



2017

**Disclosures regarding
capital adequacy
of mBank S.A. Group
as at 31 December 2017**

Warsaw, 28 February 2018

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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 2017. 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 2017 (hereinafter referred to as Prudentially consolidated financial data for the year 2017) is presented in the Explanatory Note 50 of mBank Group IFRS Consolidated Financial Statements for 2017 (hereinafter referred to as the Consolidated financial statements for the year 2017).

The accounting policies applied for the preparation of the Prudentially consolidated financial data for 2017 are the same as those, which have been applied to the Consolidated financial statements for the year 2017, 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 2017 may be included in consolidated Common Equity Tier 1 for the purpose of calculation of consolidated Common Equity Tier 1 capital ratio, consolidated Tier 1 capital ratio and consolidated total capital ratio with the prior permission of the Polish Financial Supervisory Authority (hereinafter referred to as PFSA) or the General Meeting decision on profit division.

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

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

The Prudentially consolidated financial data include the following entities:

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

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Detailed information on consolidated entities included in accounting consolidation is presented in Explanatory Note 1 of the Consolidated financial statements for the year 2017.

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Reconciliation between the IFRS Consolidated financial statements for the year 2017 and the Prudentially consolidated financial data for the year 2017 compliant with the CRR Regulation is presented below.

| Reconciliation | Consolidated financial statements for the year 2017 | Deconsolidation of entities not included in prudential consolidation | Prudentially consolidated financial data for the year 2017 |
|--------------------------------------------------------------------|-----------------------------------------------------|----------------------------------------------------------------------|------------------------------------------------------------|
| Assets | 31.12.2017 | 31.12.2017 | 31.12.2017 |
| Cash and balances with the Central Bank | 7 384 869 | 0 | 7 384 869 |
| Loans and advances to banks | 1 707 722 | -204 | 1 707 518 |
| Trading securities | 1 525 382 | 0 | 1 525 382 |
| Derivative financial instruments | 1 236 303 | 0 | 1 236 303 |
| Loans and advances to customers | 84 475 844 | 31 610 | 84 507 454 |
| Investment securities | 32 144 699 | 90 791 | 32 235 490 |
| Non-current assets held for sale | 42 134 | -42 134 | 0 |
| Investment in joint ventures | 28 680 | 0 | 28 680 |
| Intangible assets | 710 642 | 0 | 710 642 |
| Tangible assets | 758 738 | -3 | 758 735 |
| Current income tax assets | 9 688 | 0 | 9 688 |
| Deferred income tax assets | 629 250 | 0 | 629 250 |
| Other assets | 770 068 | -50 663 | 719 405 |
| Total Assets | 131 424 019 | 29 397 | 131 453 416 |
| Liabilities and equity | | | |
| Liabilities | | | |
| Amounts due to other banks | 5 073 351 | 0 | 5 073 351 |
| Derivative financial instruments | 1 095 365 | 0 | 1 095 365 |
| Amounts due to customers | 91 496 027 | 29 989 | 91 526 016 |
| Debt securities in issue | 14 322 852 | 0 | 14 322 852 |
| Hedge accounting adjustments related to fair value of hedged items | 44 854 | 0 | 44 854 |
| Other liabilities | 2 571 130 | -592 | 2 570 538 |
| Current income tax liabilities | 179 685 | 0 | 179 685 |
| Deferred income tax liabilities | 81 | 0 | 81 |
| Provisions | 190 975 | 0 | 190 975 |
| Subordinated liabilities | 2 158 143 | 0 | 2 158 143 |
| Total liabilities | 117 132 463 | 29 397 | 117 161 860 |
| Equity | | | |
| Equity attributable to Owners of mBank S.A. | 14 289 370 | 0 | 14 289 370 |
| Share capital: | 3 564 176 | 0 | 3 564 176 |
| - Registered share capital | 169 248 | 0 | 169 248 |
| - Share premium | 3 394 928 | 0 | 3 394 928 |
| Retained earnings: | 10 574 294 | 0 | 10 574 294 |
| - Profit from the previous years | 9 482 764 | 0 | 9 482 764 |
| - Profit for the current year | 1 091 530 | 0 | 1 091 530 |
| Other components of equity | 150 900 | 0 | 150 900 |
| Non-controlling interests | 2 186 | 0 | 2 186 |
| Total equity | 14 291 556 | 0 | 14 291 556 |
| Total liabilities and equity | 131 424 019 | 29 397 | 131 453 416 |

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Below the reconciliation of equity is presented, from the items included in IFRS Consolidated financial statements for the year 2017 via the Prudentially consolidated financial data for the year 2017 compliant with the CRR Regulation, to the items included in Common Equity Tier 1 capital of mBank Group as at 31 December 2017.

| Reconciliation | Consolidated financial statements for the year 2017 | Deconsolidation of entities not included in prudential consolidation | Prudentially consolidated financial data for the year 2017 | Items not included in own funds and regulatory adjustments | Own funds in part regarding Common Equity Tier 1 capital |
|----------------------------------------------------------------------------------------------------------------|------------------------------------------------------------|-----------------------------------------------------------------------------|-------------------------------------------------------------------|-------------------------------------------------------------------|-----------------------------------------------------------------|
| Equity | 31.12.2017 | 31.12.2017 | 31.12.2017 | 31.12.2017 | 31.12.2017 |
| Share capital: | 3 564 176 | 0 | 3 564 176 | -105 | 3 564 071 |
| - Registered share capital | 169 248 | 0 | 169 248 | -105 | 169 143 |
| - Share premium | 3 394 928 | 0 | 3 394 928 | 0 | 3 394 928 |
| Retained earnings: | 10 574 294 | 0 | 10 574 294 | -701 591 | 9 872 703 |
| - Other supplementary capital | 7 727 317 | -72 870 | 7 654 447 | 0 | 7 654 447 |
| - Other reserve capital | 93 634 | -44 667 | 48 967 | 0 | 48 967 |
| - General banking risk reserve | 1 153 753 | 0 | 1 153 753 | 0 | 1 153 753 |
| - Undistributed profit from the previous years | 508 060 | 117 537 | 625 597 | 0 | 625 597 |
| - Profit from the current year | 1 091 530 | 0 | 1 091 530 | -701 591 | 389 939 |
| Other components of equity | 150 900 | 0 | 150 900 | 0 | 150 900 |
| - Exchange differences on translation of foreign operations | -5 527 | 0 | -5 527 | 0 | -5 527 |
| - Valuation of available for sale financial assets | 168 393 | 0 | 168 393 | 0 | 168 393 |
| - Cash flow hedges | -5 198 | 0 | -5 198 | 0 | -5 198 |
| - Actuarial gains and losses related to post-employment benefits | -6 768 | 0 | -6 768 | 0 | -6 768 |
| Non-controlling interests | 2 186 | 0 | 2 186 | -2 186 | 0 |
| Regulatory adjustments | 0 | 0 | 0 | -1 133 188 | -1 133 188 |
| - Intangible assets | 0 | 0 | 0 | -674 689 | -674 689 |
| - IRB shortfall of credit risk adjustments to expected losses | 0 | 0 | 0 | -256 144 | -256 144 |
| - LLP's | 0 | 0 | 0 | -139 979 | -139 979 |
| - Fair value gains and losses arising from the institution's own credit risk related to derivative liabilities | 0 | 0 | 0 | -1 938 | -1 938 |
| - Own CET1 instruments | 0 | 0 | 0 | -252 | -252 |
| - Transitional adjustment related to Accumulated other comprehensive income | 0 | 0 | 0 | -29 988 | -29 988 |
| - Additional value adjustments | 0 | 0 | 0 | -30 198 | -30 198 |
| Total equity | 14 291 556 | 0 | 14 291 556 | -1 837 070 | 12 454 486 |

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The prudentially consolidated profit & loss account for mBank Group as at 31 December 2017 presents the net profit amounting to PLN 1 091 501 thousand and the net profit for shareholders amounting to PLN 1 091 530 thousand.

3. Capital adequacy

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

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

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

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

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

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

4. Own funds

The consolidated own funds consist of Common Equity Tier 1 capital, Additional Tier 1 capital and Tier 2 capital. Detailed information on particular elements of consolidated own funds of mBank Group as at 31 December 2017 is presented in point 4.1.

In point 4.2 the structure of consolidated own funds of mBank Group as at 31 December 2017 is presented.

4.1. Main information

COMMON EQUITY TIER 1 CAPITAL

Capital instruments and the related share premium accounts

The share capital, supplementary capital and reserve capital of mBank Group prudentially consolidated were included in Capital instruments and the related share premium accounts item as at 31 December 2017.

| Capital instruments and the related share premium accounts | |
|-------------------------------------------------------------------|-------------------|
| Paid up capital | 169 143 |
| Supplementary capital from sales of shares over the nominal value | 3 394 928 |
| Other supplementary capital | 7 654 447 |
| Other reserve capitals | 48 967 |
| Total | 11 267 485 |

Detailed information on share and supplementary capital is described in Explanatory Notes 40 and 41 of the Consolidated Financial Statements for 2017.

Retained earnings

In Retained earnings item the profit from the previous years of mBank Group prudentially consolidated as at 31 December 2017 in the amount of PLN 625 597 thousand were included. Detailed information regarding retained earnings is described in Explanatory Notes 42 of the Consolidated Financial Statements for 2017.

Accumulated other comprehensive income

Unrealised gains and losses constitute mBank Group prudentially consolidated own capital as at 31 December 2017 in the amount of PLN 150 900 thousand were presented in Accumulated other comprehensive income item.

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The structure of accumulated other comprehensive income of mBank Group prudentially consolidated as at 31 December 2017 is described below.

| | |
|------------------------------------------------------------------------------|----------------|
| Exchange differences from foreign units counting | -5 527 |
| - unrealised gains | 3 671 |
| - unrealised losses | -9 198 |
| Instruments available for sale | 168 393 |
| - unrealised gains on debt instruments | 196 759 |
| - unrealised losses on debt instruments | -7 744 |
| - unrealised gains on capital instruments | 15 903 |
| - deferred tax | -36 525 |
| Cash flow security | -5 198 |
| - unrealised gains | 2 877 |
| - unrealised losses | -9 295 |
| - deferred tax | 1 220 |
| Actuarial gains and losses on fringe benefits after employment period | -6 768 |
| - actuarial gains | 2 |
| - actuarial losses | -8 358 |
| - deferred tax | 1 588 |
| Total | 150 900 |

Funds for general banking risk

mBank Group transfers some of its net profit to the funds for general banking risk to cover unexpected risk and future losses. The funds for general banking risk can be distributed only on consent of shareholders at a general meeting. As at 31 December 2017 the funds for general banking risk of mBank Group prudentially consolidated amounted to PLN 1 153 753 thousand.

Independently reviewed interim profits

Verified net profit for the I, II and III quarter of 2017, 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 2017, in accordance with the permission of PFSA to include the net profit of mBank Group prudentially consolidated in Common Equity Tier 1 capital, obtained respectively on 29 May, 7 September and 19 December of 2017.

The net profit of mBank Group prudentially consolidated for the I, II and III quarter of 2017 reduced by every foreseeable charges amounted to PLN 389 939 thousand.

**REGULATORY ADJUSTMENTS /
DEDUCTIONS FROM THE COMMON EQUITY TIER 1 CAPITAL**

Additional value adjustments

In accordance with Article 34 of the CRR Regulation, additional value adjustments have been calculated to all assets measured at fair value in accordance with the requirements of Article 105 of the CRR Regulation and included in Common Equity Tier 1 capital of mBank Group prudentially consolidated as at 31 December 2017 in the amount of PLN 30 198 thousand.

Intangible assets

In accordance with Article 37 of the CRR Regulation, intangible assets reduced by the amount of associated deferred tax liabilities are included in Common Equity Tier 1 capital. The value included in Common Equity Tier 1 capital of mBank Group prudentially consolidated as at 31 December 2017 amounted to PLN 674 689 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 2017 the amount of PLN 1 938 thousand from fair value gains and losses was included in Common Equity Tier 1 capital of mBank Group.

Negative amount resulting from the calculation of expected loss amounts

mBank, being an institution calculating risk-weighted exposure amounts with the application of the AIRB approach, is obliged to include in calculation of own funds the negative amounts resulting from the calculation of expected loss amounts. According to Article 36 (1d), the negative amounts resulting from the calculation specified in Articles 158 and 159 of the CRR Regulation were included in consolidated Common Equity Tier 1 capital of mBank Group prudentially consolidated as at 31 December 2017 in the amount of PLN 256 144 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 2017 the synthetic holdings in the amount of PLN 252 thousand were included.

Net impairment losses

In net impairment losses item as at 31 December 2017 the net impairment losses on loans and advances for the IV quarter of the year 2017 were included in the amount of PLN 139 979 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 2017 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 80% of their value. Regulatory adjustments in the amount of PLN 29 988 thousand regarding unrealised gains and losses as at 31 December 2017 constitute adjustments item to the item Accumulated other comprehensive income, mentioned above.

ADDITIONAL TIER 1 CAPITAL

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

TIER 2 CAPITAL

Capital instruments and the related share premium accounts

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

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

As at 31 December 2017 the amount of PLN 1 250 000 thousand was included in consolidated Tier 2 capital in Capital instruments and the related share premium accounts item by virtue of the above mentioned two tranches of capital instruments.

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

According to 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 32 of the Consolidated Financial Statements for 2017.

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.

As at 31 December 2017 the amount of PLN 575 756 thousand was included in consolidated Tier 2 capital from the virtue of the above mentioned tranche of capital instruments with application of the rules of grandfathering and limits of grandfathering.

In accordance with the provisions of Commission implementing Regulation (EU) No 1423/2013 of 20 December 2013 laying down implementing technical standards with regard to disclosure of own funds requirements for institutions according to the CRR Regulation (hereinafter referred to as Regulation No 1423/2013), the description of capital instruments' main features included in Tier 1 and Tier 2 capital of mBank Group prudentially consolidated as at 31 December 2017 is presented on subsequent pages of the current document, prepared based on Appendix No 2 to the Regulation No 1423/2013.

TOTAL CAPITAL

The amount of consolidated own funds of mBank Group prudentially consolidated as at 31 December 2017 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 2017 amounted to PLN 14 280 242 thousand.

Capital instruments' main features of Tier 1 capital

| Nr | Items | Common Equity Tier 1 capital | |
|------|-------------------------------------------------------------------------------------------------|------------------------------|------------------|
| 1 | Issuer | mBank S.A. | |
| 2 | Unique identifier (eg. CUSIP or Bloomberg identifier for private placement) | PLBRE000012 | |
| 3 | Governing law(s) of the instrument | Polish | |
| | <i>Regulatory treatment</i> | | |
| 4 | Transitional CRR rules | CET1 capital | |
| 5 | Post-transitional CRR rules | CET1 capital | |
| 6 | Eligible at solo/(sub-)consolidated / solo & (sub-)consolidated | Solo and (Sub-) consolidated | |
| 7 | Instrument type (types to be specified by each jurisdiction) | Common shares | |
| 8 | Amount recognised in regulatory capital (currency in million, as of most recent reporting date) | mPLN 169 | |
| 9 | Nominal amount of instrument | PLN 4 | |
| 9a | Redemption price | N/A | |
| 10 | Accounting classification | Equity capital | |
| | | Registration year | Number of shares |
| 11 | Number of shares issued | 1986 | 9,988,000 |
| | | 1986 | 12,000 |
| | | 1994 | 2,500,000 |
| | | 1995 | 2,000,000 |
| | | 1997 | 4,500,000 |
| | | 1998 | 3,800,000 |
| | | 2000 | 170,500 |
| | | 2004 | 5,742,625 |
| | | 2005 | 270,847 |
| | | 2006 | 532,063 |
| | | 2007 | 144,633 |
| | | 2008 | 30,214 |
| | | 2010 | 12,395,792 |
| | | 2011 | 16,072 |
| | | 2012 | 36,230 |
| | | 2013 | 35,037 |
| | | 2014 | 36,044 |
| | | 2015 | 28,867 |
| | | 2016 | 41,203 |
| | | 2017 | 5,549 |
| 12 | Perpetual or dated | Perpetual | |
| 13 | Original maturity date | No maturity | |
| 14 | Issuer call subject to prior supervisory approval | N/A | |
| 15 | Optional call date, contingent call dates and redemption amount | N/A | |
| 16 | Subsequent call dates, if applicable | N/A | |
| | <i>Coupons / dividends</i> | | |
| 17 | Fixed or floating dividend/coupon | Floating | |
| 18 | Coupon rate and any related index | N/A | |
| 19 | Existence of a dividend stopper | No | |
| 20 a | Fully discretionary or mandatory (in terms of timing) | Fully discretionary | |
| 20 b | Fully discretionary, partially discretionary or mandatory (in terms of timing) | Fully discretionary | |
| 21 | Fully discretionary, partially discretionary or mandatory (in terms of amount) | No | |
| 22 | Noncumulative or cumulative | N/A | |
| 23 | Convertible or non-convertible | Non-convertible | |
| 24 | If convertible or non-convertible, conversion trigger(s) | N/A | |
| 25 | If convertible, fully or partially | N/A | |
| 26 | If convertible, conversion rate | N/A | |
| 27 | If convertible, mandatory or optional conversion | N/A | |
| 28 | If convertible, specify instrument type convertible into | N/A | |
| 29 | If convertible, specify issuer of instrument it converts into | N/A | |

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| | | |
|----|---------------------------------------------------------------------------------------------------------------|-----|
| 30 | Write-down features | No |
| 31 | If write-down, write-down trigger(s) | N/A |
| 32 | If write-down, full or partial | N/A |
| 33 | If write-down, permanent or temporary | N/A |
| 34 | If write-down, description of write-up mechanism | N/A |
| 35 | Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument) | N/A |
| 36 | Non-compliant transitional features | No |
| 37 | If yes, specify non-compliant features | N/A |

Capital instruments' main features of Tier 2 capital

| Nr | Tranche | 170 mln CHF | 500 mln PLN | 750mln PLN |
|----|-------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1 | Issuer | mBank S.A. | mBank S.A. | mBank S.A. |
| 2 | Unique identifier (eg. CUSIP or Bloomberg identifier for private placement) | N/A | ISIN: PLBRE0005177 Series: BREO201223 | ISIN: PLBRE0005185 Seria: MBKO170125 |
| 3 | Governing law(s) of the instrument | English; Polish in terms of provisions relating to the subordinated status | Polish | Polish |
| | <i>Regulatory treatment</i> | | | |
| 4 | Transitional CRR rules | Tier 2; Art. 490 (5) | Tier 2; Art. 63 | Tier 2; Art. 63 |
| 5 | Post-transitional CRR rules | Ineligible | Tier 2 | Tier 2 |
| 6 | Eligible at solo/(sub-)consolidated / solo & (sub-)consolidated | Solo and (Sub-) consolidated | Solo and (Sub-) consolidated | Solo and (Sub-) consolidated |
| 7 | Instrument type (types to be specified by each jurisdiction) | Bond „instrumenty kapitałowe i pożyczki podporządkowane”- Polish Banking Act Art.127.2.2 | Bond „instrumenty kapitałowe i pożyczki podporządkowane”- Polish Banking Act Art.127.2.2 | Bond „instrumenty kapitałowe i pożyczki podporządkowane”- Polish Banking Act Art.127.2.2 |
| 8 | Amount recognised in regulatory capital (currency in million, as of most recent reporting date) | mPLN 576 | mPLN 500 | mPLN 750 |
| 9 | Nominal amount of instrument | In issuance currency: CHF 170 million; in reporting currency: PLN 606,42 million | In issuance currency: PLN 500 million; in reporting currency: PLN 500 million | In issuance currency: PLN 750 million; in reporting currency: PLN 750 million |
| 9a | Issue price | 100.00% | 100.00% | 100.00% |
| 9b | Redemption price | 100.00% | 100.00% | 100.00% |
| 10 | Accounting classification | Liability – amortised cost | Liability – amortised cost | Liability – amortised cost |
| 11 | Original date of issue | 09-01-2008 | 03-12-2013 | 17-12-2014 |
| 12 | Perpetual or dated | Perpetual | Dated | Dated |
| 13 | Original maturity date | No maturity | 20-12-2023 | 17-01-2025 |
| 14 | Issuer call subject to prior supervisory approval | Yes | Yes | Yes |
| 15 | Optional call date, contingent call dates and redemption amount | 1) 09-01-2010 No minimum amount; at price 100% 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 price 100%; 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 price 100%; 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 | 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 |

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| | | | | |
|-----|--------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------|----------------|
| | | 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 | | |
| | <i>Coupons / dividends</i> | | | |
| 17 | Fixed or floating dividend/coupon | Floating | Floating | Floating |
| 18 | Coupon rate and any related index | CHF LIBOR 3M+2.2%; after 10 years from Issue Date: CHF LIBOR 3M+4.2% | WIBOR 6M+2.25% | WIBOR 6M+2.10% |
| 19 | Existence of a dividend stopper | Yes | No | No |
| 20a | Fully discretionary or mandatory (in terms of timing) | Mandatory Please note: The Issuer does not have discretion over whether a coupon gets paid, but has some discretion of when it is paid (interest deferral) | Mandatory | Mandatory |
| 20b | Fully discretionary, partially discretionary or mandatory (in terms of timing) | Mandatory | Mandatory | Mandatory |
| 21 | Fully discretionary, partially discretionary or mandatory (in terms of amount) | Yes | No | No |
| 22 | Noncumulative or cumulative | Cumulative (possibility of interest deferral) | Noncumulative | Noncumulative |
| 23 | Convertible or non-convertible | Nonconvertible | Nonconvertible | Nonconvertible |
| 24 | If convertible or non-convertible, conversion trigger(s) | Not applicable | Not applicable | Not applicable |
| 25 | If convertible, fully or partially | Not applicable | Not applicable | Not applicable |
| 26 | If convertible, conversion rate | Not applicable | Not applicable | Not applicable |
| 27 | If convertible, mandatory or optional conversion | Not applicable | Not applicable | Not applicable |
| 28 | If convertible, specify instrument type convertible into | Not applicable | Not applicable | Not applicable |
| 29 | If convertible, specify issuer of instrument it converts into | Not applicable | Not applicable | Not applicable |
| 30 | Write-down features | Yes | Not applicable | Not applicable |
| 31 | If write-down, write-down trigger(s) | Loss absorption | Not applicable | Not applicable |
| 32 | If write-down, full or partial | Fully or partially | Not applicable | Not applicable |
| 33 | If write-down, permanent or temporary | Temporary | Not applicable | Not applicable |
| 34 | If write-down, description of write-up mechanism | In the event the Issuer incurs Losses and following an appropriate resolution of the Ordinary Shareholders' Meeting of the Issuer, the Issuer shall allocate the principal of the Notes together with the Deferred Interest and Additional Interest Amount thereon to covering (pokrycie) such Losses (the "Sub-Debt Loss Allocation") provided that own funds in the funds in the form of undistributed profits for the last and previous financial years, reserve capitals (kapitał zapasowy and kapitały rezerwowe) and other reserves and its total paid up capital, have been previously allocated to cover such Losses. | Not applicable | Not applicable |

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| | | <p>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.</p> <p>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.</p> <p>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.</p> <p>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</p> | | |
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| | | <p>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.</p> <p>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.</p> <p>"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.</p> <p>"Subordinated Profit Absorption Indebtedness" means any and all financing arrangements of the Issuer, including the Notes.</p> | | |
|--|--|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--|--|

mBank S.A. Group**Disclosures regarding capital adequacy as at 31 December 2017**

| | | | | |
|----|---------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------|------------------------|------------------------|
| 35 | Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument) | Senior Unsecured Bonds | Senior Unsecured Bonds | Senior Unsecured Bonds |
| 36 | Non-compliant transitional features | Yes | No | No |
| 37 | If yes, specify non-compliant features | Step-up, put option at any Interest Payment Date after the elapse of 5 years, Call option after only 2 years | Not applicable | Not applicable |

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Disclosures regarding capital adequacy as at 31 December 2017

4.2 Structure of consolidated own funds

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

| Common Equity Tier 1 capital: instruments and reserves | Amount at disclosure date |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------|
| Capital instruments and the related share premium accounts | 11 267 485 |
| Retained earnings | 625 597 |
| Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards) | 150 900 |
| Funds for general banking risk | 1 153 753 |
| Amount of qualifying items referred to in Article 484 (3) and the related share premium accounts subject to phase out from CET1 | 0 |
| Public sector capital injections grandfathered until 1 January 2018 | 0 |
| Minority Interests (amount allowed in consolidated CET1) | 0 |
| Independently reviewed interim profits net of any foreseeable charge or dividend | 389 939 |
| Common Equity Tier 1 (CET1) capital before regulatory adjustments | 13 587 674 |
| Common Equity Tier 1 capital: regulatory adjustments | |
| Additional value adjustments | -30 198 |
| Intangible assets (net related tax liability) | -674 689 |
| Fair value gains and losses arising from the institution's own credit risk related to derivative liabilities | -1 938 |
| Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability where the conditions in Article 38 (3) are met) | 0 |
| Fair value reserves related to gains or losses of expected loss amounts | 0 |
| Negative amount resulting from the calculation of expected loss amounts | -256 144 |
| Any increase in equity that results from securitised assets | 0 |
| Gains or losses on liabilities valued at fair values resulting from changes in own credit standing | 0 |
| Defined-benefit pension fund assets | 0 |
| Direct and indirect holdings by an institution of own CET1 instruments | -252 |
| Holdings of the CET1 instruments of financial sector entities where those entities have reciprocal cross holding with the institution designed to inflate artificially the own funds of the institution | 0 |
| Direct and indirect holdings by an institution of own CET1 instruments of financial sector entities where the institution does not have a significant investment in these entities (amount above the 10% threshold and net of eligible short positions) | 0 |
| Direct, indirect and synthetic holding by the institution of CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above the 10% threshold and net of eligible short positions) | 0 |
| Exposure amount of the following items which qualify for a RW of 1250%, where the institution opts for the deduction alternative | 0 |
| Deferred tax assets arising for temporary differences (amount above 10% threshold, net of related tax liability where the conditions in 38 (3) are met) | 0 |
| Amount exceeding the 15% threshold | 0 |
| Net impairment losses | -139 979 |
| Losses for the current financial year | 0 |
| Foreseeable tax charges relating to CET1 items | 0 |
| Regulatory adjustments applied to Common Equity Tier 1 in respect of amounts subject to pre-CRR treatment | 0 |
| Regulatory adjustments relating to unrealised gains and losses pursuant to Article 467 and 468 of the CRR Regulation | -29 988 |
| Of which: filter for unrealised loss related to assets or liabilities measured at fair value | 0 |
| Of which: filter for unrealised gain related to assets or liabilities measured at fair value | -29 988 |
| Amount to be deducted from of added to Common Equity Tier 1 capital with regard to additional filters and deductions required pre CRR | 0 |
| Qualifying AT1 deductions that exceed the AT1 capital of the institution | 0 |
| Total regulatory adjustments to Common equity Tier 1 | -1 133 188 |
| Common Equity Tier 1 capital | 12 454 486 |

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| Additional Tier 1 capital: instruments | |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------|
| Capital instruments and the related share premium accounts | 0 |
| Amount of qualifying items referred to in Article 484 (4) and the related share premium accounts subject to phase out from AT1 | 0 |
| Public sector capital injections grandfathered until 1 January 2018 | 0 |
| Qualifying Tier 1 capital included in consolidated AT1 capital (including minority interests not included in other items regarding Additional Tier 1 capital) issued by subsidiaries and held by third parties | 0 |
| Capital instruments and the related share premium accounts | 0 |
| Additional Tier 1 capital: regulatory adjustments | |
| Direct and indirect holding by an institution of own AT1 Instruments | 0 |
| Holdings of the AT1 instruments of financial sector entities where those entities have reciprocal cross holding with the institution designed to inflate artificially the own funds of the institution | 0 |
| Direct and indirect holdings of the AT1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above the 10% threshold and net of eligible short positions) | 0 |
| Direct and indirect holdings by the institution of the AT1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above the 10% threshold net of eligible short positions) | 0 |
| Regulatory adjustment applied to additional Tier 1 in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in CRR Regulation (i.e. CRR residual amounts) | 0 |
| Residual amounts deducted from Additional Tier 1 capital with regard to deduction from Common Equity Tier 1 capital during the transitional period pursuant to article 472 of CRR Regulation | 0 |
| Residual amounts deducted from Additional Tier 1 capital with regard to deduction from Tier 2 capital during the transitional period pursuant to article 472 of CRR Regulation | 0 |
| Amount to be deducted from of added to Additional Tier 1 capital with regard to additional filters and deductions required pre- CRR | 0 |
| Qualifying T2 deductions that exceed the T2 capital of the institution | 0 |
| Total regulatory adjustments to Additional Tier 1 capital | 0 |
| Additional Tier 1 capital | 0 |
| Tier 1 capital (CET1 + AT1) | 12 454 486 |
| Tier 2 capital: instruments and provisions | |
| Capital instruments and the related share premium accounts | 1 250 000 |
| Amount of qualifying items referred to in Article 484 (5) and the related share premium accounts subject to phase out from T2 | 575 756 |
| Public sector capital injections grandfathered until 1 January 2018 | 0 |
| Qualifying own funds instruments included in consolidate T2 capital (including minority interests and AT1 instruments not included in other items regarding Tier 2 capital) issued by subsidiary and held by third parties | 0 |
| Credit risk adjustments | 0 |
| Tier 2 capital before regulatory adjustments | 1 825 756 |
| Tier 2 capital: regulatory adjustments | |
| Direct and indirect holdings by an institution of own T2 instruments and subordinated loans | 0 |
| Holdings of the T2 instruments and subordinated loans of financial sector entities where those entities have reciprocal cross holding with the institution designed to inflate artificially the own funds of the institution | 0 |
| Direct and indirect holdings of the T2 instruments and subordinated loans of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) | 0 |
| Direct and indirect holdings by the institution of own T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) | 0 |
| Regulatory adjustments applied to Tier 2 in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in CRR Regulation (i.e. CRR residual amounts) | 0 |
| Residual amounts deducted from Tier 2 capital with regard to deduction from Common Equity Tier 1 capital during the transitional period pursuant to article 472 of CRR Regulation | 0 |
| Residual amounts deducted Tier 2 capital with regard to deduction from Additional Tier 1 capital during the transitional period pursuant to article 474 of CRR Regulation | 0 |
| Amount to be deducted from or added to Tier 2 capital with regard to additional filters and deductions required pre CRR | 0 |
| Total regulatory adjustments to Tier 2 capital | 0 |
| Tier 2 capital | 1 825 756 |
| Total capital (T1 + T2) | 14 280 242 |
| Risk weighted assets in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in CRR Regulation (i.e. CRR residual amounts) | 0 |
| Total risk weighted assets | 68 031 820 |

mBank S.A. Group
Disclosures regarding capital adequacy as at 31 December 2017

| Capital ratios and buffers | |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------|
| Common Equity Tier 1 (as a percentage of risk exposure amount) | 18.31% |
| Tier 1 (as a percentage of risk exposure amount) | 18.31% |
| Total capital (as a percentage of risk exposure amount) | 20.99% |
| Additional own funds requirement related to Pillar II adjustments to cover FX lending risk to unhedged borrowers* | 3,53% |
| 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-SII or O-SII buffer), expressed as a percentage of risk exposure amount) | 2,02% |
| of which: capital conservation buffer requirement | 1,25% |
| of which: countercyclical buffer requirement | 0,02% |
| of which: systemic risk buffer requirement | 0% |
| of which: Global Systemically Important Institution (G-SII) or Other System Important Institution (O-SII) buffer | 0,75% |
| Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount) , after covering additional own funds requirement related to Pillar II adjustments | 9,46% |
| Capital ratios and buffers | |
| Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions) | 0 |
| Direct and indirect holdings by an institution of the CET1 instruments of financial sector entities where the institution have a significant investment in these entities (amount below 10% threshold and net of eligible short positions) | 15 383 |
| Deferred tax assets arising for temporary differences (amount below 10% threshold, net related tax liability where the conditions in Article 38 (3) are met) | 629 250 |
| Applicable caps on the inclusion of provisions in Tier 2 | |
| Credit risk adjustments included in T2 in respect of exposures subject to standardized approach (prior to the application of the cap) | 0 |
| Cap on inclusion of credit risk adjustment in T2 under standardised approach | 0 |
| Credit risk adjustments included in T2 in respect of exposures subject to internal ratings-based approach (prior to the application of the cap) | 0 |
| Cap on inclusion of credit risk adjustment in T2 under internal ratings-based approach | 0 |
| Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2013 and Jan 2022) | |
| Current cap on CET1 instruments subject to phase out arrangements | 0 |
| Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities) | 0 |
| Current cap on AT1 instruments subject to phase out arrangements | 0 |
| Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities) | 0 |
| Current cap on T2 instruments subject to phase out arrangements | 606 424 |
| Amount excluded from T2 due to cap (excess over cap after redemptions and maturities) | 0 |

* Additional own funds requirement related to Pillar II adjustments imposed in 2017 based on an administrative decision of PFSA of November 20th, 2017 and subsequent correspondence of December 15th, 2017. Detailed information on additional own funds requirement related to Pillar II are available in section 5.4 Supervisory requirements regarding capital ratios.

5. Capital requirements

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

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

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

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

In 2017 bank submitted application for material change in PD model for its subsidiary mLeasing as well as submitted ex-ante notification about non-material change in PD model for Retail portfolio. Both application and notification were in the process of verification by regulatory bodies – European Central Bank and PSFA.

In the calculation of the total capital ratio of mBank Group as of 31 December 2017, when calculating the total capital charge, the mBank Group applies the AIRB approach pursuant to the provisions of the CRR Regulation to calculate a capital charge for credit and counterparty credit risk and pursuant to obtained AIRB approvals.

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 2017 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 includes the following stages implemented by organizational units of mBank and mBank Group subsidiaries:

- risk inventory in mBank Group,
- calculation of internal capital for coverage of risk,
- capital aggregation,
- stress tests,
- setting limits on the utilization of capital resources,
- planning and allocation of capital,
- 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. On this basis and taking into account the forecast values limits for economic capital for particular risks are determined.

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

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

5.3. Additional information regarding AIRB

Description of the internal rating process, provided separately for each class of exposures, addressing disclosure requirements of art. 452 (c) of CRR

Corporates and Commercial Banks

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

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

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

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

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

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

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

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

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

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

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

- a) RC-POL SME revenues \leq PLN 50 million,
- b) RC-POL Corporations revenues $>$ PLN 50 million.

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

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

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

Upon completing the analysis, the system automatically proposes the final PD-rating, which in exceptional and justified cases may be corrected on an expert basis (the so-called overriding). Usually, overriding may change the rating by 1 notch on a 25-point rating scale. The Bank allows a wider scope of overriding:

- full-scale overriding is possible in the case of non-residents and selected client classes,
- extended overriding (by a maximum of 5 notches) in a limited scope (defined in Bank's internal regulations) is allowed for entities for which during the financial year an unitary business event occurred, which due to the accounting method could not be included in the rating model.

mBank systematically analyses all the events of overriding, 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.

For the assessment of exposures classified as specialized lending, the Bank uses two independent rating models:

- a) a simulation model built by Commerzbank, dedicated to the assessment of specialized lending exposure, classified as financing of: goods, facilities, projects, renewable energy, leveraged acquisition (SPL TOP);

The model is a tool characterized by a quantitative approach to expert estimation, allowing to determine the assessment of the EL parameter for all exposures included in the assessed transaction.

The key element of the model is a set of assumptions regarding the mutual relations between individual elements of the transaction, e.g.

- Debt servicing forecasts (projected Cash Flow),
- Quota and timing structure (schedule) of repayments,
- Interest on debt / financing transactions,
- Access to additional capital sources,
- Collateral structure.

- b) a model built by mBank Hipoteczny SA, dedicated to the assessment of specialized lending exposures, classified as the financing of commercial real estate (SPL FN).

The model is based on a list of questions covering supervisory requirements and results in the EL parameter in accordance with the values predefined by the Supervisor.

The Bank applies individualized rating sheets within a given rating model.

The individualization of rating sheets under the SPL FN consists in the fact that, depending on the type of real estate (offices, shopping centres, warehouse centres / logistics centres, developer housing projects, hotels), an appropriate, separate format of the rating sheet is used.

The rating for SPL TOP and SPL FN is supported by Bank's systems through dedicated calculation processes for this parameter.

The Bank performs transactions generating credit risk in relation to banks, credit institutions and international financial institutions within the limits of credit exposure designated for these entities. The element used in determining these limits is PD rating of the entity, obtained from Commerzbank AG and setting on the basis of a central rating model dedicated to the assessment of commercial banks.

The process of setting exposure limits for these entities is carried out using the methodology contained in the "Criteria for assessment and setting limits of banks and international financial institutions credit exposure".

The criteria include:

- a) the rating of the financial strength of the counterparty / issuer based on:
 - assessment of the probability of incurring losses by the bank / international financial institution (analysis of credit risk of assets and liabilities, analysis of liquidity risk, assessment of other relevant information indicating the possibility of bank losses),
 - assessment of the bank's ability to withstand critical situations in relation to the risks incurred (analysis of financial results, assessment of capital adequacy, assessment of other relevant information indicating the ability to withstand critical situations),
- b) rating including the assessment of counterparty / issuer integration in the group,
- c) the financial rating of the counterparty / issuer - rating including a credit risk assessment of the country of origin and country of risk of the counterparty / issuer (in accordance with the "Criteria for credit risk assessment of the country and setting the county credit exposure limit"),

An integral part of the criteria is the Business Model Risk Assessment Block consisting of:

- a) identification of the structure of used intangible assets,
- b) analysis of the features of the broadly understood business model (analysis of the intangible assets model),
- c) assessing the sensitivity of the broadly understood business model.

In addition, the criteria include:

- a) the method of setting the maximum limit of credit exposure,
- b) rules for updating temporary tenors for which limits on transactions are set,
- c) the method of setting the financial rating of the counterparty / issuer according to the shortened credit risk assessment formula,
- d) an early warning model.

Retail

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

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

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

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

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

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

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

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

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

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

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EU CRE – Qualitative disclosure requirements related to IRB models, addressing disclosure requirements of Art. 452 letters a) - c) of CRR Regulation.

| Portfolio (model name) | Model type | Scope of use | Control mechanisms | Reporting process | Most important features of the model |
|-----------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| PD models | | | | | |
| Retail exposures portfolio (PD retail rating model) | <ul style="list-style-type: none"> group model, developed locally, used locally in the Bank and in the Group (mBank Hipoteczny) statistical with expert influence | <ul style="list-style-type: none"> calculation of regulatory measures calculation of reserves calculation of the Bank's financial result / regulatory capital (AIRB) credit decisions | <ul style="list-style-type: none"> annual monitoring performed by the Modelling Unit based on internal Bank data annual validation performed by the independent Validation Unit | <ul style="list-style-type: none"> compliant with the internal Management Information System with a quarterly / half-year / annual frequency depending on the recipient Committee / Forum / Management Board and Supervisory Board the scope of reporting includes the risk assessment of the model along with a synthetic summary of the results of the last monitoring and validation of the model model quality assessment from the last reporting cycle for the model: green light | <ul style="list-style-type: none"> definitions compliant with external regulations (CRR package) and internal ones of the Bank, including definition of "bad" observation methods used in the model building process: logistic regression, WoE, kernel density estimation methods used in the model back testing process: GINI, PSI, ETLA test internal data (application and behavioural data about clients) and external (Credit Information Bureau) from at least 5-year time horizon covering all observations qualifying for the rating system were used in the model development process differences between PD and default rates result from the Bank's conservative approach, ie PD > DR |
| Corporate exposures portfolio for enterprises (RC-POL rating model) | <ul style="list-style-type: none"> group model, developed locally, used locally in the Bank and in the Group (mLeasing) statistical with expert influence | <ul style="list-style-type: none"> calculation of regulatory measures calculation of reserves calculation of the Bank's financial result / regulatory capital (AIRB) credit decisions | <ul style="list-style-type: none"> annual monitoring performed by the Modelling Unit based on internal data (Bank and Group) annual validation performed by the independent Validation Unit | <ul style="list-style-type: none"> compliant with the internal Management Information System with a quarterly / half-year / annual frequency depending on the recipient Committee / Forum / Management Board and Supervisory Board the scope of reporting includes the risk assessment of the model along with a synthetic summary of the results of the last monitoring and validation of the model model quality assessment from the last reporting cycle for the model: green light for corporates segment and yellow for small and medium enterprises segment | <ul style="list-style-type: none"> definitions compliant with external regulations (CRR package) and internal ones of the Bank, including definition of "bad" observation methods used in the model building process: logistic regression, WoE, ln(odds), kernel density estimation methods used in the model back testing process: GINI, PSI, ETLA test internal Group data (mBank and mLeasing) from at least 5-year time horizon covering all observations qualifying for the rating system were used in the model development process description of differences between PD and default rates, see below * |
| Corporate exposures portfolio for commercial banks (rating model for banks) | <ul style="list-style-type: none"> central model (origin CommerzBank AG), used locally (mBank) statistical with expert influence | <ul style="list-style-type: none"> calculation of regulatory measures calculation of reserves calculation of the Bank's financial result / | <ul style="list-style-type: none"> annual validation/monitoring performed by the CommerzBank AG with special consideration of mBank portfolio | <ul style="list-style-type: none"> compliant with the internal Management Information System with a quarterly / half-year / annual frequency depending on the recipient Committee / Forum / Management Board and Supervisory Board | <ul style="list-style-type: none"> definitions compliant with external regulations (CRR package) and internal ones of the Bank, including definition of "bad" observation methods used in the model building process: logistic regression, ln(odds), kernel density estimation |

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|-----------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| | | <p>regulatory capital (AIRB)</p> <ul style="list-style-type: none"> credit decisions | <ul style="list-style-type: none"> annual validation performed by the independent Validation Unit | <ul style="list-style-type: none"> the scope of reporting includes the risk assessment of the model along with a synthetic summary of the results of the last monitoring and validation of the model model quality assessment from the last reporting cycle for the model: green light | <ul style="list-style-type: none"> methods used in the model back testing process: AUC, GINI. in the development process internal data of CommerzBank and external data (Bankscope base, Fitch agency) from at least 5-year time horizon covering all observations eligible for the rating system were used possible differences between PD and default rates result from the specificity of the low default portfolio at mBank |
| <p>Corporate exposures portfolio for special lending of real estates (SPL-FN model)</p> | <ul style="list-style-type: none"> group model (origin mBank Hipoteczny), used locally in mBank and in the group (mBank Hipoteczny) expert model | <ul style="list-style-type: none"> calculation of regulatory measures calculation of reserves calculation of internal risk measures calculation of the Bank's financial result / regulatory capital (AIRB) credit decisions | <ul style="list-style-type: none"> annual monitoring performed by the Modelling Unit based on internal data (Bank and Group) validation performed by an independent Validation Unit in two-year cycles | <ul style="list-style-type: none"> compliant with the internal Management Information System with a quarterly / half-year / annual frequency depending on the recipient Committee / Forum / Management Board and Supervisory Board the scope of reporting includes the risk assessment of the model along with a synthetic summary of the results of the last monitoring and validation of the model model quality assessment from the last reporting cycle for the model: green light | <ul style="list-style-type: none"> definitions compliant with external regulations (CRR package) and internal ones of the Bank, including definition of "bad" observation methods used in the model building process: linear regression (least squares method) methods used in the model back testing process: GINI internal Group data (mBank and mBank Hipoteczny) from at least 5-year time horizon covering all observations qualifying for the rating system were used in the model development process |
| <p>mLeasing retail exposures portfolio (PD retail Leasing rating model)</p> | <ul style="list-style-type: none"> group model, used in the Group (mLeasing) statistical model | <ul style="list-style-type: none"> calculation of regulatory measures calculation of reserves calculation of internal risk measures calculation of the Bank's financial result / regulatory capital (AIRB) credit decisions | <ul style="list-style-type: none"> annual monitoring performed by the Modelling Unit based on internal Group data annual validation performed by the independent Validation Unit | <ul style="list-style-type: none"> compliant with the internal Management Information System with a quarterly / half-year / annual frequency depending on the recipient Committee / Forum / Management Board and Supervisory Board the scope of reporting includes the risk assessment of the model along with a synthetic summary of the results of the last monitoring and validation of the model model quality assessment from the last reporting cycle for the model: green light | <ul style="list-style-type: none"> definitions compliant with external regulations (CRR package) and internal ones of the Bank, including definition of "bad" observation methods used in the model building process: logistic regression, WoE, kernel density estimation methods used in the model back testing process: GINI, PSI, ETLA test internal Group data from at least 5-year time horizon covering all observations qualifying for the rating system were used in the model development process differences between PD and default rates result from the Bank's conservative approach, ie PD > DR |

| LGD models | | | | | |
|-------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Retail exposures portfolio (LGD model) | <ul style="list-style-type: none"> local model, developed locally, used locally in the Bank statistical with expert influence | <ul style="list-style-type: none"> calculation of regulatory measures calculation of reserves calculation of the Bank's financial result / regulatory capital (AIRB) credit decisions | <ul style="list-style-type: none"> annual monitoring performed by the Modelling Unit based on internal Bank data annual validation performed by the independent Validation Unit | <ul style="list-style-type: none"> compliant with the internal Management Information System with a quarterly / half-year / annual frequency depending on the recipient Committee / Forum / Management Board and Supervisory Board the scope of reporting includes the risk assessment of the model along with a synthetic summary of the results of the last monitoring and validation of the model model quality assessment from the last reporting cycle for the model: green light | <ul style="list-style-type: none"> definitions compliant with external regulations (CRR package) and internal ones of the Bank, including definition of default methods used in the model building process: mean conservative approach: conservative corrections and haircuts, e.g. downturn haircut, lack of recoveries after certain time in default methods used in the model back testing process: ROC, GINI, calibration of model values to empirical values internal data from at least 5-year time horizon covering all observations qualifying for the rating system were used in the model development process |
| Retail exposures portfolio (CCF model) | <ul style="list-style-type: none"> local model, developed locally, used locally in the Bank statistical model | <ul style="list-style-type: none"> calculation of regulatory measures calculation of reserves calculation of the Bank's financial result / regulatory capital (AIRB) | <ul style="list-style-type: none"> annual monitoring performed by the Modelling Unit based on internal Bank data annual validation performed by the independent Validation Unit | <ul style="list-style-type: none"> compliant with the internal Management Information System with a quarterly / half-year / annual frequency depending on the recipient Committee / Forum / Management Board and Supervisory Board the scope of reporting includes the risk assessment of the model along with a synthetic summary of the results of the last monitoring and validation of the model model quality assessment from the last reporting cycle for the model: green light | <ul style="list-style-type: none"> definitions compliant with external regulations (CRR package) and internal ones of the Bank, including definition of default methods used in the model building process: mean methods used in the model back testing process: ROC, GINI internal data from at least 5-year time horizon covering all observations qualifying for the rating system were used in the model development process |
| Corporate exposures portfolio (LGD model) | <ul style="list-style-type: none"> local model, developed locally, used locally in the Bank statistical with expert influence | <ul style="list-style-type: none"> calculation of regulatory measures calculation of reserves calculation of the Bank's financial result / regulatory capital (AIRB) credit decisions | <ul style="list-style-type: none"> annual monitoring performed by the Modelling Unit based on internal Bank data annual validation performed by the independent Validation Unit | <ul style="list-style-type: none"> compliant with the internal Management Information System with a quarterly / half-year / annual frequency depending on the recipient Committee / Forum / Management Board and Supervisory Board the scope of reporting includes the risk assessment of the model along with a synthetic summary of the results of the last monitoring and validation of the model model quality assessment from the last reporting cycle for the model: yellow light | <ul style="list-style-type: none"> definitions compliant with external regulations (CRR package) and internal ones of the Bank, including definition of default methods used in the model building process: mean, linear regression (least squares method) conservative approach: conservative corrections and haircuts, e.g. downturn haircut methods used in the model back testing process: ROC, GINI, calibration of model values to empirical values internal data from at least 5-year time horizon covering all observations qualifying for the rating system were used in the model development process |

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|---------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>Corporate exposures portfolio (CCF model)</p> | <ul style="list-style-type: none"> • local model, developed locally, used locally in the Bank • statistical model | <ul style="list-style-type: none"> • calculation of regulatory measures • calculation of reserves • calculation of the Bank's financial result / regulatory capital (AIRB) | <ul style="list-style-type: none"> • annual monitoring performed by the Modelling Unit based on internal Bank data • annual validation performed by the independent Validation Unit | <ul style="list-style-type: none"> • compliant with the internal Management Information System with a quarterly / half-year / annual frequency depending on the recipient Committee / Forum / Management Board and Supervisory Board • the scope of reporting includes the risk assessment of the model along with a synthetic summary of the results of the last monitoring and validation of the model • model quality assessment from the last reporting cycle for the model: yellow light | <ul style="list-style-type: none"> • definitions compliant with external regulations (CRR package) and internal ones of the Bank, including definition of default • methods used in the model building process: mean • methods used in the model back testing process: ROC, GINI • internal data from at least 5-year time horizon covering all observations qualifying for the rating system were used in the model development process |
| <p>Corporate exposures portfolio for commercial banks (LGD/EAD model)</p> | <ul style="list-style-type: none"> • central model (origin CommerzBank AG), used locally (mBank) • statistical model | <ul style="list-style-type: none"> • calculation of regulatory measures • calculation of reserves • calculation of the Bank's financial result / regulatory capital (AIRB) • credit decisions | <ul style="list-style-type: none"> • annual validation/monitoring performed by the CommerzBank AG with special consideration of mBank portfolio • annual validation performed by the independent Validation Unit | <ul style="list-style-type: none"> • compliant with the internal Management Information System with a quarterly / half-year / annual frequency depending on the recipient Committee / Forum / Management Board and Supervisory Board • the scope of reporting includes the risk assessment of the model along with a synthetic summary of the results of the last monitoring and validation of the model • model quality assessment from the last reporting cycle for the model: yellow light | <ul style="list-style-type: none"> • definitions compliant with external regulations (CRR package) and internal ones of CommerzBank AG, including definition of default • methods used in the model building process: mean • conservative approach: conservative corrections and haircuts, e.g. risk transfer haircut • internal data of CommerzBank AG from at least 5-year time horizon covering all observations qualifying for the rating system were used in the model development process |

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|-------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>mLeasing exposures portfolio (LGD model)</p> | <ul style="list-style-type: none"> • group model, used in the Group (mLeasing) • statistical with expert influence | <ul style="list-style-type: none"> • calculation of regulatory measures • calculation of reserves • calculation of the Bank's financial result / regulatory capital (AIRB) • credit decisions | <ul style="list-style-type: none"> • annual monitoring performed by the Modelling Unit based on internal Group data • annual validation performed by the independent Validation Unit | <ul style="list-style-type: none"> • compliant with the internal Management Information System with a quarterly / half-year / annual frequency depending on the recipient Committee / Forum / Management Board and Supervisory Board • the scope of reporting includes the risk assessment of the model along with a synthetic summary of the results of the last monitoring and validation of the model • model quality assessment from the last reporting cycle for the model: yellow light | <ul style="list-style-type: none"> • definitions compliant with external regulations (CRR package) and internal ones of the Bank and the Group, including definition of default • methods used in the model building process: mean • conservative approach: conservative corrections and haircuts, e.g. downturn haircut, lack of recoveries after certain time in default • methods used in the model back testing process: ROC, GINI, calibration of model values to empirical values • internal Group data from at least 5-year time horizon covering all observations qualifying for the rating system were used in the model development process |
|-------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|

*differences between PD and default rate values result from the data presentation schema defined in the EU-CR9 form where average PD value with number of obligors were given as at the end of the previous period (portfolio snapshot on 31/12/2016) with number of obligors for which loss event was realized in the horizon from the end of previous period (31/12/2016) to the end of current period (31/12/2017), such a scheme is adequate for models in which PD is calculated on a monthly basis but in the case of models where PD is calculated annually (as in the RC-POL model where PD is calculated at least annually, where the trigger of recalculation is obtaining of new financial statement or negative qualitative information requiring rating renewal) this indicates situation where realization of PD parameter is verified in a time horizon longer than 12 months from the moment of PD calculation – max. 23 months (as in given example: realisation of PD calculated on 15/01/2016 in EU-CR9 data set on 31/12/2016 is verified in time horizon 31/12/2016 – 31/12/2017 so up to 12 months old) what generates the occurrence of default cases in low rating classes as well as the occurrence of a DR>PD relationship in selected rating classes, additionally it should be noted that the reported portfolio is characterized by a relatively low number of defaults (about several dozen cases per year) which in the case of disaggregation of the data into 24 rating classes leads to a situation where the DR>PD relationship is determined by the occurrence of 1 more case of default

Rating systems' validation

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

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

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

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

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

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

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

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

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In the table below (with a breakdown to exposure classes) we present PD values, the number of obligors as well the default rate calculated in line with the rules described in EU CR9 form.

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EU CR9 – IRB approach – Backtesting of PD per exposure class, addressing disclosure requirements of Art. 452 letter i) of CRR Regulation.

| a) Exposure class | b) PD range | c) External rating equivalent | d) Weighted average PD | e) Arithmetic average PD by obligors | f) Number of obligors | | g) Defaulted obligors in the year | h) Of which new obligors | i) Average historical annual default rate |
|----------------------|----------------------|----------------------------------|---------------------------|-----------------------------------------|--------------------------|-----------------|--------------------------------------|-----------------------------|----------------------------------------------|
| | | | | | End of previous year | End of the year | | | |
| 09. Institutions | (0; 0,000191] | AAA | n/d | n/d | 0 | 0 | 0 | 0 | n/d |
| | (0,000191; 0,00032] | AA+ | 0,03% | 0,03% | 19 | 17 | 0 | 0 | 0,00% |
| | (0,00032; 0,000526] | AA, AA- | 0,04% | 0,04% | 16 | 13 | 0 | 0 | 0,00% |
| | (0,000526; 0,000848] | A+, A | 0,06% | 0,06% | 8 | 11 | 0 | 0 | 0,00% |
| | (0,000848; 0,00134] | A- | 0,10% | 0,10% | 19 | 9 | 0 | 0 | 0,00% |
| | (0,00134; 0,002074] | BBB+ | 0,16% | 0,16% | 7 | 6 | 0 | 0 | 0,00% |
| | (0,002074; 0,003144] | BBB | 0,23% | 0,25% | 9 | 8 | 0 | 0 | 0,00% |
| | (0,003144; 0,004666] | | 0,37% | 0,39% | 6 | 8 | 0 | 0 | 0,00% |
| | (0,004666; 0,006775] | BBB- | 0,58% | 0,55% | 8 | 10 | 0 | 0 | 0,00% |
| | (0,006775; 0,009621] | BB+ | 0,91% | 0,87% | 6 | 8 | 0 | 0 | 0,00% |
| | (0,009621; 0,013355] | BB | 1,12% | 1,05% | 5 | 3 | 0 | 0 | 0,00% |
| | (0,013355; 0,01811] | | n/d | n/d | 2 | 0 | 0 | 0 | 0,00% |
| | (0,01811; 0,023979] | BB- | 1,90% | 1,97% | 3 | 5 | 0 | 0 | 0,00% |
| | (0,023979; 0,030982] | B+ | 2,80% | 2,79% | 6 | 4 | 0 | 0 | 0,00% |
| | (0,030982; 0,03904] | | 3,49% | 3,46% | 1 | 2 | 0 | 0 | 0,10% |
| | (0,03904; 0,048571] | B | n/d | n/d | 0 | 0 | 0 | 0 | 0,00% |
| | (0,048571; 0,06043] | | 5,57% | 5,57% | 1 | 1 | 0 | 0 | 0,00% |
| | (0,06043; 0,075185] | | n/d | n/d | 0 | 0 | 0 | 0 | 0,00% |
| | (0,075185; 0,093541] | B- | n/d | n/d | 0 | 0 | 0 | 0 | 0,00% |
| | (0,093541; 0,11638] | | 10,44% | 10,49% | 0 | 3 | 0 | 0 | 0,00% |
| (0,11638; 0,144795] | CCC+ | n/d | n/d | 2 | 0 | 0 | 0 | 0,00% | |
| (0,144795; 0,180147] | | n/d | n/d | 0 | 0 | 0 | 0 | 0,00% | |
| (0,180147; 0,224131] | CCC bis, CC- | n/d | n/d | 1 | 0 | 0 | 0 | 0,00% | |

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| | | | | | | | | | |
|--|----------------------|--------------|---------|---------|-----|-----|-----|----|-------|
| | (0,224131; 1) | | 34,64% | 35,52% | 0 | 3 | 0 | 0 | 0,00% |
| | 1 | DEFAULT | 100,00% | 100,00% | 2 | 1 | 1 | 0 | n/d |
| | (0; 0,000191] | AAA | | | | | | | n/d |
| | (0,000191; 0,00032] | AA+ | 0,03% | 0,03% | 58 | 88 | 1 | 1 | 0,43% |
| | (0,00032; 0,000526] | AA, AA- | 0,04% | 0,04% | 53 | 119 | 0 | 0 | 0,00% |
| | (0,000526; 0,000848] | A+, A | 0,07% | 0,07% | 38 | 56 | 0 | 0 | 1,39% |
| | (0,000848; 0,00134] | A- | 0,11% | 0,11% | 55 | 49 | 0 | 0 | 0,00% |
| | (0,00134; 0,002074] | BBB+ | 0,17% | 0,17% | 103 | 71 | 1 | 1 | 0,72% |
| | (0,002074; 0,003144] | BBB | 0,26% | 0,25% | 133 | 119 | 0 | 0 | 0,33% |
| | (0,003144; 0,004666] | | 0,38% | 0,39% | 170 | 162 | 1 | 1 | 0,67% |
| | (0,004666; 0,006775] | BBB- | 0,56% | 0,56% | 224 | 275 | 3 | 3 | 1,49% |
| | (0,006775; 0,009621] | BB+ | 0,81% | 0,82% | 282 | 354 | 2 | 2 | 0,75% |
| | (0,009621; 0,013355] | BB | 1,13% | 1,13% | 347 | 371 | 3 | 3 | 0,74% |
| | (0,013355; 0,01811] | | 1,53% | 1,55% | 299 | 356 | 8 | 8 | 1,74% |
| | (0,01811; 0,023979] | BB- | 2,08% | 2,09% | 267 | 318 | 2 | 2 | 1,35% |
| | (0,023979; 0,030982] | B+ | 2,72% | 2,72% | 241 | 271 | 9 | 9 | 3,24% |
| | (0,030982; 0,03904] | | 3,51% | 3,47% | 156 | 159 | 12 | 12 | 4,36% |
| | (0,03904; 0,048571] | B | 4,43% | 4,42% | 133 | 153 | 1 | 1 | 2,37% |
| | (0,048571; 0,06043] | | 5,46% | 5,39% | 100 | 86 | 12 | 12 | 5,89% |
| | (0,06043; 0,075185] | | 6,59% | 6,74% | 64 | 41 | 9 | 9 | 7,15% |
| | (0,075185; 0,093541] | B- | 8,36% | 8,41% | 46 | 42 | 3 | 3 | 4,01% |
| | (0,093541; 0,11638] | | 10,42% | 10,36% | 29 | 18 | 1 | 1 | 9,06% |
| | (0,11638; 0,144795] | CCC+ | 12,60% | 12,90% | 22 | 20 | 0 | 0 | 3,70% |
| | (0,144795; 0,180147] | | 16,14% | 15,97% | 21 | 15 | 0 | 0 | 3,26% |
| | (0,180147; 0,224131] | CCC bis, CC- | 20,47% | 20,39% | 20 | 13 | 1 | 1 | 5,11% |
| | (0,224131; 1) | | 33,89% | 34,49% | 86 | 59 | 4 | 4 | 2,06% |
| | 1 | DEFAULT | 100,00% | 100,00% | 105 | 123 | 105 | 0 | n/d |
| | (0; 0,000191] | AAA | n/d | n/d | 0 | 0 | 0 | 0 | 0,00% |
| | (0,000191; 0,00032] | AA+ | 0,03% | 0,03% | 18 | 29 | 0 | 0 | 0,00% |
| | (0,00032; 0,000526] | AA, AA- | 0,04% | 0,04% | 18 | 21 | 0 | 0 | 0,00% |
| | (0,000526; 0,000848] | A+, A | 0,07% | 0,07% | 14 | 23 | 0 | 0 | 0,00% |
| | (0,000848; 0,00134] | A- | 0,11% | 0,11% | 37 | 40 | 0 | 0 | 1,79% |

 10. Corporates: thereof
SMEs

 12. Corporates: thereof
other

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| | | | | | | | | | |
|-------------------------------------------------|----------------------|--------------|---------|---------|-----|-----|-----|---|-------|
| | (0,00134; 0,002074] | BBB+ | 0,17% | 0,17% | 58 | 73 | 0 | 0 | 0,00% |
| | (0,002074; 0,003144] | BBB | 0,24% | 0,25% | 89 | 100 | 0 | 0 | 0,00% |
| | (0,003144; 0,004666] | | 0,38% | 0,39% | 160 | 151 | 0 | 0 | 0,00% |
| | (0,004666; 0,006775] | BBB- | 0,55% | 0,55% | 164 | 165 | 1 | 1 | 0,40% |
| | (0,006775; 0,009621] | BB+ | 0,83% | 0,82% | 176 | 203 | 0 | 0 | 0,49% |
| | (0,009621; 0,013355] | BB | 1,09% | 1,13% | 175 | 182 | 2 | 2 | 0,73% |
| | (0,013355; 0,01811] | | 1,53% | 1,55% | 158 | 162 | 2 | 2 | 0,59% |
| | (0,01811; 0,023979] | BB- | 2,11% | 2,08% | 127 | 134 | 3 | 3 | 0,59% |
| | (0,023979; 0,030982] | B+ | 2,67% | 2,70% | 100 | 125 | 3 | 3 | 1,18% |
| | (0,030982; 0,03904] | | 3,51% | 3,53% | 65 | 57 | 0 | 0 | 1,20% |
| | (0,03904; 0,048571] | B | 4,35% | 4,31% | 60 | 99 | 4 | 4 | 3,70% |
| | (0,048571; 0,06043] | | 5,33% | 5,36% | 48 | 53 | 0 | 0 | 1,26% |
| | (0,06043; 0,075185] | | 6,90% | 6,79% | 60 | 50 | 5 | 5 | 5,93% |
| | (0,075185; 0,093541] | B- | 8,66% | 8,37% | 32 | 54 | 1 | 1 | 3,80% |
| | (0,093541; 0,11638] | | 10,36% | 10,34% | 17 | 18 | 1 | 1 | 3,80% |
| | (0,11638; 0,144795] | CCC+ | 12,70% | 12,81% | 8 | 7 | 1 | 1 | 5,33% |
| | (0,144795; 0,180147] | | 15,30% | 16,09% | 15 | 9 | 1 | 1 | 5,47% |
| | (0,180147; 0,224131] | CCC bis, CC- | 19,83% | 20,61% | 14 | 17 | 1 | 1 | 2,52% |
| | (0,224131; 1) | | 38,30% | 45,20% | 124 | 158 | 5 | 5 | 2,73% |
| | 1 | DEFAULT | 100,00% | 100,00% | 257 | 256 | 257 | 0 | n/d |
| 13. Retail: thereof secured by mortgages / SMEs | (0; 0,000191] | AAA | n/d | n/d | 0 | 0 | 0 | 0 | 0,00% |
| | (0,000191; 0,00032] | AA+ | 0,03% | 0,03% | 0 | 1 | 0 | 0 | 0,00% |
| | (0,00032; 0,000526] | AA, AA- | 0,04% | 0,04% | 2 | 1 | 0 | 0 | 0,00% |
| | (0,000526; 0,000848] | A+, A | 0,07% | 0,07% | 2 | 3 | 0 | 0 | 0,00% |
| | (0,000848; 0,00134] | A- | 0,12% | 0,12% | 332 | 17 | 1 | 1 | 0,08% |
| | (0,00134; 0,002074] | BBB+ | 0,18% | 0,18% | 525 | 301 | 0 | 0 | 0,00% |
| | (0,002074; 0,003144] | BBB | 0,26% | 0,26% | 613 | 852 | 1 | 1 | 0,04% |
| | (0,003144; 0,004666] | | 0,39% | 0,39% | 714 | 719 | 0 | 0 | 0,09% |
| | (0,004666; 0,006775] | BBB- | 0,55% | 0,55% | 472 | 863 | 1 | 1 | 0,25% |
| | (0,006775; 0,009621] | BB+ | 0,79% | 0,79% | 294 | 293 | 1 | 1 | 0,44% |
| | (0,009621; 0,013355] | BB | 1,09% | 1,12% | 202 | 181 | 0 | 0 | 0,75% |
| | (0,013355; 0,01811] | | 1,65% | 1,63% | 167 | 176 | 1 | 1 | 0,70% |

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| | | | | | | | | | |
|--|----------------------|--------------|---------|---------|-------|-------|-----|----|--------|
| | (0,01811; 0,023979] | BB- | 2,06% | 2,06% | 117 | 95 | 1 | 1 | 1,42% |
| | (0,023979; 0,030982] | B+ | 2,72% | 2,75% | 74 | 87 | 1 | 1 | 1,63% |
| | (0,030982; 0,03904] | | 3,56% | 3,52% | 78 | 71 | 1 | 1 | 1,88% |
| | (0,03904; 0,048571] | B | 4,33% | 4,36% | 47 | 51 | 2 | 2 | 4,20% |
| | (0,048571; 0,06043] | | 5,37% | 5,45% | 33 | 43 | 1 | 1 | 2,04% |
| | (0,06043; 0,075185] | | 6,71% | 6,74% | 24 | 37 | 1 | 1 | 3,64% |
| | (0,075185; 0,093541] | B- | 8,30% | 8,49% | 39 | 40 | 2 | 2 | 1,28% |
| | (0,093541; 0,11638] | | 10,43% | 10,55% | 35 | 62 | 0 | 0 | 2,35% |
| | (0,11638; 0,144795] | CCC+ | 13,48% | 13,32% | 66 | 64 | 4 | 4 | 5,55% |
| | (0,144795; 0,180147] | | 15,58% | 15,65% | 46 | 59 | 7 | 7 | 11,30% |
| | (0,180147; 0,224131] | CCC bis, CC- | 20,60% | 20,42% | 31 | 34 | 5 | 5 | 11,24% |
| | (0,224131; 1) | | 27,97% | 27,21% | 64 | 58 | 20 | 20 | 26,81% |
| | 1 | DEFAULT | 100,00% | 100,00% | 264 | 262 | 264 | 0 | n/d |
| | (0; 0,000191] | AAA | 0,01% | 0,01% | 2 | 2 | 0 | 0 | 0,01% |
| | (0,000191; 0,00032] | AA+ | 0,03% | 0,03% | 10 | 2313 | 0 | 0 | 0,01% |
| | (0,00032; 0,000526] | AA, AA- | 0,04% | 0,04% | 1293 | 17369 | 0 | 0 | 0,03% |
| | (0,000526; 0,000848] | A+, A | 0,06% | 0,06% | 64497 | 34928 | 30 | 30 | 0,13% |
| | (0,000848; 0,00134] | A- | 0,11% | 0,11% | 27536 | 23340 | 22 | 22 | 0,08% |
| | (0,00134; 0,002074] | BBB+ | 0,17% | 0,17% | 17093 | 17270 | 16 | 16 | 0,07% |
| | (0,002074; 0,003144] | BBB | 0,25% | 0,25% | 8135 | 13559 | 20 | 20 | 0,15% |
| | (0,003144; 0,004666] | | 0,38% | 0,38% | 4959 | 8405 | 10 | 10 | 0,17% |
| | (0,004666; 0,006775] | BBB- | 0,55% | 0,55% | 2316 | 5276 | 15 | 15 | 0,32% |
| | (0,006775; 0,009621] | BB+ | 0,79% | 0,79% | 1558 | 1585 | 15 | 15 | 0,61% |
| | (0,009621; 0,013355] | BB | 1,14% | 1,15% | 1099 | 1023 | 11 | 11 | 0,82% |
| | (0,013355; 0,01811] | | 1,60% | 1,59% | 1358 | 1118 | 15 | 15 | 0,98% |
| | (0,01811; 0,023979] | BB- | 2,03% | 2,03% | 1040 | 1154 | 13 | 13 | 1,30% |
| | (0,023979; 0,030982] | B+ | 2,74% | 2,74% | 807 | 703 | 18 | 18 | 1,97% |
| | (0,030982; 0,03904] | | 3,47% | 3,48% | 703 | 571 | 22 | 22 | 2,48% |
| | (0,03904; 0,048571] | B | 4,41% | 4,37% | 606 | 535 | 26 | 26 | 3,30% |
| | (0,048571; 0,06043] | | 5,48% | 5,50% | 592 | 632 | 38 | 38 | 4,41% |
| | (0,06043; 0,075185] | | 6,68% | 6,74% | 698 | 782 | 39 | 39 | 4,52% |
| | (0,075185; 0,093541] | B- | 8,40% | 8,42% | 560 | 600 | 35 | 35 | 5,71% |

14. Retail: thereof
secured by mortgages /
non-SMEs

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| | | | | | | | | | | |
|-------------------------------------|----------------------|---------------|---------|---------|---------|-------|------|------|--------|-------|
| | (0,093541; 0,11638] | | 10,47% | 10,47% | 532 | 802 | 36 | 36 | 6,44% | |
| | (0,11638; 0,144795] | CCC+ | 13,01% | 13,05% | 458 | 514 | 41 | 41 | 6,75% | |
| | (0,144795; 0,180147] | | 15,94% | 15,99% | 430 | 362 | 58 | 58 | 9,50% | |
| | (0,180147; 0,224131] | CCC bis, CC- | 20,53% | 20,56% | 530 | 492 | 83 | 83 | 11,68% | |
| | (0,224131; 1) | | 24,47% | 24,25% | 513 | 608 | 131 | 131 | 21,93% | |
| | 1 | DEFAULT | 100,00% | 100,00% | 3411 | 3158 | 3411 | 0 | n/d | |
| 16. Retail: thereof other / SMEs | (0; 0,000191] | AAA | 0,02% | 0,01% | 10 | 23 | 0 | 0 | 0,00% | |
| | (0,000191; 0,00032] | AA+ | 0,03% | 0,03% | 54 | 75 | 0 | 0 | 0,00% | |
| | (0,00032; 0,000526] | AA, AA- | 0,04% | 0,04% | 76 | 99 | 0 | 0 | 0,00% | |
| | (0,000526; 0,000848] | A+, A | 0,07% | 0,07% | 319 | 293 | 0 | 0 | 0,00% | |
| | (0,000848; 0,00134] | A- | 0,11% | 0,11% | 716 | 372 | 1 | 1 | 0,18% | |
| | (0,00134; 0,002074] | BBB+ | 0,18% | 0,18% | 2032 | 2233 | 2 | 2 | 0,13% | |
| | (0,002074; 0,003144] | BBB | 0,26% | 0,26% | 3286 | 3609 | 3 | 3 | 0,18% | |
| | (0,003144; 0,004666] | | 0,40% | 0,40% | 5553 | 8261 | 10 | 10 | 0,18% | |
| | (0,004666; 0,006775] | BBB- | 0,56% | 0,56% | 8206 | 10280 | 25 | 25 | 0,27% | |
| | (0,006775; 0,009621] | BB+ | 0,81% | 0,81% | 9071 | 8881 | 49 | 49 | 0,49% | |
| | (0,009621; 0,013355] | BB | 1,14% | 1,14% | 8295 | 9680 | 51 | 51 | 0,67% | |
| | (0,013355; 0,01811] | | 1,57% | 1,58% | 7789 | 8451 | 75 | 75 | 0,81% | |
| | (0,01811; 0,023979] | BB- | 2,10% | 2,09% | 8021 | 6684 | 116 | 116 | 1,34% | |
| | (0,023979; 0,030982] | B+ | 2,75% | 2,76% | 5282 | 6355 | 101 | 101 | 1,66% | |
| | (0,030982; 0,03904] | | 3,47% | 3,45% | 4582 | 4984 | 151 | 151 | 3,09% | |
| | (0,03904; 0,048571] | B | 4,34% | 4,37% | 2879 | 3728 | 124 | 124 | 3,94% | |
| | (0,048571; 0,06043] | | 5,40% | 5,41% | 2056 | 2303 | 103 | 103 | 5,00% | |
| | (0,06043; 0,075185] | | 6,73% | 6,72% | 1491 | 2166 | 85 | 85 | 5,75% | |
| | (0,075185; 0,093541] | B- | 8,37% | 8,37% | 1451 | 1750 | 115 | 115 | 5,59% | |
| | (0,093541; 0,11638] | | 10,36% | 10,43% | 1172 | 1453 | 117 | 117 | 7,59% | |
| | (0,11638; 0,144795] | CCC+ | 12,94% | 13,02% | 920 | 1106 | 121 | 121 | 9,48% | |
| | (0,144795; 0,180147] | | 16,24% | 16,19% | 787 | 994 | 132 | 132 | 12,86% | |
| | (0,180147; 0,224131] | CCC bis, CC- | 20,02% | 20,07% | 743 | 935 | 139 | 139 | 16,27% | |
| | (0,224131; 1) | | 34,18% | 32,52% | 1387 | 1870 | 415 | 415 | 28,40% | |
| | | 1 | DEFAULT | 100,00% | 100,00% | 4326 | 5066 | 4326 | 0 | n/d |
| | 17. Retail: thereof | (0; 0,000191] | AAA | 0,01% | 0,01% | 287 | 760 | 0 | 0 | 0,07% |

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| | | | | | | | | | |
|----------------------|----------------------|---------|---------|--------|-------|-------|------|--------|--------|
| other / non-SMEs | (0,000191; 0,00032] | AA+ | 0,03% | 0,03% | 719 | 2526 | 0 | 0 | 0,04% |
| | (0,00032; 0,000526] | AA, AA- | 0,04% | 0,04% | 2260 | 7432 | 0 | 0 | 0,05% |
| | (0,000526; 0,000848] | A+, A | 0,07% | 0,07% | 20479 | 9159 | 14 | 14 | 0,08% |
| | (0,000848; 0,00134] | A- | 0,11% | 0,11% | 20820 | 16769 | 23 | 23 | 0,11% |
| | (0,00134; 0,002074] | BBB+ | 0,17% | 0,17% | 39328 | 44302 | 52 | 52 | 0,09% |
| | (0,002074; 0,003144] | BBB | 0,26% | 0,26% | 49781 | 57947 | 80 | 80 | 0,12% |
| | (0,003144; 0,004666] | | 0,39% | 0,38% | 38366 | 55712 | 110 | 110 | 0,22% |
| | (0,004666; 0,006775] | BBB- | 0,57% | 0,57% | 43894 | 51426 | 194 | 194 | 0,31% |
| | (0,006775; 0,009621] | BB+ | 0,81% | 0,81% | 44671 | 49794 | 323 | 323 | 0,56% |
| | (0,009621; 0,013355] | BB | 1,14% | 1,14% | 38312 | 45162 | 337 | 337 | 0,73% |
| | (0,013355; 0,01811] | | 1,56% | 1,57% | 37832 | 45344 | 542 | 542 | 1,09% |
| | (0,01811; 0,023979] | BB- | 2,08% | 2,08% | 33370 | 36256 | 545 | 545 | 1,48% |
| | (0,023979; 0,030982] | B+ | 2,72% | 2,72% | 27930 | 32210 | 545 | 545 | 1,71% |
| | (0,030982; 0,03904] | | 3,44% | 3,45% | 32106 | 26018 | 742 | 742 | 2,13% |
| | (0,03904; 0,048571] | B | 4,32% | 4,33% | 16891 | 17408 | 679 | 679 | 3,12% |
| | (0,048571; 0,06043] | | 5,40% | 5,39% | 10458 | 11142 | 480 | 480 | 4,37% |
| | (0,06043; 0,075185] | | 6,72% | 6,73% | 6980 | 9011 | 425 | 425 | 5,37% |
| | (0,075185; 0,093541] | B- | 8,38% | 8,38% | 5615 | 6704 | 400 | 400 | 6,45% |
| | (0,093541; 0,11638] | | 10,42% | 10,43% | 4202 | 4901 | 432 | 432 | 8,41% |
| | (0,11638; 0,144795] | CCC+ | 13,01% | 13,04% | 2921 | 3465 | 380 | 380 | 10,72% |
| (0,144795; 0,180147] | 16,10% | | 16,14% | 2656 | 3024 | 490 | 490 | 14,10% | |
| (0,180147; 0,224131] | CCC bis, CC- | 20,13% | 20,18% | 2266 | 2495 | 559 | 559 | 18,39% | |
| (0,224131; 1) | | 30,52% | 31,70% | 3280 | 3543 | 1230 | 1230 | 30,60% | |
| 1 | DEFAULT | 100,00% | 100,00% | 25360 | 27103 | 25360 | 0 | n/d | |

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The following table presents the average model LGD values as of 31.12.2017 for retail mortgage, retail non-mortgage, corporate and commercial banks and mLeasing portfolio based on long-term historical series for non-defaulted exposures and compared with observed (realized) loss rates based on historical observation.

| Indicators | Retail mortgages exposures | Retail non-mortgages exposures | Corporate exposures | Commercial banks exposures | mLeasing exposures |
|---------------------------------------------|----------------------------|--------------------------------|---------------------|----------------------------|--------------------|
| Mean model LGD (31.12.2017) | 19,91% | 45,95% | 42,17% | 47,06% | 15,64% |
| Mean model LGD weighted by EAD (31.12.2017) | 25,08% | 49,58% | 43,75% | 44,52% | 15,91% |
| Mean empirical LGD* | 16,20% | 36,99% | 39,60% | 17,60% | 11,44% |
| Mean empirical LGD weighted by EAD* | 21,39% | 45,98% | 31,53% | 17,60% | 13,95% |

* Retail mortgages exposures and Retail non-mortgages exposures (01.2006-06.2017), Corporate exposures (01.2006-10.2017), Commercial banks exposures (01.2006 - 06.2016), mLeasing exposures (01.2007-03.2017)

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

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5.4. Supervisory requirements regarding capital ratios

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

PFSA imposed higher minimum levels regarding capital ratios to be met by banks in Poland, which were binding in particular as of December 31st, 2017: 12% for total capital ratio and 9% for Tier 1 capital ratio.

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 Macroprudential Supervision over the Financial System and Crisis Management in the Financial System (Act) and with an update of the Banking Law. The act stipulates capital buffers banks in Poland should meet once buffers are implemented by competent authorities indicated in the Act.

As of 31 December 2017 mBank Group was obliged to ensure adequate own funds to meet conservation capital buffer of 1,25% of total risk exposure amount, as defined in the Act.

As of the end of 2017 the countercyclical capital buffer rate set for relevant exposures in Poland according with the article 83 of the Act amounted to 0%. The ratio shall be effective until it is changed by way of an ordinance of the Minister of Finance.

mBank Group calculates the bank-specific countercyclical capital buffer in accordance with the provisions of the Act as the weighted average of the countercyclical buffer rates that apply in the countries where the relevant credit exposures of the Group are located. Exposures of foreign branches in Czech Republic and in Slovakia, where countercyclical buffer rates as of 31 December 2017 amounted to 0,5%, had an impact on the mBank Group specific countercyclical capital buffer.

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

| | 31.12.2017 |
|----------------------------------------------------------|------------|
| Total risk exposure amount | 68 031 807 |
| Institution specific countercyclical buffer rate (%) | 0,02045% |
| Institution specific countercyclical buffer requirement* | 13 919 |

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

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

| Breakdown by country: | General credit exposures | | Trading book exposures | | Securitisation exposures | | | Own funds requirements | | | Own funds requirements weight | Countercyclical capital buffer rate |
|-----------------------|--------------------------|------------------------|------------------------------------------------------------------|-----------------------------------------------------|--------------------------|------------------------|------------------------------------|----------------------------------|------------------------------------|------------------|-------------------------------|-------------------------------------|
| | Exposure value for SA | Exposure value for IRB | Sum of long and short positions of trading book exposures for SA | Value of trading book exposures for internal models | Exposure value for SA | Exposure value for IRB | of which: General credit exposures | of which: Trading book exposures | of which: Securitisation exposures | Total | Total | [%] |
| 1 | Poland | 14 828 385 | 83 155 193 | 1 809 290 | | | 4 436 894 | 35 094 | | 4 471 988 | 95,00200 | 0,0000 |
| 2 | Czech Republic | 3 632 633 | 7 461 | | | | 144 326 | | | 144 326 | 3,06600 | 0,5000 |
| 3 | Slovakia | 834 063 | 86 | | | | 34 920 | | | 34 920 | 0,74200 | 0,5000 |
| 4 | Luxembourg | 252 213 | | 2717 | | | 20 177 | 0 | | 20 177 | 0,42900 | 0,0000 |
| 5 | Netherlands | 2 | 70 334 | 1735 | | | 5 239 | 139 | | 5 378 | 0,11400 | 0,0000 |
| 6 | Germany | 73 | 88 946 | | | | 5 248 | | | 5 248 | 0,11100 | 0,0000 |
| 7 | United States of America | 46 702 | 22813 | | | | 4 476 | | | 4 476 | 0,09500 | 0,0000 |
| 8 | Great Britain | 92508 | 3 535 | | | | 4 162 | | | 4 162 | 0,08800 | 0,0000 |
| 9 | Sweden | 41 418 | 222 | | | | 3 319 | | | 3 319 | 0,07100 | 2,0000 |
| 10 | Cyprus | 30663 | 17 486 | | | | 3 319 | | | 3 319 | 0,07100 | 0,0000 |
| 11 | Malta | 69 | 30239 | | | | 2777 | | | 2777 | 0,05900 | 0,0000 |
| 12 | Bahama | 29072 | | | | | 2 326 | | | 2 326 | 0,04900 | 0,0000 |
| 13 | Russian Federation | 51 742 | 9561 | | | | 2070 | | | 2070 | 0,04400 | 0,0000 |
| 14 | Austria | 32 | 31 476 | | | | 1860 | | | 1860 | 0,04000 | 0,0000 |
| 15 | Thailand | 8 490 | | | | | 340 | | | 340 | 0,00700 | 0,0000 |
| 16 | Ireland | 0 | 5307 | | | | 266 | | | 266 | 0,00600 | 0,0000 |
| 17 | Belgium | 1974 | | | | | 159 | | | 159 | 0,00300 | 0,0000 |
| 18 | France | 146 | 896 | | | | 76 | | | 76 | 0,00200 | 0,0000 |
| 19 | Switzerland | 564 | 341 | | | | 22 | | | 22 | 0,00000 | 0,0000 |
| 20 | Italy | 92 | | | | | 7 | | | 7 | 0,00000 | 0,0000 |
| 21 | Israel | 53 | 697 | | | | 7 | | | 7 | 0,00000 | 0,0000 |
| 22 | Austria | 0 | 81 | | | | 6 | | | 6 | 0,00000 | 0,0000 |
| 23 | Danemark | 45 | | | | | 4 | | | 4 | 0,00000 | 0,0000 |
| 24 | Hungary | 0 | 119 | | | | 3 | | | 3 | 0,00000 | 0,0000 |
| 25 | Andorra | 0 | 112 | | | | 3 | | | 3 | 0,00000 | 0,0000 |
| 26 | Spain | 0 | 62 | | | | 2 | | | 2 | 0,00000 | 0,0000 |
| 27 | Estonia | 22 | | | | | 2 | | | 2 | 0,00000 | 0,0000 |
| 28 | Lichtenstein | 20 | | | | | 2 | | | 2 | 0,00000 | 0,0000 |
| 29 | Indonesia | | 23 | | | | 1 | | | 1 | 0,00000 | 0,0000 |
| 30 | Portugal | | 56 | | | | 1 | | | 1 | 0,00000 | 0,0000 |
| 31 | Norway | 0 | 18 | | | | 1 | | | 1 | 0,00000 | 2,0000 |
| 32 | Other | 10 | 22 | 0 | | | 1 | | | 1 | 0,00000 | 0,0000 |
| | Total | 19 850 991 | 83 445 086 | 1 813 742 | 0 | 0 | 4 672 016 | 35 233 | 0 | 4 707 249 | 100 | |

In 2016 Bank received an administrative decision of the PFSA (KNF), in which mBank has been identified as other systemically important institution (O-SII). mBank was a subject to a capital buffer which on the basis of KNF administrative decision of December 19th, 2017 amounted to 0,75% of the total risk exposure amount, calculated in accordance with article 92(3) of CRR Regulation, to be maintained on individual and consolidated levels. Bank has applied the required capital buffer defined in the December 2017 decision to 2017 year end data.

Consequently, the combined buffer requirement set for the mBank Group as of the end of 2017 amounted to 2,02% of the total risk exposure amount.

Additionally, as a result of risk assessment carried out in 2017 by the PFSA within the supervisory review and evaluation process (SREP), in particular with regard to the evaluation of risk related to the portfolio of foreign exchange retail mortgage loans, mBank Group received an individual recommendation to maintain own funds on the consolidated level to cover additional capital requirement of 3,53% in order to mitigate the risk and 2,65% for Tier 1 capital (on individual basis: 4,10% and 3,07% respectively). Additional capital requirement in Pillar II set by KNF in 2017 encompasses also additional risk factors related to the FX mortgage loan portfolio such as operational risk, market risk or risk of collective default of borrowers.

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

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

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

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- the basis requirement of PFSA addressed to banks in Poland to maintain the total capital ratio of 12% and the Tier 1 ratio of 9%;
- the combined buffer requirement of additional 2,02%.
- the additional capital charge in Pillar II on consolidated basis associated with the portfolio of FX housing loans: 3,53% at the level of total capital ratio and 2,65% at the level of Tier 1 capital (on individual basis: 4,10% and 3,07% respectively);

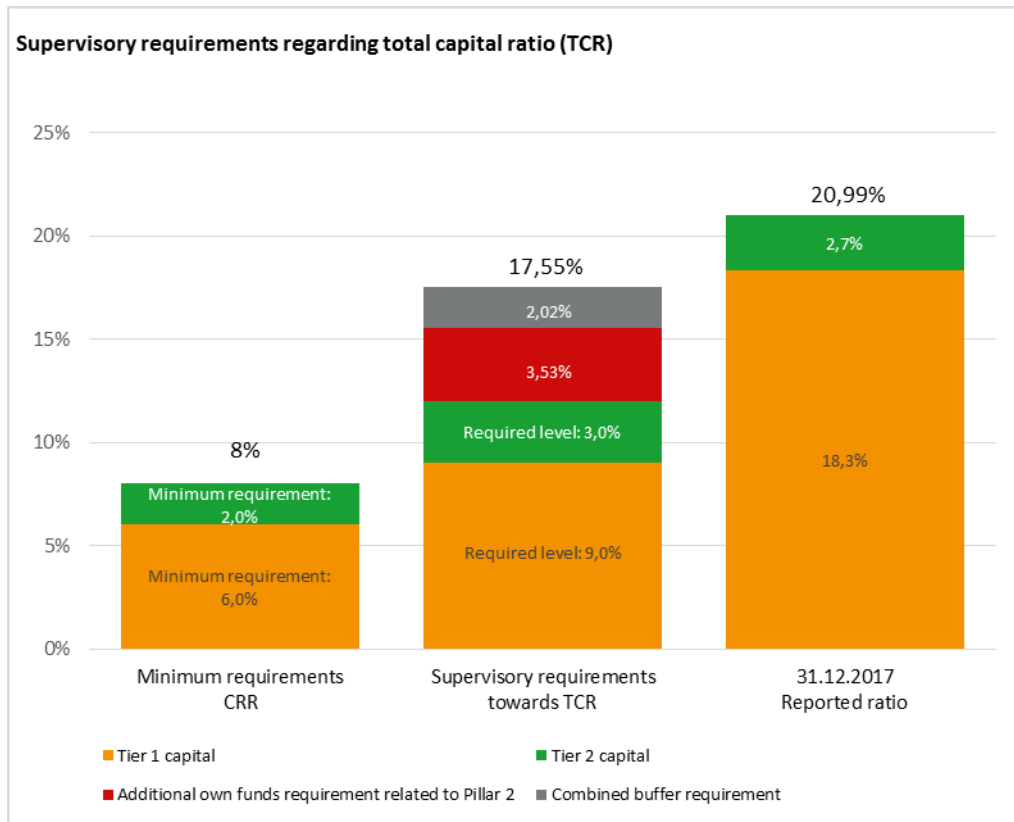
In 2017, capital ratios on consolidated basis and individual basis were above the required values.

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

| Capital ratio | 31.12.2017 | | 31.12.2016 | |
|---------------------------|----------------|----------------|----------------|----------------|
| | Required level | Reported level | Required level | Reported level |
| Total capital ratio (TCR) | 17,55% | 20,99% | 17,00% | 20,29% |
| Tier 1 ratio | 13,67% | 18,31% | 13,19% | 17,32% |

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

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5.5. Quantitative data regarding capital adequacy

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

Total risk exposure amount of mBank Group consists of:

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

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The template presents all components of the total risk exposure amount of mBank Group, a denominator for capital ratios calculated according with art. 92 of CRR Regulation.

EU OV1 – Overview of RWAs, addressing disclosure requirements of art. 438 letters c) to f) of CRR Regulation.

| | | | RWAs (in PLN thousand) | Minimal capital requirements (in PLN thousand) |
|-------------------------------------|-----------|-----------------------------------------------------------------------------------------------|-----------------------------------------|---------------------------------------------------------------------------|
| | | | 31.12.2017 | |
| | 1 | Credit risk (excluding CCR) | 59 487 759 | 4 759 021 |
| Article 438(c)(d) | 2 | Of which the standardised approach | 14 170 444 | 1 133 636 |
| Article 438(c)(d) | 3 | Of which the foundation IRB (FIRB) approach | 0 | 0 |
| Article 438(c)(d) | 4 | The amount of the Group institution-specific countercyclical capital buffer (in PLN thousand) | 0 | 0 |
| Article 438(d) | 5 | Of which equity IRB under the simple risk-weighted approach or the IMA | 45 317 315 | 3 625 385 |
| art. 107 art. 438 lit. c) i d) | 6 | CCR | 831 237 | 66 498 |
| art. 438 lit. c) i d) | 7 | Of which mark to market | 577 378 | 46 190 |
| art. 438 lit. c) i d) | 8 | Of which original exposure | 0 | 0 |
| | 9 | Of which the standardised approach | 0 | 0 |
| | 10 | Of which internal model method (IMM) | 0 | 0 |
| art. 438 lit. c) i d) | 11 | Of which risk exposure amount for contributions to the default fund of a CCP | 1 215 | 97 |
| art. 438 lit. c) i d) | 12 | Of which CVA | 252 644 | 20 211 |
| art. 438 lit. e) | 13 | Settlement risk | 0 | 0 |
| art. 449 lit. o) i i) | 14 | Securitisation exposures in the banking book (after the cap) | 0 | 0 |
| | 15 | Of which IRB approach | 0 | 0 |
| | 16 | Of which IRB supervisory formula approach (SFA) | 0 | 0 |
| | 17 | Of which internal assessment approach (IAA) | 0 | 0 |
| | 18 | Of which standardised approach | 0 | 0 |
| art. 438 lit. e) | 19 | Market risk | 759 117 | 60 729 |
| | 20 | Of which the standardised approach | 759 117 | 60 729 |
| | 21 | Of which IMA | 0 | 0 |
| art. 438 lit. e) | 22 | Large exposures | 0 | 0 |
| art. 438 lit. f) | 23 | Operational risk | 6 938 734 | 555 099 |
| | 24 | Of which basic indicator approach | 0 | 0 |
| | 25 | Of which standardised approach | 6 938 734 | 555 099 |
| | 26 | Of which advanced measurement approach | 0 | 0 |
| art. 437 ust. 2), art. 48 i art. 60 | 27 | Amounts below the thresholds for deduction (subject to 250% risk weight) | 14 960 | 1 197 |
| art. 500 | 28 | Floor adjustment | 0 | 0 |
| | 29 | Total | 68 031 807 | 5 442 544 |

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EU CR10 – IRB, specialised lending and equities, addressing disclosure requirements of Art. 438 and art. 452 letters d) and e) of CRR Regulation.

mBank Group does not apply AIRB approach to calculate risk weighted assets for equity exposures.

| Specialised lending | | | | | | | |
|------------------------------------------------|---------------------------------|--------------------------|--------------------------|-------------|-----------------|-----------|----------------------|
| Regulatory categories | Remaining maturity | On- balance-sheet amount | Off-Balance-sheet amount | Risk weight | Exposure amount | RWAs | Expected losses |
| Category 1 | Less than 2.5 years | 0 | 0 | 50% | 0 | 0 | 0 |
| | Equal to or more than 2.5 years | 59 162 | 0 | 70% | 59 162 | 41 413 | 237 |
| Category 2 | Less than 2.5 years | 1 069 757 | 615 471 | 70% | 1 215 733 | 845 970 | 4 865 |
| | Equal to or more than 2.5 years | 4 967 405 | 1 211 298 | 90% | 4 968 617 | 4 462 858 | 39 749 |
| Category 3 | Less than 2.5 years | 90 082 | 5 713 | 115% | 91 760 | 103 208 | 2 569 |
| | Equal to or more than 2.5 years | 233 394 | 0 | 115% | 233 394 | 268 403 | 6 535 |
| Category 4 | Less than 2.5 years | 0 | 0 | 250% | 0 | 0 | 0 |
| | Equal to or more than 2.5 years | 640 | 0 | 250% | 640 | 1 599 | 51 |
| Category 5 | Less than 2.5 years | 222 448 | 0 | 0 | 222 448 | 0 | 111 224 |
| | Equal to or more than 2.5 years | 188 789 | 0 | 0 | 188 789 | 0 | 94 394 |
| Total | Less than 2.5 years | 1 382 287 | 621 184 | | 1 529 941 | 949 178 | 118 658 |
| | Equal to or more than 2.5 years | 5 449 390 | 1 211 298 | | 5 450 602 | 4 774 273 | 140 966 |
| Equity under the simple risk-weighted approach | | | | | | | |
| Categories | | On- balance-sheet amount | Off-Balance-sheet amount | Risk weight | Exposure amount | RWAs | Capital requirements |
| Private equity exposures | | | | 190% | | | |
| Exchange-traded equity exposures | | | | 290% | | | |
| Other equity exposures | | | | 370% | | | |
| Total | | | | | | | |

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EU CR8 – RWA flow statements of credit risk exposures, including IRB approach, addressing disclosure requirements of Art. 438 letter d) of CRR Regulation.

| <i>mBank Group in PLN m</i> | | Risk weighted exposure amount for credit, counterparty credit risk, including supervisory floors | Capital requirements |
|---------------------------------|----------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------|----------------------|
| 1 | Risk weighted exposure amount as of 31 December 2016 | 57 362 | 4 589 |
| 2 | Asset size | 3 240 | 260 |
| 3 | Asset quality | 248 | 20 |
| 4 | AIRB model updates | 740 | 59 |
| 5 | Methodology and policy | -681 | -54 |
| 6 | Acquisitions and disposals | 0 | 0 |
| 7 | Foreign exchange movements | -1 372 | -110 |
| 8 | Other | 391 | 31 |
| 9 | Risk-weighted exposure amount as of 31 December 2017. | 60 081 | 4 806 |

Asset size

The category covers structural changes of the credit portfolio: new and matured credit exposures and changes related to the scope of subsidiaries subject to prudential consolidation. In 2017, there was a significant decline in the value of foreign currency mortgage loans (ML) related to part of the credit portfolio which has been repaid by clients. In addition, there was an increase in retail non-mortgage lending and in corporate lending. During 2017 some part of the retail default credit portfolio was sold.

Asset quality

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

Model updates

In 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 2017.

The coverage of the credit portfolio of mBank Group by AIRB approach amounted to 85% at the end of 2017, based on risk-weighted assets. As of 31 December 2017 the AIRB approach was applied to the calculation of own funds requirement for credit and counterparty credit risk for the following portfolios:

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

- mLeasing credit exposures,
- 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.

In the case of mBank retail microenterprises mortgage loan portfolio and commercial bank exposures high significance conditions specified by the bank supervision have been met which has to be confirmed by supervisory authority.

In 2017, mBank Group received confirmation from ECB and PFSA it has fulfilled the high significance conditions specified in the conditional consent for using the advanced internal rating based approach to calculate the capital requirement for credit risk for mBank retail non-mortgage exposures. This allows to fully apply the AIRB approach to calculate the capital requirement for credit risk for the indicated portfolio without any limitations.

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The percentage coverage of the Group's loan portfolios by the AIRB approach is presented below, addressing disclosure requirements of art. 452 letter. a) of CRR Regulation.

| AIRB stage | Asset class | % share in risk-weighted assets (% of RWA STA) |
|------------------------------|----------------------------------------------------------------------------------------------|------------------------------------------------|
| AIRB first stage portfolios | mBank exposures, including: | 69% |
| | Corporate exposures | 22% |
| | Specialised lending exposures – income producing real estate | 2% |
| | Retail exposures – mortgage loans | 32% |
| | Retail exposures – non-mortgage loans | 8% |
| | Retail exposures of microenterprises – mortgage loans | 1% |
| | Retail exposures of microenterprises – non-mortgage loans | 2% |
| | Bank exposures | 1% |
| | Exposures of mBank Hipoteczny – specialised lending exposures (income producing real estate) | 5% |
| | Exposures of mLeasing | 7% |
| | Non-credit assets | 4% |
| | AIRB first stage | 85% |
| Roll-out portfolios | mBank – other specialised lending exposures | 2% |
| | mBank Hipoteczny - Retail exposures – mortgage loans | 3% |
| | Roll-out | 5% |
| Permanent partial use | | 10% |
| Total | | 100% |

Methodology and policy

In 2017, the Resolution of the Ministry of Development and Finance of May 25th, 2017 regarding higher risk weight for exposures secured by mortgages (concerning mainly foreign exchange mortgage exposures) was implemented. The increase in risk weight from 100% to 150% for FX exposures secured by mortgages on immovable property under standardised approach had no impact on the Group capital charges as the Group applies advanced internal rating based approach for the given portfolio. However the accompanying change, implemented according with the PFSA communication of September 19th, 2017, with regard to the application of the preferential risk weight (Art. 125 point 1 letter a of CRR Regulation) for the exposures fully and completely secured by mortgages on residential property up to 80% of the market value of the property had a significant influence on Group RWAs.

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 2017.

Templates below provide more information on risk-weighted assets, applied approaches to calculate RWA and the scope of credit risk mitigation techniques in place.

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Information about the structure of risk-weighted assets

Templates below provide more information on risk-weighted assets, applied approaches to calculate RWA and the scope of credit risk mitigation techniques in place.

EU CR4 – Standardised approach – Credit risk exposure and CRM effects, addressing disclosure requirements of art. 453 letter g) of CRR Regulation:

| | | a) | | b) | | c) | | d) | | e) | | f) | |
|------------------|-----------------------------------------------------------------|------------------------------|--------------------------|----------------------------|--------------------------|----------------------|---------------|----|--|----|--|----|--|
| | | Exposures before CCF and CRM | | Exposures post CCF and CRM | | RWAs and RWA density | | | | | | | |
| Exposure classes | | On-balance-sheet amount | Off-balance-sheet amount | On-balance-sheet amount | Off-balance-sheet amount | RWAs | RWA density | | | | | | |
| 1 | Central governments or central banks | 36 006 878 | 2 907 | 36 068 009 | 593 | 30 116 | 0,08% | | | | | | |
| 2 | Regional government or local authorities | 738 834 | 5 455 | 974 335 | 1 091 | 195 085 | 20,00% | | | | | | |
| 3 | Public sector entities | 87 494 | 24 989 | 26 177 | 11 604 | 19 850 | 52,54% | | | | | | |
| 4 | Multilateral development banks | 935 526 | 0 | 935 526 | 0 | 0 | 0,00% | | | | | | |
| 5 | International organisations | 0 | 0 | 0 | 0 | 0 | 0 | | | | | | |
| 6 | Institutions | 272 044 | 7 146 | 371 673 | 1 225 | 180 358 | 48,37% | | | | | | |
| 7 | Corporates | 6 944 970 | 4 195 454 | 6 165 751 | 1 226 249 | 7 326 842 | 99,12% | | | | | | |
| 8 | Retail | 2 697 023 | 726 746 | 2 697 023 | 205 979 | 2 175 102 | 74,93% | | | | | | |
| 9 | Secured by mortgages on immovable property | 8 524 981 | 63 483 | 8 524 981 | 31 609 | 3 543 293 | 41,41% | | | | | | |
| 10 | Exposures in default | 364 341 | 14 624 | 303 453 | 5 226 | 436 300 | 141,34% | | | | | | |
| 11 | Exposures associated with particularly high risk | 33 389 | 0 | 33 389 | 0 | 50 084 | 150,00% | | | | | | |
| 12 | Covered bonds | 0 | 0 | 0 | 0 | 0 | 0,00% | | | | | | |
| 13 | Institutions and corporates with a short-term credit assessment | 0 | 0 | 0 | 0 | 0 | 0,00% | | | | | | |
| 14 | Collective investment undertakings | 160 | 0 | 160 | 0 | 160 | 100,00% | | | | | | |
| 15 | Equity | 182 590 | 0 | 182 590 | 0 | 191 566 | 104,92% | | | | | | |
| 16 | Other items | 30 446 | 12 | 30 446 | 12 | 30 458 | 100,00% | | | | | | |
| 17 | Total | 56 818 676 | 5 040 816 | 56 313 513 | 1 483 588 | 14 179 214 | 24,53% | | | | | | |

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EU CR5 - Standardised approach, addressing disclosure requirements of art. 444 letter e) of CRR Regulation and presents regulatory exposure values post conversion factor and post risk mitigation techniques for a part of credit portfolio where Group applies standardized approach, broken down by assets classes and risk weights:

| | Exposure classes | Risk weight | | | | | | | | |
|-----------|-----------------------------------------------------------------|-------------------|----------|----------|----------|----------------|------------------|----------------|----------|------------------|
| | | 0% | 2% | 4% | 10% | 20% | 35% | 50% | 70% | 75% |
| 1 | Central governments or central banks | 36 008 371 | 0 | 0 | 0 | 0 | 0 | 60 231 | 0 | 0 |
| 2 | Regional government or local authorities | 0 | 0 | 0 | 0 | 975 426 | 0 | 0 | 0 | 0 |
| 3 | Public sector entities | 0 | 0 | 0 | 0 | 0 | 0 | 35 862 | 0 | 0 |
| 4 | Multilateral development banks | 935 526 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 5 | International organisations | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 6 | Institutions | 0 | 0 | 0 | 0 | 21 103 | 0 | 351 314 | 0 | 0 |
| 7 | Corporates | 0 | 0 | 0 | 0 | 0 | 0 | 92 694 | 0 | 0 |
| 8 | Retail | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 2 902 949 |
| 9 | Secured by mortgages on immovable property | 0 | 0 | 0 | 0 | 0 | 7 496 339 | 292 133 | 0 | 0 |
| 10 | Exposures in default | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 11 | Exposures associated with particularly high risk | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 12 | Covered bonds | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 13 | Institutions and corporates with a short-term credit assessment | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 14 | Collective investment undertakings | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 15 | Equity | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 16 | Other items | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 17 | Total | 36 943 897 | 0 | 0 | 0 | 996 529 | 7 496 339 | 832 234 | 0 | 2 902 949 |

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| | Exposure classes | Risk weight | | | | | Others | Deducted | Total | Of which unrated |
|-----------|-----------------------------------------------------------------|------------------|----------------|--------------|----------|----------|----------|----------|-------------------|-------------------|
| | | 100% | 150% | 250% | 370% | 1250% | | | | |
| 1 | Central governments or central banks | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 36 068 602 | 1 487 297 |
| 2 | Regional government or local authorities | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 975 426 | 237 846 |
| 3 | Public sector entities | 1 919 | 0 | 0 | 0 | 0 | 0 | 0 | 37 781 | 1 916 |
| 4 | Multilateral development banks | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 935 526 | |
| 5 | International organisations | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | |
| 6 | Institutions | 481 | | 0 | 0 | 0 | 0 | 0 | 372 898 | 215 996 |
| 7 | Corporates | 7 299 306 | | 0 | 0 | 0 | 0 | 0 | 7 392 000 | 7 284 840 |
| 8 | Retail | 15 | 38 | 0 | 0 | 0 | 0 | 0 | 2 903 002 | 2 903 002 |
| 9 | Secured by mortgages on immovable property | 752 542 | 15 576 | 0 | 0 | 0 | 0 | 0 | 8 556 590 | 8 556 590 |
| 10 | Exposures in default | 53 439 | 255 240 | 0 | 0 | 0 | 0 | 0 | 308 679 | 308 679 |
| 11 | Exposures associated with particularly high risk | | 33 389 | 0 | 0 | 0 | 0 | 0 | 33 389 | 33 389 |
| 12 | Covered bonds | 0 | | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 13 | Institutions and corporates with a short-term credit assessment | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 14 | Collective investment undertakings | 160 | 0 | 0 | 0 | 0 | 0 | 0 | 160 | 160 |
| 15 | Equity | 176 606 | 0 | 5 984 | 0 | 0 | 0 | 0 | 182 590 | 182 590 |
| 16 | Other items | 30 458 | 0 | 0 | 0 | 0 | 0 | 0 | 30 458 | 30 458 |
| 17 | Total | 8 314 926 | 304 243 | 5 984 | 0 | 0 | 0 | 0 | 57 797 101 | 21 242 763 |

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EU CR6 – IRB approach – Credit risk exposures by exposure class and PD range, addressing disclosure requirements of art. 452 letter d) to g) and j) of CRR Regulation.

The table below presents exposure values, the amount of undrawn commitments, the average CCF, PD and LGD in percentage, risk-weighted exposure values for particular exposure classes for a part of credit portfolio where Group applies AIRB approach.

| | a | b | c | d | e | f | g | h | i | j | k | l |
|-----------------------|-----------------------------------------------|-------------------------------------|---------------|---------------------------|--------------|--------------------|---------------|------------------|------------------|---------------|---------------|----------------------------------|
| PD scale | Original on-balance-sheet gross exposures | Off-balance-sheet exposures pre-CCF | Average CCF | EAD post CRM and post CCF | Average PD | Number of obligors | Average LGD | Average maturity | RWAs | RWA density | EL | Value adjustments and provisions |
| Exposure class | Retail mortgage portfolio (microfirms) | | | | | | | | | | | |
| from 0.00 to 0.15 | 6 650 | 3 952 | 65,99% | 9 258 | 0,12% | 30 | 46,51% | - | 938 | 10,13% | 5 | |
| from 0.15 to 0.25 | 208 036 | 14 348 | 82,47% | 219 869 | 0,22% | 618 | 30,44% | - | 22 945 | 10,44% | 145 | |
| from 0.25 to 0.50 | 626 513 | 77 465 | 93,94% | 699 285 | 0,37% | 1 894 | 30,56% | - | 108 284 | 15,48% | 793 | |
| from 0.50 to 0.75 | 376 517 | 43 638 | 99,70% | 420 025 | 0,59% | 1 187 | 31,03% | - | 92 423 | 22,00% | 774 | |
| from 0.75 to 2.50 | 393 584 | 46 748 | 113,66% | 446 717 | 1,33% | 1 294 | 31,47% | - | 168 492 | 37,72% | 1 870 | |
| from 2.50 to 10.00 | 204 752 | 6 147 | 107,75% | 211 376 | 4,76% | 493 | 32,90% | - | 171 505 | 81,14% | 3 210 | |
| from 10.00 to 100.00 | 119 683 | 943 | 90,42% | 120 536 | 18,11% | 296 | 29,88% | - | 153 902 | 127,68% | 6 749 | |
| 100.00 (Default) | 179 151 | 272 | 0,00% | 179 151 | 100,00% | 342 | 56,73% | - | 330 037 | 184,22% | 75 442 | |
| Subtotal | 2 114 886 | 193 513 | 98,87% | 2 306 217 | 9,65% | 6 154 | 33,09% | - | 1 048 526 | 45,47% | 88 988 | 80 798 |

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| Exposure class | Retail mortgage portfolio (natural persons) | | | | | | | | | | | | |
|----------------------|-------------------------------------------------|------------------|---------------|-------------------|--------------|----------------|---------------|----------|------------------|---------------|----------------|----------------|--|
| | from 0.00 to 0.15 | 11 730 590 | 106 361 | 50,36% | 11 784 155 | 0,08% | 50 795 | 24,46% | - | 619 695 | 5,26% | 2 393 | |
| from 0.15 to 0.25 | 3 989 273 | 40 106 | 59,06% | 4 012 959 | 0,19% | 15 150 | 24,99% | - | 415 765 | 10,36% | 1 944 | | |
| from 0.25 to 0.50 | 3 301 204 | 50 241 | 70,33% | 3 336 539 | 0,35% | 12 322 | 25,24% | - | 533 265 | 15,98% | 2 919 | | |
| from 0.50 to 0.75 | 790 127 | 11 745 | 61,79% | 797 385 | 0,59% | 2 860 | 25,61% | - | 190 218 | 23,86% | 1 215 | | |
| from 0.75 to 2.50 | 944 394 | 12 410 | 63,39% | 952 260 | 1,41% | 3 514 | 25,53% | - | 398 418 | 41,84% | 3 446 | | |
| from 2.50 to 10.00 | 879 036 | 4 318 | 53,19% | 881 333 | 5,61% | 2 986 | 26,03% | - | 826 131 | 93,74% | 12 928 | | |
| from 10.00 to 100.00 | 596 911 | 2 201 | 50,07% | 598 013 | 17,20% | 1 822 | 27,41% | - | 924 166 | 154,54% | 28 539 | | |
| 100.00 (Default) | 965 614 | 1 187 | 0,00% | 965 614 | 100,00% | 2 693 | 55,95% | - | 1 624 645 | 168,25% | 414 721 | | |
| Subtotal | 23 197 149 | 228 569 | 57,36% | 23 328 258 | 4,99% | 92 142 | 26,18% | - | 5 532 303 | 23,72% | 468 105 | 440 348 | |
| Exposure class | Retail non-mortgage portfolio (microfirms) | | | | | | | | | | | | |
| | from 0.00 to 0.15 | 41 671 | 57 713 | 81,59% | 88 762 | 0,10% | 3 207 | 41,57% | - | 7 192 | 8,10% | 36 | |
| from 0.15 to 0.25 | 118 512 | 221 439 | 81,02% | 297 914 | 0,20% | 11 417 | 47,57% | - | 47 038 | 15,79% | 289 | | |
| from 0.25 to 0.50 | 700 505 | 517 620 | 81,49% | 1 122 326 | 0,39% | 37 278 | 41,42% | - | 235 372 | 20,97% | 1 781 | | |
| from 0.50 to 0.75 | 656 084 | 296 736 | 81,45% | 897 768 | 0,62% | 27 935 | 37,68% | - | 227 838 | 25,38% | 2 081 | | |
| from 0.75 to 2.50 | 2 600 389 | 412 576 | 82,37% | 2 940 209 | 1,44% | 93 161 | 33,99% | - | 972 463 | 33,07% | 14 189 | | |
| from 2.50 to 10.00 | 2 202 318 | 94 054 | 85,40% | 2 282 641 | 4,73% | 68 400 | 29,58% | - | 874 651 | 38,32% | 30 962 | | |
| from 10.00 to 100.00 | 693 253 | 8 382 | 85,50% | 700 420 | 20,62% | 20 985 | 26,20% | - | 358 453 | 51,18% | 37 142 | | |
| 100.00 (Default) | 488 805 | 1 745 | 0,00% | 488 805 | 100,00% | 17 367 | 77,30% | - | 530 364 | 108,50% | 337 257 | | |
| Subtotal | 7 501 537 | 1 610 265 | 81,81% | 8 818 845 | 9,00% | 279 750 | 36,49% | - | 3 253 371 | 36,89% | 423 737 | 397 951 | |
| Exposure class | Retail non-mortgage portfolio (natural persons) | | | | | | | | | | | | |
| | from 0.00 to 0.15 | 286 151 | 846 576 | 71,48% | 891 250 | 0,10% | 122 060 | 47,79% | - | 105 602 | 11,85% | 402 | |
| from 0.15 to 0.25 | 488 885 | 1 192 386 | 71,72% | 1 344 026 | 0,20% | 186 833 | 47,98% | - | 275 522 | 20,50% | 1 285 | | |
| from 0.25 to 0.50 | 1 130 714 | 1 392 870 | 72,21% | 2 136 456 | 0,36% | 296 371 | 48,54% | - | 651 203 | 30,48% | 3 774 | | |
| from 0.50 to 0.75 | 899 269 | 500 669 | 72,78% | 1 263 635 | 0,62% | 172 612 | 49,68% | - | 535 219 | 42,36% | 3 872 | | |
| from 0.75 to | 2 959 918 | 634 124 | 73,77% | 3 427 738 | 1,43% | 516 597 | 49,87% | - | 2 054 795 | 59,95% | 24 352 | | |

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| | | | | | | | | | | | | | |
|-----------------------|-----------------------------------------------------|-------------------|-------------------|---------------|-------------------|--------------|------------------|---------------|----------|-------------------|---------------|----------------|----------------|
| | 2.50 | | | | | | | | | | | | |
| | from 2.50 to 10.00 | 1 679 155 | 190 651 | 71,70% | 1 815 850 | 4,40% | 271 386 | 49,56% | - | 1 383 189 | 76,17% | 39 723 | |
| | from 10.00 to 100.00 | 375 163 | 18 999 | 73,19% | 389 068 | 18,12% | 60 005 | 50,10% | - | 427 072 | 109,77% | 35 373 | |
| | 100.00 (Default) | 802 761 | 6 186 | 0,00% | 802 761 | 100,00% | 83 882 | 72,87% | - | 1 210 192 | 150,75% | 490 504 | |
| | Subtotal | 8 622 016 | 4 782 461 | 72,11% | 12 070 784 | 8,46% | 1 709 746 | 50,74% | - | 6 642 794 | 55,03% | 599 285 | 573 335 |
| Exposure class | Corporations - medium and small enterprises | | | | | | | | | | | | |
| | from 0.00 to 0.15 | 507 027 | 394 422 | 65,06% | 689 969 | 0,07% | 318 | 39,12% | 2 | 100 579 | 14,58% | 182 | |
| | from 0.15 to 0.25 | 202 920 | 167 952 | 66,12% | 275 326 | 0,20% | 108 | 34,82% | 2 | 65 717 | 23,87% | 186 | |
| | from 0.25 to 0.50 | 677 066 | 431 069 | 68,97% | 899 145 | 0,38% | 275 | 36,85% | 2 | 368 204 | 40,95% | 1 260 | |
| | from 0.50 to 0.75 | 860 530 | 396 648 | 69,73% | 1 074 583 | 0,61% | 303 | 39,07% | 2 | 586 500 | 54,58% | 2 566 | |
| | from 0.75 to 2.50 | 3 097 527 | 1 444 426 | 59,01% | 3 661 751 | 1,44% | 1 322 | 34,57% | 2 | 2 209 825 | 60,35% | 18 074 | |
| | from 2.50 to 10.00 | 1 771 051 | 566 371 | 65,00% | 2 027 130 | 3,99% | 682 | 35,04% | 2 | 1 789 976 | 88,30% | 28 153 | |
| | from 10.00 to 100.00 | 118 582 | 21 588 | 70,75% | 130 612 | 23,30% | 113 | 19,13% | 2 | 103 629 | 79,34% | 5 537 | |
| | 100.00 (Default) | 251 077 | 33 828 | 88,67% | 265 000 | 100,00% | 117 | 66,53% | 1 | 363 325 | 137,10% | 167 582 | |
| | Subtotal | 7 485 780 | 3 456 304 | 64,35% | 9 023 516 | 4,88% | 3 238 | 36,51% | 2 | 5 587 755 | 61,92% | 223 540 | 191 039 |
| Exposure class | Corporations - other | | | | | | | | | | | | |
| | from 0.00 to 0.15 | 787 195 | 1 605 607 | 52,46% | 1 221 870 | 0,08% | 132 | 43,74% | 2 | 282 267 | 23,10% | 425 | |
| | from 0.15 to 0.25 | 1 407 924 | 2 113 559 | 63,41% | 1 992 790 | 0,20% | 92 | 40,60% | 3 | 821 646 | 41,23% | 1 588 | |
| | from 0.25 to 0.50 | 1 826 672 | 2 277 072 | 63,81% | 2 641 874 | 0,37% | 229 | 46,04% | 2 | 1 503 587 | 56,91% | 4 554 | |
| | from 0.50 to 0.75 | 1 178 041 | 1 245 017 | 74,26% | 1 859 021 | 0,62% | 159 | 44,57% | 2 | 1 347 099 | 72,46% | 5 114 | |
| | from 0.75 to 2.50 | 5 203 631 | 4 194 889 | 61,51% | 6 855 239 | 1,33% | 659 | 42,00% | 2 | 6 439 656 | 93,94% | 38 615 | |
| | from 2.50 to 10.00 | 1 346 963 | 947 930 | 56,75% | 1 703 382 | 4,12% | 416 | 40,06% | 2 | 2 066 227 | 121,30% | 27 259 | |
| | from 10.00 to 100.00 | 62 231 | 30 050 | 62,92% | 78 130 | 22,89% | 200 | 21,56% | 2 | 81 804 | 104,70% | 4 117 | |
| | 100.00 (Default) | 505 251 | 112 417 | 21,03% | 527 710 | 100,00% | 253 | 76,70% | 2 | 462 599 | 87,66% | 443 934 | |
| | Subtotal | 12 317 908 | 12 526 541 | 62,64% | 16 880 016 | 4,34% | 2 140 | 43,67% | 2 | 13 004 885 | 77,04% | 525 606 | 474 220 |
| Exposure class | Corporations - specialized lending exposures | | | | | | | | | | | | |
| | Subtotal | 6 831 676 | 1 832 482 | 30,81% | 6 980 542 | - | 429 | - | 4 | 5 723 451 | 81,99% | 259 625 | 179 801 |

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| Exposure class | Institutions | | | | | | | | | | | | |
|-------------------------------|-------------------|-------------------|---------------|-------------------|--------------|------------------|---------------|----------|-------------------|---------------|------------------|------------------|--|
| | from 0.00 to 0.15 | 1 249 541 | 3 452 565 | 42,23% | 2 707 504 | 0,07% | 64 | 43,78% | 2 | 693 399 | 25,61% | 842 | |
| from 0.15 to 0.25 | 76 194 | 3 675 | 43,81% | 77 804 | 0,22% | 10 | 42,91% | 1 | 25 356 | 32,59% | 75 | | |
| from 0.25 to 0.50 | 15 964 | 43 118 | 44,06% | 34 963 | 0,36% | 14 | 49,17% | 1 | 18 941 | 54,17% | 64 | | |
| from 0.50 to 0.75 | 119 570 | 24 900 | 20,40% | 124 650 | 0,59% | 8 | 25,13% | 2 | 49 211 | 39,48% | 183 | | |
| from 0.75 to 2.50 | 15 598 | 126 352 | 45,61% | 73 227 | 0,96% | 15 | 46,29% | 1 | 67 541 | 92,24% | 324 | | |
| from 2.50 to 10.00 | 37 218 | 50 100 | 71,30% | 72 937 | 2,80% | 5 | 60,41% | 2 | 125 168 | 171,61% | 1 234 | | |
| from 10.00 to 100.00 | 2 144 | 12 048 | 62,02% | 9 617 | 17,72% | 6 | 49,62% | 1 | 22 520 | 234,17% | 800 | | |
| 100.00 (Default) | 217 | 0 | - | 217 | 100,00% | 1 | 100,00% | 1 | 0 | 0,00% | 217 | | |
| Subtotal | 1 516 446 | 3 712 758 | 45,70% | 3 100 919 | 0,24% | 123 | 43,54% | 2 | 1 002 136 | 32,32% | 3 739 | 2 136 | |
| Total (all portfolios) | 69 587 398 | 28 342 893 | 68,91% | 82 509 097 | 5,80% | 2 093 722 | 37,38% | 3 | 41 795 222 | 50,66% | 2 592 625 | 2 335 356 | |

EU CR7 – IRB approach – Effect on the RWAs of credit derivatives used as CRM techniques addressing disclosure requirements of art. 453 letter g) of CRR Regulation.

mBank Group does not disclose information on effect on the RWAs of credit derivatives used as CRM techniques with an impact on RWA.

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6. Leverage ratio

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

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

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

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

| | | 31/12/2017 |
|----------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------|
| 1 | Total assets as per published financial statements | 131 424 019 |
| 2 | Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation | 29 397 |
| 3 | (Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting framework but excluded from the leverage ratio total exposure measure in accordance with Article 429(13) of Regulation (EU) No 575/2013) | 0 |
| 4 | Adjustments for derivative financial instruments | 253 403 |
| 5 | Adjustment for securities financing transactions (SFTs) | 584 179 |
| 6 | Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures) | 9 950 784 |
| EU-6A | (Adjustment for intragroup exposures excluded from the leverage ratio total exposure measure in accordance with Article 429(7) of Regulation (EU) No 575/2013) | 0 |
| EU-6B | (Adjustment for exposures excluded from the leverage ratio total exposure measure in accordance with Article 429(14) of Regulation (EU) No 575/2013) | |
| 7 | Other adjustments | -3 857 917 |
| 8 | Leverage ratio total exposure measure | 138 383 865 |

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

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

| | | 31/12/2017 |
|--------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------|--------------------|
| On-balance sheet exposures (excluding derivatives and SFTs) | | |
| 1 | On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral) | 127 435 265 |
| 2 | (Asset amounts deducted in determining Tier 1 capital) | -1 133 187 |
| 3 | Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) | 126 302 078 |
| On-balance sheet exposures (excluding derivatives and SFTs) | | |
| 4 | Replacement cost associated with all derivatives transactions (ie net of eligible cash variation margin) | 577 620 |
| 5 | Add-on amounts for PFE associated with all derivatives transactions (mark- to-market method) | 912 086 |
| EU-5A | Exposure determined under Original Exposure Method | 0 |
| 6 | Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework | 0 |
| 7 | (Deductions of receivables assets for cash variation margin provided in derivatives transactions) | 0 |
| 8 | (Exempted CCP leg of client-cleared trade exposures) | 0 |
| 9 | Adjusted effective notional amount of written credit derivatives | 0 |
| 10 | (Adjusted effective notional offsets and add-on deductions for written credit derivatives) | 0 |
| 11 | Total derivatives exposures | 1 434 975 |
| SFT exposures | | |
| 12 | Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions | 602 887 |
| 13 | (Netted amounts of cash payables and cash receivables of gross SFT assets) | 0 |
| 14 | Counterparty credit risk exposure for SFT assets | 38 410 |
| EU-14A | Derogation for SFTs: Counterparty credit risk exposure in accordance with Articles 429b(4) and 222 of Regulation (EU) No 575/2013 | 0 |
| 15 | Agent transaction exposures | 0 |
| EU-15A | (Exempted CCP leg of client-cleared SFT exposure) | 0 |
| 16 | Total securities financing transaction exposures | 641 297 |
| Other off-balance sheet exposures | | |
| 17 | Off-balance sheet exposures at gross notional amount | 33 311 126 |
| 18 | (Adjustments for conversion to credit equivalent amounts) | -23 360 342 |
| 19 | Other off-balance sheet exposures | 9 950 784 |
| Exempted exposures in accordance with Article 429(7) and (14) of Regulation (EU) No 575/2013 (on and off balance sheet) | | |
| EU-19A | (Intragroup exposures (solo basis) exempted in accordance with Article 429(7) of Regulation (EU) No 575/2013 (on and off balance sheet)) | 0 |
| EU-19B | (Exposures exempted in accordance with Article 429 (14) of Regulation (EU) No 575/2013 (on and off balance sheet)) | 0 |
| Capital and total exposure measure | | |
| 20 | Tier 1 capital | 12 454 486 |
| 21 | Leverage ratio total exposure measure | 138 383 865 |
| Leverage ratio | | |
| 22 | Leverage ratio | 9,00% |
| Choice on transitional arrangements and amount of derecognised fiduciary items | | |
| EU-23 | Choice on transitional arrangements for the definition of the capital measure | transitional |
| EU-24 | Amount of derecognised fiduciary items in accordance with Article 429(11) of Regulation (EU) No 575/2013 | 0 |

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Due to the fact that mBank Group as a significant subsidiary of a EU parent institutions which is of material significance for its local market, discloses information indicated in article 13(1) of CRR Regulation on a sub-consolidated basis.

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

Exposure value, Tier I capital and leverage ratio of mBank Group calculated in accordance with a transitional definition of Tier I capital as of 31 December 2017 and 31 December 2016 (in PLN thousand)

| | 31.12.2017 | 31.12.2016 |
|------------------------------------------------------------|-------------|-------------|
| Exposure value | 138 383 865 | 137 375 342 |
| Capital and regulatory adjustments | | |
| Tier 1 capital - transitional definition | 12 454 486 | 11 303 332 |
| Regulatory adjustments - Tier 1 - transitional definition | -1 133 187 | -964 420 |
| Leverage ratio * | | |
| Leverage Ratio - using a transitional definition of Tier 1 | 9,00% | 8,23% |

The leverage ratio of the Group in 2017 was driven by the following factors:

- inclusion in Common Equity Tier I capital the remaining part of the net profit of mBank Group for the year 2016, not included in Common Equity Tier 1 capital on the basis of the PFSA decision obtained in 2016;
- inclusion in Common Equity Tier I capital the verified net profit of the mBank Group for the first, second and third quarters of the year 2017, net of expected charges and dividends, on the basis of the PFSA decisions of May 29, 2017, September 7, 2017 and December 19, 2017 respectively;
- classification of capital instruments issued within incentive programs in the period from August 1, 2016 till June 30, 2017 as instruments in Common Equity Tier I capital on the basis of the PFSA decision of December 8, 2017;
- change of the limit for unrealized gains measured at the fair value included in the own funds calculation from 60% in 2016 to 80% in 2017;
- expansion of the mBank Group business activity;
- appreciation of the Polish currency against the foreign currencies in 2017.

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

Capital Management Committee performs the essential role in management of risk of excessive leverage in mBank Group. Management of this risk comprises two fundamental perspectives: calculation and monitoring of leverage ratio and analysis of mismatches between assets and obligations including the calculation of measures: NSFR (net stable funding ratio), M3 (coverage ratio of non-liquid assets with own funds), M4 (coverage ratio of non-liquid assets and limited liquidity assets with own funds and stable external funds). Both elements of the procedure, calculation of the leverage ratio according to CRR requirements and mismatches analysis, are performed by the Integrated Risk Management Department. Actual leverage ratio is regularly monitored and compared to peer group. In order to assure fulfilment of upcoming regulatory requirement mBank Group has aspiration to keep leverage ratio at the level of 7%. Target shall be monitored and verified at least on a yearly basis.

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

7. Credit risk mitigation techniques

The information presented in this chapter fulfill the presentation requirements of EU CRC Qualitative disclosure requirements related to CRM techniques, addressing disclosure requirements of art. 453 letters a) to e) of CRR Regulation.

7.1. 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 2017 mBank Group did not hold credit derivatives.

Collateral

Retail

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

Retail properties

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. Customer is required to present an up-to-date valuation of the real property in the form of appraisal drawn up by the real estate appraiser.

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

Vehicles

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

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 appraiser. The same approach is also used in the case of doubts related to the value or the technical condition of a vehicle.

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 implemented a dedicated collateral policy in the area of corporate banking in December 2017. The most important elements of this policy are:

- indication of collateral preferred and unrecommended,
- recommendations regarding the requirements of collateral in specific situations,
- frequency of collateral monitoring,
- Bank's approach to collateral with MRV parameter equal to zero.

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

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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. 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.

7.2. 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.

The „de minimis” guarantee

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

The COSME guarantee

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

Corporates

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

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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.

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EU CR3 – Credit risk mitigation techniques – overview, addressing disclosure requirements of art. 453 letter g) of CRR Regulation, presenting the carrying amount of exposures net of allowances /impairments divided into unsecured and secured exposures, including collateral categories:

| | | a) Exposures unsecured – Carrying amount | b) Exposures secured – Carrying amount | c) Exposures secured by collateral | d) Exposures secured by financial guarantees | e) Exposures secured by credit derivatives |
|----------|------------------------|---------------------------------------------------|-------------------------------------------------|---------------------------------------------|----------------------------------------------------------|-----------------------------------------------------|
| 1 | Total loans | 38 656 386 | 40 271 650 | 38 962 981 | 1 308 669 | not applicable |
| 2 | Total debt securities | 31 369 278 | 43 388 | 43 388 | 0 | not applicable |
| 3 | Total exposures | 111 429 406 | 49 901 068 | 47 591 491 | 2 309 577 | not applicable |
| 4 | Of which defaulted | 1 145 047 | 823 122 | 738 320 | 84 02 | |

7.3. 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 reduces 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 sets the limits for sectors in which mBank's exposure exceeds 5% of the total amount of exposures.

mBank 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. mBank also analyses its concentration in such collaterals as shares of companies listed on the WSE and corporate personal collaterals.

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

As at 31 December 2017 there was no substantial level of geographical concentration in the credit portfolio of mBank Group. In terms of exposure relating to countries other than Poland there was no substantial share of exposure with value loss.

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

EU CRB-B – Total and average net amount of exposures, addressing disclosure requirements of art. 442 letter c) of CRR Regulation which presents the distribution of the net exposure of mBank Group by exposure class. It includes the allocation into exposures for standardized and IRB Approach (Internal Ratings-Based Approach) - in PLN thousand.

| | a) Net value of exposures at the end of the period | b) Average net exposures over the period |
|------------------------------------------------------------------------------|----------------------------------------------------------|------------------------------------------------|
| 1 Central governments or central banks | 0 | 0 |
| 2 Institutions | 5 227 068 | 4 899 609 |
| 3 Corporates | 43 605 632 | 41 619 650 |
| 4 <i>Of which: Specialised lending</i> | 8 484 356 | 8 299 041 |
| 5 <i>Of which: SMEs</i> | 10 751 044 | 10 272 615 |
| 6 Retail | 46 758 266 | 47 010 530 |
| 7 <i>Secured by real estate property</i> | 25 212 983 | 26 530 977 |
| 8 <i>SMEs</i> | 2 227 608 | 2 232 199 |
| 9 <i>Non-SMEs</i> | 22 985 375 | 24 298 777 |
| 10 <i>Qualifying revolving</i> | 0 | 0 |
| 11 <i>Other retail</i> | 21 545 283 | 20 479 553 |
| 12 <i>SMEs</i> | 8 713 868 | 8 175 146 |
| 13 <i>Non-SMEs</i> | 12 831 416 | 12 304 407 |
| 14 Equity | 0 | 0 |
| 15 Total IRB approach | 95 590 966 | 93 529 789 |
| 16 Central governments or central banks | 36 009 785 | 34 926 570 |
| 17 Regional governments or local authorities | 744 289 | 882 924 |
| 18 Public sector entities | 112 483 | 113 516 |
| 19 Multilateral development banks | 935 526 | 746 751 |
| 20 International organisations | 0 | 0 |
| 21 Institutions | 279 190 | 288 342 |
| 22 Corporates | 11 140 425 | 10 160 774 |
| 23 <i>Of which: SMEs</i> | 2 542 130 | 2 405 913 |
| 24 Retail | 3 423 769 | 3 808 598 |
| 25 <i>Of which: SMEs</i> | 0 | 0 |
| 26 Secured by mortgages on immovable property | 8 588 464 | 7 950 412 |
| 27 <i>Of which: SMEs</i> | 722 812 | 732 296 |
| 28 Exposures in default | 378 965 | 291 201 |
| 29 Items associated with particularly high risk | 33 389 | 25 580 |
| 30 Covered bonds | 0 | 0 |
| 31 Claims on institutions and corporates with a short-term credit assessment | 0 | 0 |
| 32 Collective investments undertakings | 160 | 156 |
| 33 Equity exposures | 182 589 | 229 732 |
| 34 Other exposures | 30 458 | 28 694 |
| 35 Total standardised approach | 61 859 492 | 59 453 250 |
| 36 Total | 157 450 458 | 152 983 039 |

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EU CRB-C – Geographical breakdown of exposures, addressing disclosure requirements of art. 442 letter d) of CRR Regulation which presents net exposure of mBank Group by material countries. It includes the allocation into exposures for standardized and IRB Approach (Internal Ratings-Based Approach) - in PLN thousand.

| | Poland (PL) | Czech Republic (CZ) | Slovakia (SK) | Germany (DE) | Great Britain (GB) | Luxemburg (LU) | Other countries | Total |
|------------------------------------------------------------------------------|--------------------|---------------------|----------------|------------------|--------------------|------------------|------------------|--------------------|
| 1 Central governments or central banks | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 2 Institutions | 328 483 | 166 149 | 2 000 | 2 348 016 | 1 064 395 | 8 364 | 1 309 661 | 5 227 068 |
| 3 Corporates | 42 969 364 | 9 208 | 170 | 338 865 | 1 780 | 0 | 286 246 | 43 605 633 |
| 4 Retail | 46 747 296 | 0 | 0 | 2 530 | 1 755 | 0 | 6 684 | 46 758 265 |
| 5 Equity | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 6 Total IRB approach | 90 045 143 | 175 357 | 2 170 | 2 689 411 | 1 067 930 | 8 364 | 1 602 591 | 95 590 966 |
| 7 Central governments or central banks | 33 891 413 | 2 083 867 | 34 505 | 0 | 0 | 0 | 0 | 36 009 785 |
| 8 Regional governments or local authorities | 744 289 | 0 | 0 | 0 | 0 | 0 | 0 | 744 289 |
| 9 Public sector entities | 112 483 | 0 | 0 | 0 | 0 | 0 | 0 | 112 483 |
| 10 Multilateral development banks | 0 | 0 | 0 | 0 | 0 | 935 526 | 0 | 935 526 |
| 11 International organisations | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 12 Institutions | 105 219 | 153 160 | 3 264 | 0 | 13 010 | 0 | 4 537 | 279 190 |
| 13 Corporates | 10 352 330 | 8 793 | 3 | 179 | 418 523 | 252 247 | 108 350 | 11 140 425 |
| 14 Retail | 1 334 453 | 1 624 527 | 464 760 | 0 | 0 | 0 | 29 | 3 423 769 |
| 15 Secured by mortgages on immovable property | 5 784 276 | 2 326 989 | 476 553 | 0 | 0 | 0 | 646 | 8 588 464 |
| 16 Exposures in default | 308 345 | 7 377 | 2 955 | 1 | 4 | 0 | 60 283 | 378 965 |
| 17 Items associated with particularly high risk | 33 389 | 0 | 0 | 0 | 0 | 0 | 0 | 33 389 |
| 18 Covered bonds | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 19 Claims on institutions and corporates with a short-term credit assessment | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 20 Collective investments undertakings | 160 | 0 | 0 | 0 | 0 | 0 | 0 | 160 |
| 21 Equity exposures | 135 103 | 0 | 0 | 0 | 0 | 0 | 47 486 | 182 589 |
| 22 Other exposures | 30 458 | 0 | 0 | 0 | 0 | 0 | 0 | 30 458 |
| 23 Total standardised approach | 52 831 918 | 6 204 713 | 982 040 | 180 | 431 537 | 1 187 773 | 221 331 | 61 859 492 |
| 24 Total | 142 877 061 | 6 380 070 | 984 210 | 2 689 591 | 1 499 467 | 1 196 137 | 1 823 922 | 157 450 458 |

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Group's exposures are located in Europe, therefore the table above does not present geographical areas. Materiality of countries was determined based on its share in the credit portfolio and with application of materiality threshold above 1% in the net value of the portfolio. Countries below the threshold were included in 'other countries' category.

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EU CRB-D – Concentration of exposures by industry, addressing disclosure requirements of art. 442 letter e) of CRR Regulation which presents net exposure of mBank Group by industries and exposure classes. It includes the allocation into exposures for standardized and IRB Approach (Internal Ratings-Based Approach) - in PLN thousand.

| | | a) | b) | c) | d) | e) | f) | g) | h) | i) | j) | k) | l) |
|-----------|---------------------------------------------------------------------------|-----------------------------------|----------------------|-------------------|-----------------------------------------------------|---------------------------------------------------------------------|------------------|----------------------------------------------------------------------|----------------------------|-------------------------------------------|-------------------------------|------------------------------------|------------------------|
| | | Agriculture, forestry and fishing | Mining and quarrying | Manufacturing | Electricity, gas, Steam and air conditioning supply | Water supply; sewerage, and Waste management Remediation activities | Construction | Wholesale and retail trade; repair of motor vehicles And motorcycles | Transportation and storage | Accommodation and Food service activities | Information and communication | Financial and insurance activities | Real estate activities |
| 1 | Central governments or central banks | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 2 | Institutions | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 5 227 068 | 0 |
| 3 | Corporates | 1 665 | 565 324 | 12 183 862 | 1 912 748 | 398 357 | 7 793 898 | 9 353 248 | 2 074 699 | 236 815 | 1 494 758 | 797 441 | 4 704 440 |
| 4 | Retail | 73 211 | 6 175 | 1 217 246 | 16 594 | 88 023 | 1 017 090 | 2 659 735 | 965 148 | 441 457 | 626 948 | | 1 026 215 |
| 5 | Equity | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 6 | Total IRB approach | 74 876 | 571 499 | 13 401 108 | 1 929 342 | 486 380 | 8 810 988 | 12 012 983 | 3 039 847 | 678 272 | 2 121 706 | 6 024 509 | 5 730 655 |
| 7 | Central governments or central banks | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 8 857 969 | 0 |
| 8 | Regional governments or local authorities | 0 | 0 | 0 | 0 | 119 | 0 | 0 | 0 | 0 | 0 | 0 | 704 |
| 9 | Public sector entities | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 539 | 0 | 0 | 0 | 0 |
| 10 | Multilateral development banks | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 935 526 | 0 |
| 11 | International organisations | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 12 | Institutions | 0 | 0 | 73 834 | 0 | 0 | 0 | 0 | 0 | 0 | 54 | 172 756 | 18 949 |
| 13 | Corporates | 147 238 | 26 699 | 2 671 815 | 228 788 | 64 081 | 443 524 | 642 415 | 377 166 | 81 592 | 902 952 | 2 685 878 | 1 355 301 |
| 14 | Retail | 88 | 7 | 1 629 | 11 | 18 | 596 | 1 586 | 412 | 114 | 408 | 0 | 0 |
| 15 | Secured by mortgages on immovable property | 7 901 | 0 | 11 621 | 0 | 0 | 103 105 | 30 083 | 10 198 | 350 366 | 0 | 16 224 | 451 081 |
| 16 | Exposures in default | 111 | 2 | 81 772 | 90 065 | 1 | 30 100 | 3 808 | 1 301 | 41 | 39 | 57 588 | 23 329 |
| 17 | Items associated with particularly high risk | 0 | 0 | 379 | 0 | 0 | 3 900 | 0 | 0 | 0 | 500 | 16 961 | 1 652 |
| 18 | Covered bonds | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 19 | Claims on institutions and corporates with a short-term credit assessment | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 20 | Collective investments undertakings | 0 | 0 | 160 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 21 | Equity exposures | 0 | 0 | 714 | 0 | 0 | 35 463 | 466 | 0 | 0 | 0 | 3 999 | 86 215 |
| 22 | Other exposures | 0 | 0 | 13 161 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 23 | Total standardised approach | 155 338 | 26 708 | 2 855 085 | 318 864 | 64 219 | 616 688 | 678 358 | 389 616 | 432 113 | 903 953 | 12 746 901 | 1 937 231 |
| 24 | Total | 230 214 | 598 207 | 16 256 193 | 2 248 206 | 550 599 | 9 427 676 | 12 691 341 | 3 429 463 | 1 110 385 | 3 025 659 | 18 771 410 | 7 667 886 |

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| | м) | н) | о) | п) | қ) | р) | с) | т) | у) | х) | | |
|-----------|---------------------------------------------------------------------------|-----------------------------------------------|---------------------------------------------------------------|-------------------|-----------------------------------------|------------------------------------|--------------------------|----------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------|----------|------------------|--------------------|
| | Professional, scientific and technical activities | Administrative and support Service activities | Public administration and defence; compulsory social security | Education | Human health and social work activities | Arts, entertainment and recreation | Other service activities | Activities of households as employers; undifferentiated goods- and services-producing activities of households for own use | Activities of extraterritorial organisations and bodies | Other | Total | |
| 1 | Central governments or central banks | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | |
| 2 | Institutions | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 5 227 068 | |
| 3 | Corporates | 631 331 | 1 298 585 | 3 662 | 4 663 | 30 032 | 22 966 | 89 448 | 0 | 7 690 | 43 605 632 | |
| 4 | Retail | 1 020 378 | 380 332 | 1 969 | 164 968 | 649 381 | 83 921 | 36 167 150 | 298 | 152 027 | 46 758 266 | |
| 5 | Equity | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | |
| 6 | Total IRB approach | 1 651 709 | 1 678 917 | 5 631 | 169 631 | 679 413 | 106 887 | 36 256 598 | 298 | 0 | 159 717 | 95 590 966 |
| 7 | Central governments or central banks | 0 | 0 | 26 880 880 | 0 | 0 | 0 | 0 | 0 | 270 936 | 36 009 785 | |
| 8 | Regional governments or local authorities | 110 | 0 | 743 343 | 0 | 0 | 0 | 0 | 0 | 13 | 744 289 | |
| 9 | Public sector entities | 0 | 0 | 19 238 | 31 323 | 48 672 | 12 711 | 0 | 0 | 0 | 112 483 | |
| 10 | Multilateral development banks | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 935 526 | |
| 11 | International organisations | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | |
| 12 | Institutions | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 13 597 | 279 190 | |
| 13 | Corporates | 121 398 | 63 453 | 0 | 31 878 | 32 126 | 127 558 | 236 412 | 0 | 900 151 | 11 140 425 | |
| 14 | Retail | 403 | 181 | 0 | 71 | 78 | 52 | 2 089 899 | 1 327 920 | 1 | 3 423 769 | |
| 15 | Secured by mortgages on immovable property | 0 | 55 961 | 0 | 8 304 | 3 442 | 7 650 | 2 805 321 | 4 726 017 | 1 190 | 8 588 464 | |
| 16 | Exposures in default | 10 818 | 11 | 944 | 18 442 | 896 | 8 492 | 12 256 | 9 131 | 29 819 | 378 965 | |
| 17 | Items associated with particularly high risk | 0 | 0 | 0 | 0 | 0 | 0 | 9 997 | 0 | 0 | 33 389 | |
| 18 | Covered bonds | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | |
| 19 | Claims on institutions and corporates with a short-term credit assessment | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | |
| 20 | Collective investments undertakings | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 160 | |
| 21 | Equity exposures | 9 184 | 46 538 | 0 | 0 | 8 | 0 | 0 | 0 | 3 | 182 589 | |
| 22 | Other exposures | 0 | 0 | 0 | 0 | 0 | 0 | 17 254 | 0 | 336 | 30 458 | |
| 23 | Total standardised approach | 141 913 | 166 144 | 27 644 405 | 90 018 | 85 222 | 156 463 | 5 171 139 | 6 063 068 | 0 | 1 216 046 | 61 859 492 |
| 24 | Total | 1 793 622 | 1 845 061 | 27 650 036 | 259 649 | 764 635 | 263 350 | 41 427 737 | 6 063 366 | 0 | 1 375 763 | 157 450 458 |

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The residual maturity breakdown

EU CRB-E – Maturity of exposures, addressing disclosure requirements of art. 442 letter f) of CRR Regulation which presents a breakdown of net exposures by residual maturity and exposure classes. It includes the allocation into exposures for standardized and IRB Approach (Internal Ratings-Based Approach) - in PLN thousand.

| | | a) | b) | c) | | d) | e) | f) |
|-----------|---------------------------------------------------------------------------|--------------------------|-------------------|---------------------|-------------------|--------------------|--------------------|----|
| | | Wartość ekspozycji netto | | | | | | |
| | | On demand | <= 1 year | > 1 year <= 5 years | > 5 years | No stated maturity | Total | |
| 1 | Central governments or central banks | 0 | 0 | 0 | 0 | 0 | 0 | |
| 2 | Institutions | 2 529 488 | 1 963 313 | 338 750 | 283 047 | 112 470 | 5 227 068 | |
| 3 | Corporates | 4 617 397 | 11 997 552 | 17 264 471 | 9 209 171 | 517 042 | 43 605 633 | |
| 4 | Retail | 3 149 992 | 6 036 258 | 6 998 959 | 26 636 038 | 3 937 018 | 46 758 265 | |
| 5 | Equity | 0 | 0 | 0 | 0 | 0 | 0 | |
| 6 | Total IRB approach | 10 296 877 | 19 997 123 | 24 602 180 | 36 128 256 | 4 566 530 | 95 590 966 | |
| 7 | Central governments or central banks | 0 | 10 341 870 | 18 524 943 | 1 317 721 | 5 825 251 | 36 009 785 | |
| 8 | Regional governments or local authorities | 4 496 | 7 976 | 607 966 | 123 834 | 17 | 744 289 | |
| 9 | Public sector entities | 22 152 | 20 375 | 19 597 | 50 274 | 85 | 112 483 | |
| 10 | Multilateral development banks | 0 | 0 | 935 526 | 0 | 0 | 935 526 | |
| 11 | International organisations | 0 | 0 | 0 | 0 | 0 | 0 | |
| 12 | Institutions | 1 313 | 17 544 | 652 | 0 | 259 681 | 279 190 | |
| 13 | Corporates | 1 210 413 | 4 555 600 | 2 856 089 | 1 991 510 | 526 813 | 11 140 425 | |
| 14 | Retail | 212 047 | 228 029 | 264 057 | 2 442 528 | 277 108 | 3 423 769 | |
| 15 | Secured by mortgages on immovable property | 791 | 58 411 | 674 619 | 7 854 624 | 19 | 8 588 464 | |
| 16 | Exposures in default | 42 | 16 249 | 44 989 | 131 550 | 186 135 | 378 965 | |
| 17 | Items associated with particularly high risk | 0 | 0 | 0 | 0 | 33 389 | 33 389 | |
| 18 | Covered bonds | 0 | 0 | 0 | 0 | 0 | 0 | |
| 19 | Claims on institutions and corporates with a short-term credit assessment | 0 | 0 | 0 | 0 | 0 | 0 | |
| 20 | Collective investments undertakings | 0 | 0 | 0 | 0 | 160 | 160 | |
| 21 | Equity exposures | 0 | 570 | 0 | 0 | 182 019 | 182 589 | |
| 22 | Other exposures | 0 | 1 659 | 0 | 0 | 28 799 | 30 458 | |
| 23 | Total standardised approach | 1 451 254 | 15 248 283 | 23 928 438 | 13 912 041 | 7 319 476 | 61 859 492 | |
| 24 | Total | 11 748 131 | 35 245 406 | 48 530 618 | 50 040 297 | 11 886 006 | 157 450 458 | |

8. Credit risk adjustments

8.1. Overdue and impaired exposures – definitions used

The following qualitative description addresses the requirements of the **EU CRB-A** table – Additional disclosed information related to the credit quality of assets.

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, Bank's parent company or Bank'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.

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Restructuring definition

Restructuring activities are understood as actions aimed at bringing back the regular servicing of receivables, in particular by extending the terms of payments or extending the payment deadline (an annex to the existing contract or repayment agreement), providing a repair product, carrying out restructuring proceedings, joining the debt by a third party, taking over debt by a third party, conversion of receivables into shares or stocks, taking over the asset (including the debt collateral) in exchange for the release from debt.

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 (14 days in the case of banks) and the overdue amount exceeds PLN 3,000.
- The Bank has sold exposures with a significant economic loss related to the decrease of the debtor creditworthiness.
- The Bank performed enforced restructuring of the exposure, which resulted in the change of the loan/transaction service schedule due to the lack of possibility of the obligor to meet his obligations under a loan/transaction agreement, as initially stipulated, which resulted in:
 - remitting 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 the Bank, the parent or subsidiary entity of the Bank a bankruptcy motion against the debtor or filing a similar motion in respect of credit obligations of the debtor towards the Bank, the parent or subsidiary entity of the Bank.

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- Bankruptcy of debtor or acquiring by him a similar legal protection resulting in his evasion of or delay in repayment of credit obligations towards the Bank, the parent or subsidiary entity of the Bank.
- Termination of part or whole credit agreement by the Bank and the beginning of restructuring/collection procedures.
- Client's fraud.
- The Bank expects a loss on a client's exposure.

The list of indefinite loss events is prepared separately for particular types of entities. In the case of identification of indefinite loss events there is no obligation to classify into the default category. Indefinite loss events are complementary to definite loss events. Defining separately the conditions for indefinite loss events for particular types of entities aims at reflecting specificity of particular types of entities in identification of loss events.

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,

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- 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,
- the Bank applied for instigating enforcement proceeding against the debtor,
- an application for instigating bankruptcy proceedings or reorganisation proceedings against the debtor (resulting in a discontinuation of or delay in payment of the credit obligation to mBank),
- the debtor intends to challenge his credit obligation in court,
- disappearance of an active market for a component of financial assets due to financial difficulties of an issuer / a client.

8.2. Quantitative information

The following subscriptions address the requirements of the EU CRB-A table – Additional disclosed information related to the credit quality of assets

Specific and general credit risk adjustments

Corporate portfolio

Not-impaired exposures: on the credit portfolio of customers not classified to the default category, the portfolio provision is formed. The amount of provision is an estimate of incurred loss and is assumed at the expected level of exposure at the impairment date, considering the book value of loss (in percentage terms) and the probability of default.

Impaired exposures: the classification of customers to default portfolio and calculation of impairment write-offs 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).

In the case of customers with evidence for impairment, a comparison of the carrying value of the gross credit exposure with the value of estimated future cash flows, discounted at the effective interest rate is made. An impairment is recognized when the discounted value of future cash flows is lower than the gross carrying amount. This results in the impairment charge for balance sheet credit exposure and/or provision for off-balance sheet credit exposure.

Retail portfolio

In the retail area, impairment charges and provisions are determined for the portfolio exposure both with evidence for impairment and with no evidence for impairment. For the purpose of measuring impairment in the retail area, the Bank applies two approaches for determining credit risk parameters. In the case of the Polish market, the Bank applies parameters analogous to those derived from the AIRB methodology (advanced internal ratings based approach for calculating capital requirement for credit risk), after necessary adjustments aimed at elimination of differences between AIRB and IAS. In the case of the Czech and Slovak markets, risk parameters are estimated based on migration matrices.

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12-month loss identification period (LIP) based on the current internal data on banking processes and abilities to detect the incurred losses is applied in the retail area to estimate the probability of 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.

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Impaired and overdue exposures

EU CR1-A – Credit quality of exposures by exposure class and instrument, addressing disclosure requirements of art. 442 letter g) and h) of CRR Regulation which presents a breakdown of the defaulted and non-defaulted exposures by exposure classes. The information is provided separately for exposures under the standardised approach and the IRB approach - in PLN thousand.

| | a) | b) | c) | d) | e) | f) | g) |
|------------------------------------------------------|----------------------------------------------------|----------------------------|------------------------------------|-----------------------------------|---------------------------|----------------------------------------------------|-------------------------|
| | Gross carrying values of Defaulted exposures | Non-defaulted exposures | Specific credit risk adjustment | General credit risk adjustment | Accumulated write-offs | Credit risk adjustment charges of the period | Net values (a+b-c-d) |
| 1 Central governments or central banks | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 2 Institutions | 217 | 5 228 987 | 2 136 | 0 | 0 | 10 | 5 227 068 |
| 3 Corporates | 1 313 802 | 43 136 889 | 845 058 | 0 | 80 746 | 100 832 | 43 605 633 |
| 4 <i>Of which: Specialised lending</i> | 411 237 | 8 252 921 | 179 801 | 0 | 0 | 13 408 | 8 484 357 |
| 5 <i>Of which: SMEs</i> | 284 904 | 10 657 179 | 191 039 | 0 | 7 | 20 075 | 10 751 044 |
| 6 Retail | 2 349 784 | 45 900 857 | 1 492 376 | 0 | 190 445 | 311 736 | 46 758 265 |
| 7 <i>Secured by real estate property</i> | 1 081 511 | 24 652 609 | 521 137 | 0 | 82 275 | 205 028 | 25 212 983 |
| 8 <i>SMEs</i> | 148 784 | 2 159 616 | 80 793 | 0 | 20 089 | 35 099 | 2 227 607 |
| 9 <i>Non-SMEs</i> | 932 727 | 22 492 993 | 440 345 | 0 | 62 186 | 169 930 | 22 985 375 |
| 10 <i>Qualifying revolving</i> | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 11 <i>Other retail</i> | 1 268 274 | 21 248 248 | 971 239 | 0 | 96 815 | 106 708 | 21 545 283 |
| 12 <i>SMEs</i> | 460 839 | 8 650 974 | 397 945 | 0 | 29 351 | 33 369 | 8 713 868 |
| 13 <i>Non-SMEs</i> | 807 435 | 12 597 274 | 573 294 | 0 | 67 464 | 73 338 | 12 831 415 |
| 14 Equity | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 15 Total IRB approach | 3 663 803 | 94 266 733 | 2 339 570 | 0 | 271 191 | 412 578 | 95 590 966 |
| 16 Central governments or central banks | 0 | 36 009 788 | 3 | 0 | 0 | 7 187 | 36 009 785 |
| 17 Regional governments or local authorities | 0 | 744 721 | 432 | 0 | 0 | 0 | 744 289 |
| 18 Public sector entities | 0 | 112 532 | 49 | 0 | 0 | 0 | 112 483 |
| 19 Multilateral development banks | 0 | 935 526 | 0 | 0 | 0 | 0 | 935 526 |
| 20 International organisations | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 21 Institutions | 0 | 279 280 | 90 | 0 | 0 | 0 | 279 190 |
| 22 Corporates | 0 | 11 156 205 | 15 780 | 0 | 25 606 | 23 | 11 140 425 |
| 23 <i>Of which: SMEs</i> | 0 | 2 546 450 | 4 320 | 0 | 0 | 14 | 2 542 130 |
| 24 Retail | 0 | 3 539 436 | 115 667 | 0 | 772 | 2 | 3 423 769 |
| 25 <i>Of which: SMEs</i> | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 26 <i>Secured by mortgages on immovable property</i> | 0 | 8 588 464 | 0 | 0 | 1 | 0 | 8 588 464 |
| 27 <i>Of which: SMEs</i> | 0 | 722 812 | 0 | 0 | 0 | 0 | 722 812 |
| 28 Exposures in default | 887 976 | 0 | 509 011 | 0 | 22 103 | 154 239 | 378 965 |

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| | | | | | | | | |
|-----------|---------------------------------------------------------------------------|------------------|--------------------|------------------|----------|----------------|----------------|--------------------|
| 29 | Items associated with particularly high risk | 0 | 33 389 | 0 | 0 | 0 | 0 | 33 389 |
| 30 | Covered bonds | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 31 | Claims on institutions and corporates with a short-term credit assessment | 0 | 0 | | 0 | 0 | 0 | 0 |
| 32 | Collective investments undertakings | 0 | 160 | 0 | 0 | 0 | 0 | 160 |
| 33 | Equity exposures | 0 | 238 622 | 56 033 | 0 | 0 | 0 | 182 589 |
| 34 | Other exposures | 0 | 30 458 | 0 | 0 | 0 | 0 | 30 458 |
| 35 | Total standardised approach | 887 976 | 61 668 581 | 697 065 | 0 | 48 482 | 161 451 | 61 859 492 |
| 36 | Total | 4 551 779 | 155 935 314 | 3 036 635 | 0 | 319 673 | 574 029 | 157 450 458 |
| 37 | <i>Of which: Loans</i> | 0 | 31 413 057 | 390 | 0 | 0 | 0 | 31 412 667 |
| 38 | <i>Of which: Debt securities</i> | 3 581 842 | 77 648 383 | 2 309 001 | 0 | 0 | 412 578 | 78 921 224 |
| 39 | <i>Of which: Off-balance-sheet exposures</i> | 153 701 | 26 842 061 | 72 580 | 0 | 0 | 0 | 26 923 182 |

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EU CR1-B – Credit quality of exposures by industry, addressing disclosure requirements of art. 442 letter g) of CRR Regulation which presents a breakdown of the defaulted and non-defaulted exposures by industry - in PLN thousand.

| | | a) | b) | c) | d) | e) | f) | g) |
|-----------|----|----------------------------------------------------------------------------------------------------------------------------|-------------------------|---------------------------------|--------------------------------|------------------------|--------------------------------|-------------------------|
| | | Non-defaulted exposures Defaulted exposures | Non-defaulted exposures | Specific credit risk adjustment | General credit risk adjustment | Accumulated write-offs | Credit risk adjustment charges | Net values (a+b-c-d) |
| a) | 1 | Agriculture, Forestry And Fishing | 5 593 | 230 557 | 5 936 | 0 | 5 302 | 230 214 |
| b) | 2 | Mining And Quarrying | 90 807 | 598 807 | 91 407 | 0 | 92 | 598 207 |
| c) | 3 | Manufacturing | 639 130 | 16 056 470 | 439 407 | 0 | 17 616 | 16 256 193 |
| d) | 4 | Electricity, Gas, Steam And Air Conditioning Supply | 139 160 | 2 155 732 | 46 686 | 0 | 6 | 2 248 206 |
| e) | 5 | Water Supply; Sewerage, Waste Management And Remediation Activities | 12 520 | 548 458 | 10 379 | 0 | 104 | 550 599 |
| f) | 6 | Construction | 529 303 | 9 277 515 | 379 142 | 0 | 16 318 | 9 427 676 |
| g) | 7 | Wholesale And Retail Trade; Repair Of Motor Vehicles And Motorcycles | 424 736 | 12 608 604 | 341 999 | 0 | 64 762 | 12 691 341 |
| h) | 8 | Transportation And Storage | 78 813 | 3 415 641 | 64 991 | 0 | 5 160 | 3 429 463 |
| i) | 9 | Accommodation And Food Service Activities | 51 599 | 1 087 560 | 28 774 | 0 | 3 024 | 1 110 385 |
| j) | 10 | Information And Communication | 61 041 | 3 020 491 | 55 873 | 0 | 2 217 | 3 025 659 |
| k) | 11 | Financial And Insurance Activities | 82 547 | 18 712 718 | 23 856 | 0 | 18 915 | 18 771 409 |
| l) | 12 | Real Estate Activities | 296 983 | 7 524 245 | 153 047 | 0 | | 7 668 181 |
| m) | 13 | Professional, Scientific And Technical Activities | 110 315 | 1 780 881 | 97 574 | 0 | 2 555 | 1 793 622 |
| | 14 | Administrative And Support Service Activities | 21 353 | 1 844 229 | 20 521 | 0 | | 1 845 061 |
| o) | 15 | Public Administration And Defence; Compulsory Social Security | 948 | 27 649 541 | 453 | 0 | 851 | 27 650 036 |
| p) | 16 | Education | 34 942 | 238 360 | 13 653 | 0 | 6 | 259 649 |
| q) | 17 | Human Health And Social Work Activities | 11 454 | 763 903 | 10 722 | 0 | 276 | 764 635 |
| r) | 18 | Arts, Entertainment And Recreation | 37 927 | 254 490 | 29 067 | 0 | 332 | 263 350 |
| s) | 19 | Other Service Activities | 1 871 420 | 40 764 730 | 1 208 413 | 0 | 1 738 | 41 427 737 |
| t) | 20 | Activities Of Households As Employers; Undifferentiated Goods- And Services-Producing Activities Of Households For Own Use | 13 558 | 6 056 719 | 6 911 | 0 | 180 399 | 6 063 366 |
| u) | 21 | Activities Of Extraterritorial Organisations And Bodies | 0 | 0 | 0 | 0 | 0 | 0 |
| | 22 | Other | 37 630 | 1 345 662 | 7 823 | 0 | 0 | 1 375 469 |
| 23 | | Total | 4 551 779 | 155 935 314 | 3 036 635 | 0 | 319 673 | 157 450 458 |

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EU CR1-C – Credit quality of exposures by geography, addressing disclosure requirements of art. 442 letter g) of CRR Regulation which presents a breakdown of the defaulted and non-defaulted exposures by significant countries - in PLN thousand.

Group's exposures are located in Europe, therefore the table above does not present geographical areas. Materiality of countries was determined based on its share in the credit portfolio and with application of materiality threshold above 1% in the net value of the portfolio. Countries below the threshold were included in 'other countries' category

| | | a) Gross Carrying values | | c) | d) | e) | f) | g) Net values |
|---|---------------------|--------------------------|-------------------------|---------------------------------|--------------------------------|------------------------|--------------------------------|--------------------|
| | | Defaulted exposures | Non-defaulted exposures | Specific credit risk adjustment | General credit risk adjustment | Accumulated write-offs | Credit risk adjustment charges | (a+b-c-d) |
| 1 | Poland (PL) | 4 097 394 | 141 413 045 | 2 633 378 | 0 | 260 233 | 447 336 | 142 877 061 |
| 2 | Czech Republic (CZ) | 80 640 | 6 384 882 | 85 452 | 0 | 6 547 | 67 247 | 6 380 070 |
| 3 | Slovakia (SK) | 30 086 | 985 108 | 30 984 | 0 | 150 | 29 964 | 984 210 |
| 4 | Germany (DE) | 1 | 2 689 947 | 357 | 0 | 4 | 0 | 2 689 591 |
| 5 | Great Britain (GB) | 42 | 1 499 569 | 144 | 0 | 7 | 3 | 1 499 467 |
| 6 | Luxemburg (LU) | 0 | 1 196 812 | 675 | 0 | 0 | 0 | 1 196 137 |
| 7 | Other | 343 616 | 1 765 951 | 285 645 | 0 | 52 732 | 29 479 | 1 823 922 |
| 8 | Total | 4 551 779 | 155 935 314 | 3 036 635 | 0 | 319 673 | 574 029 | 157 450 458 |

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EU CR1-D – Ageing of past-due exposures, addressing disclosure requirements of art. 442 letter of CRR Regulation - in PLN thousand.

| | a) | b) | c) | d) | e) | f) |
|------------------------|-----------------------|---------------------|---------------------|----------------------|---------------------|------------------|
| | Gross carrying values | | | | | |
| | ≤ 30 days | > 30 days ≤ 60 days | > 60 days ≤ 90 days | > 90 days ≤ 180 days | > 180 days ≤ 1 year | > 1 year |
| Loans | 3 182 691 | 511 639 | 172 060 | 287 047 | 479 149 | 2 744 803 |
| Debt securities | 0 | 0 | 0 | 0 | 0 | 0 |
| Total exposures | 3 182 691 | 511 639 | 172 060 | 287 047 | 479 149 | 2 744 803 |

EU CR1-E – Non-performing and forborne exposures, addressing disclosure requirements of art. 442 of CRR Regulation - in PLN thousand.

| | a) | b) | c) | d) | e) | f) | g) | h) | i) | j) | k) | |
|-----------------------------|------------------------------------------------------------------|----------------------------------------------------------|------------------------------|-------------------------|-------------------|-------------------|-----------|----------------------------------------------------------------------------------------------|--------|-----------------------------|----------|--|
| | Gross carrying values of performing and non-performing exposures | | | | | | | Accumulated impairment and provisions and negative fair value adjustments due to credit risk | | | | |
| | Of which performing: | | | Of which non-performing | | | | On performing exposures | | On non-performing exposures | | |
| | | Of which performing but past due > 30 days and ≤ 90 days | Of which performing forborne | Of which defaulted | Of which impaired | Of which forborne | | Of which forborne | | Of which forborne | | |
| Debt securities | 743 667 | 0 | 0 | 0 | 0 | 0 | 0 | -892 | 0 | 0 | 0 | |
| Loans and advances | 87 452 872 | 455 409 | 932 209 | 4 367 813 | 4 144 681 | 4 367 813 | 1 008 513 | -243 565 | -7 336 | -2 688 360 | -567 537 | |
| Off-balance-sheet exposures | 33 491 642 | 0 | 28 153 | 169 279 | 167 906 | 0 | 135 105 | 27 510 | 77 | 48 205 | 16 | |

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| | | Collaterals and financial guarantees received | |
|-----|-----------------------------|-----------------------------------------------|-----------------------------------|
| | | l) On non performing exposures | m) Of which forborne exposures |
| 010 | Debt securities | 0 | 0 |
| 020 | Loans and advances | 1 069 934 | 73 741 |
| 030 | Off-balance-sheet exposures | 0 | 0 |

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Reconciliation of changes in the specific and general credit risk adjustments

EU CR2-A – Changes in the stock of general and specific credit risk adjustments, addressing disclosure requirements of art. 442 letter i) of CRR Regulation which presents changes in stock of general and specific credit risk adjustments held against loans and debt securities that are defaulted or impaired - in PLN thousand.

| in PLN thous. | | a) | b) |
|---------------|--------------------------------------------------------------------------------------------|------------------------------------------------|-----------------------------------------------|
| | | Accumulated specific credit risk adjustment | Accumulated general credit risk adjustment |
| 1 | Opening balance | 2 817 495 | --- |
| 2 | Increases due to amounts set aside for estimated loan losses during the period | 1 346 745 | --- |
| 3 | Decreases due to amounts reversed for estimated loan losses during the period | -872 006 | --- |
| 4 | Decreases due to amounts taken against accumulated credit risk adjustments | -320 125 | --- |
| 5 | Transfers between credit risk adjustments | 0 | --- |
| 6 | Impact of exchange rate differences | -60 248 | --- |
| 7 | Business combinations, including acquisitions and disposals of subsidiaries | 0 | --- |
| 8 | Other adjustments | 0 | --- |
| 9 | Closing balance | 2 911 861 | --- |
| 10 | Recoveries on credit risk adjustments recorded directly to the statement of profit or loss | 0 | --- |
| 11 | Specific credit risk adjustments directly recorded to the statement of profit or loss | 0 | --- |

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EU CR2-B – Changes in the stock of defaulted and impaired loans and debt securities, addressing disclosure requirements of art. 442 letter i) of CRR Regulation which presents changes in stock of general and specific credit risk adjustments held against loans and debt securities that are defaulted or impaired - in PLN thousand.

| | | a) Gross carrying value defaulted exposures |
|----------|-------------------------------------------------------------------------------------------|---------------------------------------------------|
| | | in PLN thous. |
| 1 | Opening balance | 5 081 728 |
| 2 | Loans and debt securities that have defaulted or impaired since the last reporting period | 1 292 613 |
| 3 | Returned to non-defaulted status | -444 646 |
| 4 | Amounts written off | -525 429 |
| 5 | Other changes | -312 056 |
| 6 | Closing balance | 5 092 211 |

9. Operational risk

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

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

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

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

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

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

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

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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 and commercial banking.

Losses are also monitored by risk categories:

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

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

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

10. Risk takers remuneration policy

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 material impact on the risk profile of mBank (risk-takers).

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

- 1/ Dr Andre Carls – Chairman
- 2/ Maciej Leśny – Member
- 3/ Prof. Marek Wierzbowski – Member
- 4/ Martin Zielke – Member

As of 16 December 2016, due to Martin Zielke's resignation, Stephan Engels was appointed as a member of the Committee, and as of 30 March 2017, Tomasz Bieske was appointed, thus replacing Professor Marek Wierzbowski.

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

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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 (2) 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.

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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 have been verified and modified by the Management Board, Remuneration Committee of the Supervisory Board and the Supervisory Board.

Since this moment the most significant change constituted modifications approved:

- 1/ at the end of 2014 – the Management Board of mBank and then the Remuneration Committee of the Supervisory Board and the Supervisory Board conducted the annual verification of policies concerning remuneration and identification of positions having material impact on the risk profile and accepted changes aimed at, among others, reflecting the provisions of the "Commission Delegated Regulation (EU) No 604/2014 of 4 March 2014 supplementing Directive 2013/36/EU of the European Parliament and of the Council with regard to regulatory technical standards with respect to qualitative and appropriate quantitative criteria to identify categories of staff whose professional activities have a material impact on an institution's risk profile" and "Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC".
- 2/ at the end of 2016 – the Management Board of mBank and then the Remuneration Committee of the Supervisory Board and the Supervisory Board conducted the annual verification of policies concerning remuneration and identification of employees having material impact on the bank's risk profile and accepted changes aimed at, among others, implementing the EBA/GL/2015/22 guidelines on policy of remuneration issued by EBA (European Banking Authority) on 27 June 2016, applicable since 1 January 2017 and repealing the guidelines issued by CEBS on 10 December 2010. Although the provisions do

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not directly regulate the permissibility of the lack of the possibility to defer the variable component of risk takers' remuneration, based on the principle of proportionality and aiming at the unification of the rules for payment of variable remuneration in Commerzbank Group, a limit for the payment of variable remuneration for employees from the "Risk Taker II" group has been introduced: if the amount of variable remuneration is equal to or lower than the limit, the Management Board of the Bank (or the Supervisory Board, in the case of the subsidiaries of mBank S.A. Group) may decide not to defer the variable remuneration for the following years and to pay the variable remuneration in whole in the form of non-deferred cash instead.

3/ at the end of 2017 – the Management Board of mBank and then the Remuneration Committee of the Supervisory Board and the Supervisory Board conducted the annual verification of the identification policy for employees having material impact on the Bank's risk profile and adopted changes aimed at, among other things, introducing updates and implementing the Regulation of the Minister of Development and Finance of 6 March 2017 on the risk management system, the internal control system, the remuneration policy as well as the detailed method for banks' internal capital assessment (Journal of Laws of 24 March 2017, item 637), which has been in force since 1 May 2017. The annual verification of the remuneration policy for employees having material impact on the Bank's risk profile will be carried out in Q1 2018 upon the consent of the Remuneration Committee of the Supervisory Board.

The process of verification and implementation of appropriate amendments in the policies concerning remuneration and identification of positions having material impact on the risk profile was coordinated by the Director of the Corporate Governance Department (organisational unit reporting directly to the President of the Management Board of mBank, which took over the remuneration function from the Personnel Administration and Remuneration Department), supported by:

- 1/ Integrated Risk and Capital Management Department – in issues related to the selection of criteria indicating the positions having material impact on the risk profile,
- 2/ Internal Audit Department – in issues related to the selection of criteria and the compliance of suggested solutions with the binding internal rules,
- 3/ Legal Department – in issues related to the selection of criteria and the compliance of suggested solutions with the binding internal and external rules,
- 4/ external consultants – in issues related to selection of criteria indicating the positions having material impact on the risk profile, compliance of applicable policies with regulatory requirements and market practices in this scope.

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The Remuneration Committee of the Supervisory Board held 4 meetings in 2017.

The most important information concerning the formation of remuneration

Members of the Management Board:

The following components are assumed as the basis for acquiring the right to the bonus for a member of the Management Board and for calculating the base amount for the given accounting year: 1/ net ROE (net ROE for the given accounting year is calculated as consolidated net profit of mBank Group attributable to mBank shareholders divided by consolidated mBank Group equity attributable to mBank shareholders; Consolidated mBank Group equity attributable to mBank shareholders, with the exception of current accounting year net profit:

1. share capital,
2. retained earnings (with the exception of current accounting year net profit),
3. other reserves.

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

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

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

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

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

- 1/ team quantitative objectives (at the level of mBank Group) account for 25% to 55% of the objectives (Economic Profit, , cost to income ratio, ability to pay out dividends, net interest income ratio),
- 2/ individual quantitative objectives account for up to 50% of the objectives (objectives determined depending on the responsibility of a given member of a Management Board),
- 3/ individual qualitative objectives account for up to 30% of the objectives.

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

- 1/ 50% in the form of a cash payment,
- 2/ 50% in the form of a non-cash payment (mBank shares). The non-cash bonus is converted to shares at the average market price of mBank S.A. shares value on the Warsaw Stock Exchange for the 30 days preceding the granting date of the bonus, i.e. from the date of approval of the bonus amount by the Supervisory Board Remuneration Committee.

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

- 1/ 50% in the form of a cash payment,
- 2/ 50% in the form of a non-cash payment (mBank shares).

Employees not being members of the Management Board:

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

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of annual base remuneration of the employee (total of base remuneration paid to the employee every month in the year for which the discretionary bonus is awarded).

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

- 1/ team quantitative objectives (at the level of mBank Group) account for 10% to 35% (10% to 20% Economic Profit, the rest: cost to income ratio, SFPR ratio and NII ratio depend on influence on the them by particular managers),
- 2/ individual quantitative objectives account for 65% to 90% of the objectives (objectives determined depending on the responsibilities on a given position and objectives cascading by a member of the Management Board supervising this position). In particular, with a weight of up to 10% for objectives related to management efficiency.
- 3/ individual qualitative objectives account for up to 40% of the objectives.

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

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

- 1/ 50% in the form of a cash payment,
- 2/ 50% in the form of a non-cash payment (mBank shares). The non-cash bonus is converted to shares at the average market price of mBank's shares listed on the Warsaw Stock Exchange for the period starting 30 days prior to the date of acquisition of the right to the bonus, i.e. the date of the bonus amount approval by the Management Board of mBank.

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

- 1/ 50% in the form of a cash payment,
- 2/ 50% in the form of a non-cash payment (mBank shares),

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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 (2) 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

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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 (2) 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 \geq 13% means an 18-fold, ROE \geq 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

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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 of risk takers, broken down by business lines used in the management of mBank

The below information for 2017 include the following personnel costs incurred in 2017: remuneration costs, social insurance costs, remuneration for share-based payments.

| 2017 remuneration costs (in PLN thousand) | |
|-------------------------------------------|---------------|
| Financial Markets Area | 6 598 |
| Corporate & Investment Banking Area | 16 744 |
| Retail Banking Area | 18 291 |
| Operations and IT Area | 9 339 |
| Finance Area | 4 942 |
| Risk Management Area | 7 641 |
| General Area | 10 712 |
| mBank | 74,267 |

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Aggregated quantitative data regarding remuneration of persons holding managerial positions at mBank, broken down by:

I. Senior management

| No | Information regarding | Value/Comments | |
|------|-----------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1. | Number of employees | 84 persons including 11 persons serving as members of the Management Board in 2017 | |
| 2. | Fixed remuneration paid in 2017 | PLN 43,656,484 | |
| 3. | Variable remuneration for 2017 granted in 2018 | * | |
| 4. | Non-deferred component of the variable remuneration granted for 2017, including:: | | |
| 4.1. | Cash | * | |
| 4.2. | Financial instrument – number of shares, amount of the component | * | |
| 5. | Deferred (for the period of the next three years) component of variable remuneration for 2017, not granted yet, including: | | |
| 5.1. | Cash | * | |
| 5.2. | Financial instrument – number of shares, amount of the component | * | |
| 6. | Deferred component of variable remuneration from before 2017, payment possible in 2017, including: | | |
| 6.1. | Cash | PLN 3,378,018 | 2nd deferred tranche for 2014 1st deferred tranche for 2015 |
| 6.2. | Financial instrument – number of shares, amount of the component | PLN 5,329,801 | Amount of: 1) 3rd deferred bonus tranche settled in mBank's shares, granted as bonus for 2013 2) 2nd deferred bonus tranche settled in mBank's shares, granted as bonus for 2014 3) 1st deferred bonus tranche settled in mBank's shares, granted as bonus for 2015 |
| | | 12,803 shares | The non-cash bonus is converted into shares at the average market price of mBank's shares listed on the Warsaw Stock Exchange for the period of 30 days prior to the date of granting the bonus |
| 7. | Deferred component of variable remuneration from before 2017, payment not yet possible in 2017, including: | | |
| 7.1. | Cash | PLN 10,112,427 | |
| 7.2. | Financial instrument – number of shares, amount of the component | PLN 10,110,730 | The amount of the deferred bonus component settled in mBank's shares, granted as bonus for 2014, 2015 and 2016 |
| | | 27,408 shares | The non-cash bonus is converted into shares at the average market price of mBank's shares listed on the Warsaw Stock Exchange for the period of 30 days prior to the date of granting the bonus |
| 8. | Amount of remuneration with deferred payment, granted in a given accounting year, paid and reduced due to the adjustment made on account of results | 1,591,359 | Amount of variable remuneration lost due to termination of the managerial contract / employment contract |
| 9. | Payments related to commencement and termination of employment relationship | PLN 1,680,000 | |
| 9.1. | Number of employees receiving such payments | 2 | |

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| | | | |
|------|---------------------------------------------------------------------------------------|--------------------------------------------------------|--|
| 9.2. | The highest payment | PLN 1,500,000 | |
| 10. | Number of employees who received total remuneration in the amount of at least EUR 1 M | 2 (remuneration in the range between EUR 1M – 1.5M) | |

**The fields have not been filled due to the fact that as at 28 February 2018, i.e. the date of publishing this report, the variable remuneration for 2017 for employees indicated in the table above has not yet been approved by the competent authorities of mBank. This document will be modified with variable remuneration for 2017, granted in 2018, following approval of the financial statements for 2017 by the Annual General Meeting.*

I. Other employees having material impact on the institution's risk profile

- None in 2017

11. Events after the balance sheet date

Impact of IFRS 9 implementation

The total fully-loaded impact of IFRS 9 calculated as on 1 January 2018 is insignificant (no more than 5bps) on Group and Bank TCR and Tier1 ratio. The Bank decided, for the purpose of capital adequacy calculation, including calculation of own funds, based on the Regulation (EU) 2017/2395 of the European Parliament and of the Council of 12 December 2017 (Regulation) amending Regulation (EU) No 575/2013 in light of Article 1 paragraph 9 of the Regulation, not to apply the transitional arrangements that would mitigate the impact on capital resulting from the introduction of IFRS9.

