament and of the Council with regard to regulatory technical standards with respect to qualitative and appropriate quantitative criteria to identify categories of staff whose professional activities have a material impact on an institution's risk profile" and "Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC". The process of verification and implementation appropriate amendments in the policies concerning remuneration and identification of positions having significant influence on the risk profile was coordinated by the Director of the Personnel Administration and Remuneration Department (organisational unit reporting directly to the President of the Management Board of mBank), supported by: Integrated Risk and Capital Management

Department (in issues related to the selection of criteria indicating the positions having significant influence on the risk profile), Internal Audit Department (in issues related to the selection of criteria and the compliance of suggested solutions with the binding internal rules), Legal Department (in issues related to the selection of criteria and the compliance of suggested solutions with the binding internal and external rules) and external consultants (in issues related to selection of criteria indicating the positions having significant influence on the risk profile, compliance of applicable policies with regulatory requirements and market practices in this scope).

The Remuneration Committee of the Supervisory Board held 5 meetings in 2015.

The most important information concerning the formation of remuneration

Members of the Management Board:

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

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

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

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

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

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

50% of the base amount calculated as the multiplier of the monthly remuneration (fixed values assigned to the particular ROE values) is granted to the member of the Management Board after the financial result ROE has been achieved. The Remuneration Committee of the Supervisory Board conducts an assessment of the performance of the Manager on an annual basis as well as for longer time intervals and in 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:

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

II. 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),

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

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

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

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

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

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

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

Employees not being members of the Management Board:

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

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

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

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

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

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

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

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

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

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

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

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

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

Members of the Management Board:

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

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

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

Employees not being members of the Management Board:

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

The Management Board of mBank may take a decision on suspending in full or decreasing the amount of the deferred tranche due to 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, broken down by business lines used in the management of mBank

The below information for 2015 include the following personnel costs incurred in 2015: remuneration costs, social insurance costs, remuneration for share-based payments.

2015 remuneration costs (in PLN thousand)	
Financial Markets Area	44 303
Corporate & Investment Banking Area	145 106
Retail Banking Area	204 097
Operations and IT Area	82 374
Finance Area	23 126
Risk Management Area	68 535
General Area	49 020
Management Board	25 614
mBank	**642 175**

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

I. *Senior management*

<table>
<tr><th>No</th><th>Information regarding</th><th colspan="2">Value/Comments</th></tr>
<tr><td>1.</td><td>Number of employees</td><td colspan="2">74 persons including 7 Management Board Members (additional 60 employees in comparison to 2014 were included in the risk taker list during half of the year; 2016 will be the first year, in which a variable remuneration will be granted in line with PFSA 258/2011 Resolution.</td></tr>
<tr><td>2.</td><td>Base salary paid in 2015</td><td colspan="2">PLN 37 405 689</td></tr>
<tr><td>3.</td><td>2015 variable remuneration subject to PFSA 258/2011 Resolution, granted in 2016</td><td colspan="2">*</td></tr>
<tr><td>4.</td><td colspan="3">Calculated for 2015 non-deferred component of the variable remuneration subject to PFSA 258/2011 Resolution, including:</td></tr>
<tr><td>4.1.</td><td>Cash</td><td colspan="2">*</td></tr>
<tr><td>4.2.</td><td>Financial instrument – number of shares, amount of the component</td><td colspan="2">*</td></tr>
<tr><td>5.</td><td colspan="3">Calculated for 2015, not yet granted deferred component of the variable remuneration subject to PFSA 258/2011 Resolution, including:</td></tr>
<tr><td>5.1.</td><td>Cash</td><td colspan="2">*</td></tr>
<tr><td>5.2.</td><td>Financial instrument – number of shares, amount of the component</td><td colspan="2">*</td></tr>
<tr><td>6.</td><td colspan="3">Deferred component of variable remuneration prior 2015, payment possible in 2015, including:</td></tr>
<tr><td>6.1.</td><td>Cash</td><td colspan="2">-</td></tr>
<tr><td rowspan="2">6.2.</td><td rowspan="2">Financial instrument – number of shares, amount of the component</td><td>PLN 5 183 087</td><td>Value of the deferred bonus component settled in mBank shares, granted within:
1/ II tranche of 2012 bonus
2/ I tranche of 2013 bonus</td></tr>
<tr><td>12 363 shares</td><td>The conversion of non-cash bonus at the average market price of mBank S.A. shares value on the Warsaw Stock Exchange for the 30 days preceding the granting date of the bonus</td></tr>
<tr><td>7.</td><td colspan="3">Deferred component of variable remuneration prior 2015, payment not yet possible in 2015, including:</td></tr>
<tr><td>7.1.</td><td>Cash</td><td colspan="2">PLN 4 762 000</td></tr>
<tr><td>7.2.</td><td>Financial instrument – number of shares, amount of</td><td>PLN 12 661 561</td><td>Value of the deferred bonus component settled in</td></tr>
</table>

	the component		mBank shares, granted within 2012, 2013 and 2014 bonus
		28 385 shares	The conversion of non-cash bonus at the average market price of mBank S.A. shares value on the Warsaw Stock Exchange for the 30 days preceding the granting date of the bonus
8.	Value of deferred remuneration granted in the given accounting year, paid and reduced due to an adjustment related to results	-	
9.	Payments related to commencement and termination of employment relationship		
9.1.	Number of employees who receive such payments	1	
9.2.	The highest payment	PLN 331 663	
10.	Number of employees who received total remuneration in the amount exceeding EUR 1 mln	1 (remuneration in the range of EUR 1M & 1,5M)	Pursuant to the requirements of Resolution 258/2011 information has been reported to the Financial Supervision Authority

**The fields have not been filled due to the fact, that as at 25th February2016, i.e. the date of publishing of this report the variable remuneration for 2015 has not yet been approved by the competent authorities of mBank. This document will be modified by variable remuneration for 2015, granted in 2016, following approval by the General Meeting of Shareholders the financial statements for 2015 .*

Moreover, in 2015 the formerly functioning option scheme regarding the Members of the Management Board, which did not meet the requirements of Resolution 258/2011 of the PFSA, was settled:

1. cash settlement of deferred tranches granted in 2015 as part of a bonus based on Commerzbank shares for 2011 – PLN 2 954 540.

2. settlement of deferred tranches granted in mBank shares as part of a bonus for 2011 - 3 288 shares, which amounted to PLN 975 714. The above mentioned value results from number of granted shares, which were calculated based on the amount of granted bonus and the share's value for the 30 days preceding the date of granting bonus for relevant years.

II. *Other staff whose actions have a material impact on the risk profile of the institution*
- lack of risk takers in this employees group in 2015.

12. Risk takers remuneration - update of the information after the approval of the variable part of remuneration, regarding 2015 year, by the competent authorities of mBank

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

I. *Senior management*

<table>
<tr><th>No</th><th>Information regarding</th><th colspan="2">Value/Comments</th></tr>
<tr><td>1.</td><td>Number of employees</td><td colspan="2">74 persons including 7 Management Board Members (additional 60 employees in comparison to 2014 were included in the risk taker list during half of the year; 2016 will be the first year, in which a variable remuneration will be granted in line with PFSA 258/2011 Resolution.</td></tr>
<tr><td>2.</td><td>Base salary paid in 2015</td><td colspan="2">PLN 37 405 689</td></tr>
<tr><td>3.</td><td>2015 variable remuneration subject to PFSA 258/2011 Resolution, granted in 2016</td><td colspan="2">PLN 24 825 000</td></tr>
<tr><td>4.</td><td colspan="3">Calculated for 2015 non-deferred component of the variable remuneration subject to PFSA 258/2011 Resolution, including:</td></tr>
<tr><td>4.1.</td><td>Cash</td><td colspan="2">PLN 6 307 500</td></tr>
<tr><td rowspan="2">4.2.</td><td rowspan="2">Financial instrument – number of shares, amount of the component</td><td colspan="2">PLN 6 307 500</td></tr>
<tr><td colspan="2">19 755 shares</td></tr>
<tr><td>5.</td><td colspan="3">Calculated for 2015, not yet granted deferred component of the variable remuneration subject to PFSA 258/2011 Resolution, including:</td></tr>
<tr><td>5.1.</td><td>Cash</td><td colspan="2">PLN 6 105 000</td></tr>
<tr><td rowspan="2">5.2.</td><td rowspan="2">Financial instrument – number of shares, amount of the component</td><td colspan="2">PLN 6 105 000</td></tr>
<tr><td colspan="2">19 090 shares</td></tr>
<tr><td>6.</td><td colspan="3">Deferred component of variable remuneration prior 2015, payment possible in 2015, including:</td></tr>
<tr><td>6.1.</td><td>Cash</td><td colspan="2">-</td></tr>
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<tr><td>7.</td><td colspan="3">Deferred component of variable remuneration prior 2015, payment not yet</td></tr>
</table>

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<tr><td></td><td colspan="3">possible in 2015, including:</td></tr>
<tr><td>7.1.</td><td>Cash</td><td colspan="2">PLN 4 762 000</td></tr>
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<tr><td>9.2.</td><td>The highest payment</td><td colspan="2">PLN 331 663</td></tr>
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(remuneration in the range of EUR 1M & 1,5M)</td><td>Pursuant to the requirements of Resolution 258/2011 information has been reported to the Financial Supervision Authority</td></tr>
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Moreover, in 2015 the formerly functioning option scheme regarding the Members of the Management Board, which did not meet the requirements of Resolution 258/2011 of the PFSA, was settled:

1. cash settlement of deferred tranches granted in 2015 as part of a bonus based on Commerzbank shares for 2011 – PLN 2 954 540.

2. settlement of deferred tranches granted in mBank shares as part of a bonus for 2011 - 3 288 shares, which amounted to PLN 975 714. The above mentioned value results from number of granted shares, which were calculated based on the amount of granted bonus and the share's value for the 30 days preceding the date of granting bonus for relevant years.

II. *Other staff whose actions have a material impact on the risk profile of the institution*
- lack of risk takers in this employees group in 2015.

13. Additional information regarding point 5.4 *Supervisory requirements regarding capital ratios*

With reference to point 5.4 *Supervisory requirements regarding capital ratios* of the Report *Disclosures regarding capital adequacy of mBank S.A. Group as at 31 December 2015* published on 25 February 2016 mBank informs that on 16 March 2016 mBank received a letter from PFSA with information that additional capital requirements resulting from the risk of foreign exchange mortgage loans for households were reviewed on consolidated basis as follows:

- for Tier 1 capital ratio down from 3.29 pp. to 2.79 pp.
- for Total capital ratio down from 4.39 pp. to 3.72 pp.

In accordance with the above mBank capital ratios at the end of 2015 on consolidated basis should be at least at the following levels:

- Tier 1 capital ratio – 11.79%
- Total capital ratio – 15.72%

Since 1 January 2016 mBank capital ratios on consolidated basis should be at least at the following levels:

- Tier 1 capital ratio – 13.04%
- Total capital ratio – 16.97%

Capital ratios on individual basis for mentioned periods remain unchanged and should be at least at the following levels: at the end of 2015 Tier 1 capital ratio – 12.29%, total capital ratio – 16.39% and since 1 January 2016 Tier 1 capital ratio -13.54% and total capital ratio - 17.64%.

The decrease of capital requirements on consolidated basis results from taking into account a lower share of foreign exchange mortgage loans for households in mBank Group balance sheet in comparison with mBank stand alone balance sheet and is not caused by PFSA change in risk assessment of the portfolio of foreign exchange mortgage loans for households.