mBank

2018

Disclosures regarding capital adequacy of mBank Group as at 30 June 2018

Warsaw, 8 August 2018

Contents:

1. Introduction

On the basis of Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 (hereinafter referred to as CRR Regulation) and European Banking Authority EBA/GL/2014/14 Guidelines on materiality, proprietary and confidentiality and on disclosure frequency under Article 432(1), 432(1) and 433 of the CRR Regulation, European Banking Authority EBA/GL/2016/11 Guidelines on disclosure requirements under Part Eight of the 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 S.A. (hereinafter referred to as mBank) available on the mBank website, information based on the data for mBank 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 30 June 2018. 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 prudentially consolidated financial data based on the rules of prudential consolidation described in the CRR Regulation.

The consolidated profit presented in prudentially consolidated financial data of mBank Group for the first half of the year 2018 may be included in consolidated Common Equity Tier 1 for the purpose of the calculation of consolidated Common Equity Tier 1 capital ratio, consolidated Tier 1 capital ratio and consolidated total capital ratio with the prior permission of the Polish Financial Supervisory Authority (hereinafter referred to as PFSA) or the General Meeting decision on profit distribution.

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 of mbank Group for the first half of the year 2018 includes 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

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 30 June 2018 is presented in point 4.1. In point 4.2 the structure of consolidated own funds of mBank Group as at 30 June 2018 is presented.

4.1. Main information

COMMON EQUITY TIER 1 CAPITAL

Capital instruments and the related share premium accounts

The share capital (in the amount of PLN 169 143 thousand), supplementary capital and reserve capital of mBank Group prudentially consolidated were included in Capital instruments and the related share premium accounts item as at 30 June 2018 in the amount of PLN 13 491 350 thousand.

Retained earnings

In Retained earnings item the undistributed profit from the previous years of mBank Group prudentially consolidated as at 30 June 2018 in the amount of PLN - 977 472 thousand were included.

Accumulated other comprehensive income

Unrealised gains and losses constitute mBank Group prudentially consolidated other elements of own capital as at 30 June 2018 in the amount of PLN 152 277 thousand were presented in Accumulated other comprehensive income item.

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 30 June 2018 the funds for general banking risk of mBank Group prudentially consolidated amounted to PLN 1 153 753 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 30 June 2018 in the amount of PLN 32 540 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 of intangible assets included in Common Equity Tier 1 capital of mBank Group prudentially consolidated as at 30 June 2018 amounted to PLN 670 042 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 30 June 2018 the amount of PLN 1 780 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 30 June 2018 in the amount of PLN 136 948 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 30 June 2018 the synthetic holdings in the amount of PLN 261 thousand were included.

Net impairment losses

In net impairment losses item as at 30 June 2018 the net impairment losses on loans and advances for the II quarter of the year 2018 were included in the amount of PLN 278 431 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 recommendations, in 2018 institutions 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 100% of their value. Regulatory adjustments in the amount of PLN 15 038 thousand regarding unrealised gains and losses as at 30 June 2018 constitute adjustments item to the item Accumulated other comprehensive income, mentioned above, in accordance with Article 33 of the CRR Regulation.

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 thousand 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 with 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.

According to the decision of 29 March 2018 mBank obtained a written consent of PFSA to classify the subordinated loan in the amount of CHF 250 000 thousand as instruments in Tier 2 capital, in accordance with terms of loan agreement between mBank and Commerzbank AG on 27 November 2017 (annexed on 27 February 2018) with 10 years maturity. The issue meets all the requirements of the CRR Regulation.

As at 30 June 2018 the amount of PLN 2 192 550 thousand was included in consolidated Tier 2 capital presented in Capital instruments and the related share premium accounts from the virtue of the above mentioned tranches of capital instruments.

TOTAL CAPITAL

The amount of consolidated own funds of mBank Group prudentially consolidated as at 30 June 2018 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 30 June 2018 amounted to PLN 14 877 418 thousand.

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	
Capital instruments and the related share premium accounts	13 491 350
Retained earnings	-977 472
Accumulated other comprehensive income	152 277
Funds for general banking risk	1 153 753
Independently reviewed interim profits net of any foreseeable charge or dividend	0
Common Equity Tier 1 (CET1) capital before regulatory adjustments	**13 819 908**
Common Equity Tier 1 capital: regulatory adjustments	
Additional value adjustments	-32 540
Intangible assets (net of related deferred tax liability)	-670 042
Fair value gains and losses arising from the institution's own credit risk related	-1 780
Negative amount resulting from the calculation of expected loss amounts	-136 948
Direct and indirect holdings by an institution of own CET1 instruments	-261
Net impairment losses	-278 431
Regulatory adjustments relating to unrealised gains and losses pursuant to Article 467 and 468 of the CRR Regulation	-15 038
Total regulatory adjustments to Common equity Tier 1	**-1 135 040**
Common Equity Tier 1 capital	**12 684 868**
Additional Tier 1 (AT1) capital: instruments	
Capital instruments and the related share premium accounts	0
Additional Tier 1 capital before regulatory adjustments	**0**
Additional Tier 1 capital: regulatory adjustments	
Direct and indirect holdings by an institution of own AT1 instruments	0
Total regulatory adjustments to Additional Tier 1 capital	**0**
Additional Tier 1 capital	**0**
Tier 1 capital (CET1 + AT1)	**12 684 868**
Tier 2 capital: instruments and provisions	
Capital instruments and the related share premium accounts	2 192 550
Amount of qualifying items referred to in Article 484 (5) and the related share premium accounts subject to phase out from T2	0
Tier 2 capital before regulatory adjustments	**2 192 550**
Tier 2 capital: regulatory adjustments	
Direct and indirect holdings by an institution of own Tier 2 capital instruments and subordinated loans	0
Total regulatory adjustments to Tier 2 capital	0
Tier 2 capital	**2 192 550**
Total capital (T1 + T2)	**14 877 418**
Total risk weighted assets	**74 165 540**

Capital ratio and buffers	
Common Equity Tier 1 (as a percentage of risk exposure amount)	**17.10%**
Tier 1 (as a percentage of risk exposure amount)	**17.10%**
Total capital (as a percentage of total risk exposure amount)	**20.06%**
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-SLL or O-Sll buffer), expressed as a percentage of risk exposure amount)	5,45%
of which: capital conservation buffer requirement	1,88%
of which: countercyclical buffer requirement	0,02%
of which: systemic risk buffer requirement	2,80%
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	8,45%

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

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

On 4 November 2014 mBank SA received conditional consent of PFSA to use AIRB approach to the calculation of capital requirement for credit risk with respect to non-mortgage retail exposures. On 22 May 2017 mBank SA received consent to remove the supervisory floor, according to which the minimum own funds requirement for credit risk in this portfolio had to be maintained at least at the level required in the standardised approach. On 6 May 2015 mBank SA received conditional consent of PFSA to use AIRB approach for retail mortgage loan portfolio (micro companies) and for the portfolio of commercial banks.

On 31 January 2018 mBank SA obtained approval from European Central Bank and PSFA to the application of material change in PD model for subsidiary mLeasing.

In the first half of 2018 bank submitted application for material change in LGD model for Retail portfolio and for consent to changing the AIRB roll-out plan by means of substituting the specialised lending model (commodities, objects, projects) with the AIRB slotting approach, instead of central model. Both applications 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 30 June 2018, 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 the first half of 2018 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. 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%.

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

As of 30 June 2018 mBank Group was obliged to ensure adequate own funds to meet conservation capital buffer of 1,88% of total risk exposure amount, as defined in the Act.

As of the end of June 2018 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 30 June 2018 amounted to 0,5%, had an impact on the mBank Group specific countercyclical capital buffer.

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. The required capital buffer was applicable as of June 30, 2018.

Starting from January 1st, 2018 the Regulation of the Minister of Development and Finance with regard to systemic risk buffer entered into force. The Regulation introduced systemic risk buffer of 3% of the total risk exposure amount applied to all exposures located in Poland. Due to the fact that not all exposures are located in Poland, due to mBank two foreign branches in Czech Republic and in Slovakia, the systemic risk buffer rate applicable to mBank Group amounted to 2,8% in June 2018.

Consequently, the combined buffer requirement set for the mBank Group as of the end of June 2018 amounted to 5,45% 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 level of the required capital ratios for mBank Group encompasses in total:

- the basis requirement resulting from CRR provisions to maintain the total capital ratio of 8% and the Tier 1 ratio of 6%;
- 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);
- the combined buffer requirement of additional 5,45%.

Capital ratios in the first half of 2018 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.

	30.06.2018		31.03.2018	
Capital ratio	Required level	Reported level	Required level	Reported level
Total capital ratio (TCR)	16,98%	20,06%	16,98%	20,93%
Tier 1 ratio	14,10%	17,10%	14,10%	17,87%

5.4. Quantitative data regarding capital adequacy, including information on internal rating based approach

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.

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

			RWAs (PLN thousand)		Minimum capital requirements (PLN thousand)
			30.06.2018	31.03.2018	30.06.2018
	1	**Credit risk (excluding CCR)**	**64 901 124**	**61 171 230**	**5 192 090**
art. 438 lit. c) i d)	2	Of which the standardised approach	14 905 378	14 420 397	1 192 430
art. 438 lit. c) i d)	3	Of which the foundation IRB (FIRB) approach	0	0	0
art. 438 lit. c) i d)	4	Of which the advanced IRB (AIRB) approach	49 995 746	46 750 833	3 999 660
art. 438 lit. d)	5	Of which equity IRB under the simple risk-weighted approach or the IMA	0	0	0
art. 107 art. 438 lit. c) i d)	6	**CCR**	**1 069 764**	**883 218**	**85 581**
art. 438 lit. c) i d)	7	Of which mark to market	826 488	630 806	66 119
art. 438 lit. c) i d)	8	Of which original exposure	0	0	0
	9	Of which the standardised approach	0	0	0
	10	Of which internal model method (IMM)	0	0	0
art. 438 lit. c) i d)	11	Of which risk exposure amount for contributions to the default fund of a CCP	1 623	1 549	130
art. 438 lit. c) i d)	12	Of which CVA	241 653	250 863	19 332
art. 438 lit. e)	13	**Settlement risk**	**0**	**0**	**0**
art. 449 lit. o) i i)	14	**Securitisation exposures in the banking book (after the cap)**	**0**	**0**	**0**
	15	Of which IRB approach	0	0	0
	16	Of which IRB supervisory formula approach (SFA)	0	0	0
	17	Of which internal assessment approach (IAA)	0	0	0
	18	Of which standardised approach	0	0	0
art. 438 lit. e)	19	**Market risk**	**914 737**	**857 924**	**73 179**
	20	Of which the standardised approach	914 737	857 924	73 179
	21	Of which IMA	0	0	0
art. 438 lit. e)	22	**Large exposures**	**0**	0	0
art. 438 lit. f)	23	**Operational risk**	**7 245 932**	**7 245 932**	**579 675**
	24	Of which basic indicator approach	0	0	0
	25	Of which standardised approach	7 245 932	7 245 932	579 675
	26	Of which advanced measurement approach	0	0	0
art. 437 ust. 2), art. 48 i art. 60	27	**Amounts below the thresholds for deduction (subject to 250% risk weight)**	**33 983**	**29 236**	**2 719**
art. 500	28	**Floor adjustment**	**0**	**0**	**0**
	29	**Total**	**74 165 540**	**70 187 540**	**5 933 243**

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	59 223	0	70%	59 223	41 456	237
Category 2	Less than 2.5 years	936 362	717 318	70%	1 172 163	802 302	4 690
	Equal to or more than 2.5 years	5 429 210	1 214 225	90%	5 429 332	4 882 660	43 435
Category 3	Less than 2.5 years	37 033	15 833	115%	41 625	47 869	1 166
	Equal to or more than 2.5 years	252 621	2 200	115%	253 259	291 248	7 091
Category 4	Less than 2.5 years	0	0	250%	0	0	0
	Equal to or more than 2.5 years	22 554	0	250%	22 554	56 385	1 804
Category 5	Less than 2.5 years	242 265	0	0	242 265	0	121 132
	Equal to or more than 2.5 years	254 843	0	0	254 843	0	127 421
Total	Less than 2.5 years	1 215 660	733 151		1 456 053	850 171	126 988
	Equal to or more than 2.5 years	6 018 451	1 216 425		6 019 211	5 271 749	179 988

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						

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

	mBank Group in PLN m	Risk weighted exposure amount for credit and counterparty credit risk, including supervisory floors	Capital requirements
1	**Risk weighted exposure amount as of 31 March 2018**	**61 833**	**4 947**
2	Asset size	3 025	242
3	Asset quality	-46	-4
4	AIRB model updates	159	13
5	Methodology and policy	0	0
6	Acquisitions and disposals	0	0
7	Foreign exchange movements	792	63
8	**Risk-weighted exposure amount as of 30 June 2018**	**65 763**	**5 261**

Asset size

The category covers structural changes of the credit portfolio: new and matured credit exposures. In the second quarter 2018, there was a significant increase in both retail and corporate lending.

Asset quality

This category covers: rating migrations, reclassification of exposures to defaulted status and the returns to a non-defaulted status.

Model updates

In light of AIRB approach applied to calculation of risk-weighted exposure amount for credit, counterparty credit risk, there was an implementation of ECB and KNF recommendations into an internal model, which influenced RWA in the second quarter 2018.

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.

Methodology and policy

In the second quarter 2018, the bank recorded neither methodology nor policy changes.

Foreign exchange movements

Due to the significant share of foreign currency credit portfolio in mBank Group portfolio and substantial depreciation of PLN, foreign exchange movements had a considerable influence on the level of risk-weighted exposure amount for credit and counterparty credit risk in the second quarter 2018.

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

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 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	49 628 631	45 827 393	44 033 437	1 793 956	0
2	Total debt securities	32 415 002	37 962	37 962	0	0
3	**Total exposures**	**117 343 708**	**51 440 808**	**48 927 467**	**2 513 341**	**0**
4	Of which defaulted	1 184 731	813 156	806 019	7 137	0

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	33 853 229	2 836	33 909 831	567	49 769	0,15%
2	Regional government or local authorities	657 208	54 339	786 649	12 833	159 896	20,00%
3	Public sector entities	70 059	46 778	13 592	20 402	17 899	52,65%
4	Multilateral development banks	1 899 292	0	1 899 292	0	0	0,00%
5	International organisations						
6	Institutions	366 157	7 274	442 827	1 849	226 074	50,84%
7	Corporates	6 834 407	4 554 254	6 520 808	1 387 211	7 900 787	99,91%
8	Retail	2 544 227	691 465	2 544 227	168 073	2 031 796	74,91%
9	Secured by mortgages on immovable property	9 098 078	43 806	9 098 078	21 896	3 755 488	41,18%
10	Exposures in default	426 201	2 257	369 617	2 103	463 894	124,80%
11	Exposures associated with particularly high risk	36 905	0	36 905	0	55 357	150,00%
12	Covered bonds						
13	Institutions and corporates with a short-term credit assessment						
14	Collective investment undertakings	160	0	160	0	160	100,00%
15	Equity	224 647	0	224 647	0	245 036	109,08%
16	Other items	21 944	12	21 944	12	21 956	100,00%
17	Total	**56 032 513**	**5 403 021**	**55 868 577**	**1 614 945**	**14 928 113**	**25,97%**

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	33 306 734	0	547 962	0	0	0	55 702	0	0
2	Regional government or local authorities	0	0	0	0	799 482	0	0	0	0
3	Public sector entities	0	0	0	0	0	0	32 192	0	0
4	Multilateral development banks	1 899 292	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	12 480	0	418 215	0	0
7	Corporates	0	0	0	0	0	0	340	0	0
8	Retail	0	0	0	0	0	0		0	2 712 285
9	Secured by mortgages on immovable property	0	0	0	0	0	8 036 372	296 235	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**	**35 206 026**	0	**547 962**	0	**811 962**	**8 036 372**	**802 684**	0	**2 712 285**

	Exposure classes	Risk weight					Other	Deducted	Total	Of which unrated
		100%	150%	250%	370%	1250%				
1	Central governments or central banks	0	0	0	0	0	0	0	33 910 398	1 547 288
2	Regional government or local authorities	0	0	0	0	0	0	0	799 482	134 821
3	Public sector entities	1 803	0	0	0	0	0	0	33 995	1 797
4	Multilateral development banks	0	0	0	0	0	0	0	1 899 292	
5	International organisations	0	0	0	0	0	0	0	0	
6	Institutions	13 491	0	0	0	0	489	0	444 675	220 582
7	Corporates	7 907 679	0	0	0	0	0	0	7 908 019	7 881 716
8	Retail	14	0	0	0	0	0	0	2 712 299	2 712 299
9	Secured by mortgages on immovable property	771 953	15 414	0	0	0	0	0	9 119 974	9 119 974
10	Exposures in default	187 373	184 347	0	0	0	0	0	371 720	371 720
11	Exposures associated with particularly high risk	0	36 905	0	0	0	0	0	36 905	36 905
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		
14	Collective investment undertakings	160	0		0	0	0	0	160	160
15	Equity	211 054	0	13 593	0	0	0	0	224 647	224 647
16	Other items	21 956	0		0	0	0	0	21 956	21 956
17	**Total**	**9 115 483**	**236 666**	**13 593**	**0**	**0**	**489**	**0**	**57 483 522**	**22 273 865**

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 adjust-ments and provisions
Exposure class	**Retail mortgage portfolio (microfirms)**												
	from 0.00 to 0.15	24 781	6 592	115,58%	32 400	0,13%	102	36,23%	-	2 603	8,03%	14	
	from 0.15 to 0.25	232 434	15 262	77,54%	244 268	0,21%	642	32,66%	-	26 547	10,87%	166	
	from 0.25 to 0.50	532 739	77 679	88,01%	601 105	0,36%	1 543	31,41%	-	93 817	15,61%	682	
	from 0.50 to 0.75	335 123	36 681	104,66%	373 513	0,61%	1 078	31,96%	-	86 677	23,21%	734	
	from 0.75 to 2.50	566 521	56 206	153,27%	652 668	1,32%	1 833	33,67%	-	263 511	40,37%	2 921	
	from 2.50 to 10.00	169 519	9 119	122,75%	180 711	4,49%	466	32,60%	-	143 592	79,46%	2 668	
	from 10.00 to 100.00	128 367	2 075	105,40%	130 554	21,55%	282	31,19%	-	180 616	138,35%	8 994	
	100.00 (Default)	163 051	288	0,00%	163 051	100,00%	303	55,03%	-	144 458	88,60%	87 812	
	Subtotal	**2 152 533**	**203 904**	**110,71%**	**2 378 271**	**8,95%**	**6 249**	**34,01%**	**-**	**941 821**	**39,60%**	**103 992**	**104 208**

Exposure class	**Retail mortgage portfolio (natural persons)**												
	from 0.00 to 0.15	12 744 923	271 173	49,99%	12 880 492	0,08%	54 468	25,77%	-	716 484	5,56%	2 769	
	from 0.15 to 0.25	3 906 436	75 125	54,59%	3 947 463	0,19%	14 665	26,09%	-	425 315	10,77%	1 986	
	from 0.25 to 0.50	3 220 282	88 662	59,59%	3 273 115	0,35%	11 853	26,56%	-	555 038	16,96%	3 047	
	from 0.50 to 0.75	1 011 390	29 415	60,89%	1 029 299	0,60%	3 691	26,74%	-	259 170	25,18%	1 663	
	from 0.75 to 2.50	1 100 811	23 637	58,88%	1 114 729	1,25%	3 941	26,96%	-	456 216	40,93%	3 779	
	from 2.50 to 10.00	689 083	5 114	49,39%	691 609	5,61%	2 379	26,80%	-	661 734	95,68%	10 328	
	from 10.00 to 100.00	608 394	1 978	61,92%	609 619	17,82%	1 757	28,27%	-	972 049	159,45%	31 002	
	100.00 (Default)	928 785	315	0,00%	928 785	100,00%	2 455	56,99%	-	1 492 128	160,65%	430 103	
	Subtotal	**24 210 105**	**495 418**	**53,49%**	**24 475 111**	**4,60%**	**95 209**	**27,30%**	**-**	**5 538 134**	**22,63%**	**484 677**	**486 280**
Exposure class	**Retail non-mortgage portfolio (microfirms)**												
	from 0.00 to 0.15	42 243	76 212	79,81%	103 056	0,12%	3 724	39,50%	-	9 713	9,42%	51	
	from 0.15 to 0.25	124 812	279 481	81,66%	353 052	0,20%	13 256	47,15%	-	54 240	15,36%	330	
	from 0.25 to 0.50	835 603	653 543	80,39%	1 360 990	0,39%	46 334	41,75%	-	285 288	20,96%	2 149	
	from 0.50 to 0.75	848 851	240 643	83,80%	1 050 518	0,61%	34 293	38,00%	-	268 688	25,58%	2 446	
	from 0.75 to 2.50	2 782 295	386 544	85,04%	3 111 030	1,46%	90 731	33,98%	-	1 033 264	33,21%	15 105	
	from 2.50 to 10.00	2 430 374	105 176	87,27%	2 522 164	4,75%	66 470	28,45%	-	941 898	37,34%	33 572	
	from 10.00 to 100.00	944 891	17 249	86,64%	959 836	21,94%	27 292	28,49%	-	529 560	55,17%	59 155	
	100.00 (Default)	519 298	1 890	0,00%	519 298	100,00%	17 413	73,10%	-	478 563	92,16%	350 983	
	Subtotal	**8 528 368**	**1 760 739**	**82,44%**	**9 979 946**	**9,10%**	**299 513**	**36,10%**	**-**	**3 601 213**	**36,08%**	**463 791**	**458 150**
Exposure class	**Retail non-mortgage portfolio (natural persons)**												
	from 0.00 to 0.15	310 811	911 672	72,04%	967 685	0,10%	133 594	47,84%	-	116 337	12,02%	444	
	from 0.15 to 0.25	491 179	1 300 564	70,82%	1 412 066	0,20%	206 610	48,17%	-	292 765	20,73%	1 370	
	from 0.25 to 0.50	1 342 700	1 678 951	70,10%	2 519 747	0,36%	383 094	48,87%	-	767 286	30,45%	4 424	
	from 0.50 to 0.75	915 015	356 545	74,60%	1 181 010	0,61%	166 235	49,82%	-	499 994	42,34%	3 607	
	from 0.75 to	3 175 849	605 852	75,30%	3 632 033	1,42%	534 350	50,20%	-	2 188 939	60,27%	25 775	

	2.50												
	from 2.50 to 10.00	1 789 059	118 476	78,36%	1 881 894	4,61%	262 593	49,74%	-	1 445 443	76,81%	43 144	
	from 10.00 to 100.00	629 739	28 771	77,68%	652 088	19,35%	90 727	50,01%	-	733 207	112,44%	63 252	
	100.00 (Default)	848 219	5 850	0,00%	848 219	100,00%	86 104	71,90%	-	1 001 368	118,06%	552 304	
	Subtotal	**9 502 572**	**5 006 681**	**71,75%**	**13 094 742**	**8,65%**	**1 863 307**	**50,85%**	**-**	**7 045 339**	**53,80%**	**694 319**	**698 164**
Exposure class	**Corporations - medium and small enterprises**												
	from 0.00 to 0.15	486 863	407 078	42,93%	661 604	0,07%	312	37,61%	2	101 463	15,34%	167	
	from 0.15 to 0.25	195 535	142 983	39,03%	251 335	0,19%	84	35,03%	2	62 784	24,98%	162	
	from 0.25 to 0.50	630 906	370 446	49,28%	813 462	0,38%	284	38,00%	2	354 935	43,63%	1 196	
	from 0.50 to 0.75	805 788	361 303	46,65%	974 325	0,62%	366	36,06%	2	506 577	51,99%	2 208	
	from 0.75 to 2.50	3 297 460	1 503 189	44,27%	3 962 947	1,46%	1 511	36,42%	2	2 724 449	68,75%	20 913	
	from 2.50 to 10.00	1 684 919	488 666	45,22%	1 905 896	4,18%	755	33,57%	2	1 633 998	85,73%	26 195	
	from 10.00 to 100.00	168 143	28 287	42,17%	180 071	24,35%	129	24,95%	2	189 504	105,24%	11 251	
	100.00 (Default)	181 730	14 052	26,99%	185 523	100,00%	93	71,44%	2	342 072	184,38%	117 809	
	Subtotal	**7 451 344**	**3 316 003**	**44,75%**	**8 935 163**	**4,22%**	**3 534**	**36,46%**	**2**	**5 915 782**	**66,21%**	**179 901**	**153 664**
Exposure class	**Corporations - other**												
	from 0.00 to 0.15	1 003 468	1 679 634	29,52%	1 499 275	0,08%	119	45,53%	2	359 645	23,99%	571	
	from 0.15 to 0.25	1 184 379	2 458 927	28,71%	1 890 364	0,20%	85	40,09%	2	694 409	36,73%	1 421	
	from 0.25 to 0.50	1 743 312	2 138 841	44,48%	2 694 774	0,36%	231	45,51%	2	1 549 490	57,50%	4 311	
	from 0.50 to 0.75	1 510 491	1 635 583	40,13%	2 166 853	0,61%	167	46,39%	3	1 779 694	82,13%	6 170	
	from 0.75 to 2.50	5 936 414	3 802 687	41,98%	7 532 782	1,35%	643	44,88%	2	7 638 033	101,40%	45 404	
	from 2.50 to 10.00	1 530 848	1 052 783	33,26%	1 880 955	4,32%	384	40,74%	2	2 412 786	128,27%	32 008	
	from 10.00 to 100.00	74 408	24 862	42,70%	85 025	21,88%	252	23,32%	2	98 862	116,27%	5 242	
	100.00 (Default)	701 937	123 307	21,71%	728 710	100,00%	296	81,11%	1	516 855	70,93%	658 225	
	Subtotal	**13 685 257**	**12 916 624**	**37,11%**	**18 478 738**	**5,18%**	**2 177**	**45,62%**	**2**	**15 049 773**	**81,44%**	**753 352**	**717 341**
Exposure class	**Corporations - specialized lending exposures**												
	Subtotal	**7 234 110**	**1 949 576**	**12,37%**	**7 475 262**	**0,00%**	**429**	**0,00%**	**4**	**6 121 920**	**81,90%**	**306 977**	**236 475**
Exposure class	**Institutions**												
	from 0.00 to	2 298 724	3 859 064	42,94%	3 955 647	0,06%	68	43,17%	1	876 889	20,71%	1 140	

	0.15												
	from 0.15 to 0.25	433 606	22 106	46,69%	443 927	0,21%	11	44,51%	1	165 001	37,17%	407	
	from 0.25 to 0.50	95 522	4 761	45,08%	97 669	0,40%	19	49,74%	1	60 502	61,95%	193	
	from 0.50 to 0.75	117 405	5 000	45,00%	119 655	0,60%	6	23,72%	2	48 949	40,91%	172	
	from 0.75 to 2.50	57 703	111 175	45,21%	107 969	1,30%	11	48,80%	1	120 098	111,23%	731	
	from 2.50 to 10.00	52 371	29 565	52,31%	67 835	3,86%	9	57,97%	2	125 468	184,96%	1 482	
	from 10.00 to 100.00	0	0	0,00%	0	0,00%	0	0,00%	0	0	0,00%	0	
	100.00 (Default)	238	0		238	100,00%	1	100,00%	1	0	0,00%	238	
	Subtotal	**3 055 569**	**4 031 671**	**43,09%**	**4 792 941**	**0,17%**	**125**	**43,27%**	**1**	**1 396 908**	**27,48%**	**4 363**	**3 262**
All portfolios													
Exposure class		**75 819 860**	**29 680 614**	**46,46%**	**89 610 173**	**5,27%**	**2 270 543**	**35,20%**	**2**	**45 610 890**	**50,90%**	**2 991 372**	**2 857 544**

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.

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)

		30/06/2018
1	Total assets as per published financial statements	**140 017 793**
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	-50 709
3	(Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting framework but excluded from the leverage ratio total exposure measure in accordance with Article 429(13) of Regulation (EU) No 575/2013)	0
4	Adjustments for derivative financial instruments	689 324
5	Adjustment for securities financing transactions (SFTs)	3 628 639
6	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	10 997 033
EU-6A	(Adjustment for intragroup exposures excluded from the leverage ratio total exposure measure in accordance with Article 429(7) of Regulation (EU) No 575/2013)	0
EU-6B	(Adjustment for exposures excluded from the leverage ratio total exposure measure in accordance with Article 429(14) of Regulation (EU) No 575/2013)	0
7	Other adjustments	-6 378 970
8	**Leverage ratio total exposure measure**	**148 903 110**

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.

LRCom: (in PLN thousand)

		30/06/2018
	Total assets as per published financial statements	
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	133 479 211
2	(Asset amounts deducted in determining Tier 1 capital)	-1 135 039
3	**Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets)**	**132 344 172**
	Derivative exposures	
4	Replacement cost associated with all derivatives transactions (ie net of eligible cash variation margin)	576 210
5	Add-on amounts for PFE associated with all derivatives transactions (mark- to-market method)	1 303 033
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**	**1 879 243**
	SFT exposures	
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	3 638 590
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	0
14	Counterparty credit risk exposure for SFT assets	44 073
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	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	**3 682 663**
	Other off-balance sheet exposures	
17	Off-balance sheet exposures at gross notional amount	34 971 902
18	(Adjustments for conversion to credit equivalent amounts)	-23 974 869
19	**Other off-balance sheet exposures**	**10 997 033**
	Exempted exposures in accordance with Article 429(7) and (14) of Regulation (EU) No 575/2013 (on and off balance sheet)	
EU-19A	(Intragroup exposures (solo basis) exempted in accordance with Article 429(7) of Regulation (EU) No 575/2013 (on and off balance sheet))	0
EU-19B	(Exposures exempted in accordance with Article 429 (14) of Regulation (EU) No 575/2013 (on and off balance sheet))	0
	Capital and total exposure mesure	
20	Tier 1 capital	**12 684 868**
21	Leverage ratio total exposure measure	**148 903 110**
	Leverage ratio	
22	Leverage ratio	**8,52%**
	Choice on transitional arrangements and amount of derecognised fiduciary items	
EU-23	Choice on transitional arrangements for the definition of the capital measure	przejściowe
EU-24	Amount of derecognised fiduciary items in accordance with Article 429(11) of Regulation (EU) No 575/2013	0

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

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 30 June 2018 and 31 December 2017 (in PLN thousand)

	30.06.2018	31.12.2017
Exposure value	**148 903 110**	**138 383 865**
Capital and regulatory adjustments		
Tier 1 capital - transitional definition	12 684 868	12 454 486
Regulatory adjustments - Tier 1 - transitional definition	-1 135 039	-1 133 187
Leverage ratio *		
Leverage Ratio - using a transitional definition of Tier 1	8,52%	9,00%

The leverage ratio of the Group in the first half of 2018 was driven by the following factors:

- inclusion, in Common Equity Tier 1 capital, of the additional remaining part of the verified net profit of the mBank Group for Q1, Q2 and Q3 2017, not included in Common Equity Tier 1 capital net of expected charges and dividends, on the basis of the PFSA decisions of March 29, 2018 (no DBK-DBK2.700.5.2018, nr DBK-DBK2.700.7.2018, nr DBK-DBK2.700.9.2018);
- inclusion in Common Equity Tier 1 capital of the remaining part (not included earlier) of the net profit of mBank Group for the year 2017 as approved by the General Meeting of Shareholders, net of paid dividend;
- change of the limit for unrealized gains measured at the fair value included in the own funds calculation from 80% in 2017 to 100% in 2018;
- expansion of the mBank Group business activity;
- depreciation of the Polish currency against the foreign currencies in the first half of 2018;
- implementation of the International Financial Reporting Standard 9, which had no significant impact on Group's ratio.

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

Capital Management Committee performs the essential role in management of risk of excessive leverage in mBank Group. Management of this risk comprises two fundamental perspectives: calculation and monitoring of leverage ratio and analysis of mismatches between assets and 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 adjustments

On 24th July 2014 International Accounting Standard Board (IASB) published new International Financial Reporting Standard number 9 – IFRS 9 "Financial Instruments", which has become binding for annual reporting periods since 1st January 2018. The IFRS 9 replaced International Accounting Standard 39 "Financial Instruments: Recognition and Measurement". The European Commission adopted IFRS 9 through Commission Regulation (EU) 2016/2067 of 22nd November 2016.

As a result of implementation of IFRS 9 on 1st January 2018, new model of impairment of financial assets has been introduced. It is based on the concept of expected credit loss (ECL) which includes information about future events. The change has influence on classification of exposures, modelling of risk parameters and level of credit risk provisions.

Part of the portfolio measured in IAS 39 at amortized cost, after the implementation of IFRS 9 is measured at fair value through profit and loss. For this part of the portfolio, specific credit risk adjustment is being reported as credit risk costs.

Introduction of the new approach resulted in moderate increase of impairment provisions in the Group. Under new approach exposures are classified to one out of four stages: 1, 2, 3. Stage 1 includes exposures with no significant credit risk deterioration since initial recognition and the calculation of loss allowance is based on 12-month expected credit loss. For retail, the previous loss identification period equaled 12 months, thus there was no considerable change in the level of provisions. Whereas for corporate, the loss identification period has been extended to 12 months and, as a result, the Group recorded increase of provisions. Stage 2 consists of exposures which credit risk has increased significantly since initial recognition and ECL is measured using lifetime horizon. This requirement aims to earlier recognition of credit loss before actual default, which finally generates higher provisions. Stage 3 covers exposures with impairment. Increase of provisions in stage 3 stems mainly from: for portfolio method – modification of cure definition which now follows default definition approach and incorporates losses within lifetime horizon for multiple defaults, for individual method – combination of set of recovery scenarios with different probabilities.

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.

Increase in credit risk cost in the portfolio of corporate exposures during the first six months of 2018 (starting from Jan 1st, 2018, i.e. including opening balance for 2018) resulted from changes in loss ratio realized for this portfolio. During the same period, partial sales of defaulted retail portfolio resulted in a decrease in credit risk cost.

		a)	b)	c)	d)	e)	f)	g)
		Gross carrying values of		Specific credit risk adjustment	General credit risk adjustment	Accumulated write-offs	Credit risk adjustment charges of the period	Net values
		Defaulted exposures	Non-defaulted exposures					(a+b-c-d)
1	Central governments or central banks	0	0	0	0	0	0	0
2	Institutions	238	7 087 003	3 262	0	0	-10	7 083 979
3	Corporates	1 517 506	45 035 421	1 107 913	0	573	-192 321	45 445 014
4	*Of which: Specialised lending*	497 108	8 686 578	236 895	0	0	-22 094	8 946 791
5	*Of which: SMEs*	195 226	10 572 121	153 665	0	0	-11 293	10 613 682
6	Retail	2 413 593	49 446 726	1 746 752	0	266 305	-310 810	50 113 567
7	*Secured by real estate property*	1 038 337	26 023 623	590 438	0	73 193	-238 240	26 471 522
8	*SMEs*	140 440	2 215 997	104 208	0	11 440	-42 243	2 252 229
9	*Non-SMEs*	897 897	23 807 626	486 230	0	61 753	-195 997	24 219 293
10	*Qualifying revolving*	0	0		0	0	0	0
11	*Other retail*	1 375 256	23 423 103	1 156 314	0	193 111	-72 570	23 642 045
12	*SMEs*	521 188	9 767 919	458 150	0	70 402	-20 477	9 830 957
13	*Non-SMEs*	854 068	13 655 184	698 164	0	123 114	-52 093	13 811 088
14	Equity	0	0	0	0	0	0	0
15	***Total IRB approach***	**3 931 337**	**101 569 150**	**2 857 927**	0	**267 282**	**-503 141**	**102 642 560**
16	Central governments or central banks	0	33 856 068	3	0	0	-366	33 856 065

17	Regional governments or local authorities	0	712 177	631	0	0	0	711 546
18	Public sector entities	0	116 913	76	0	0	0	116 837
19	Multilateral development banks	0	1 899 292	0	0	0	0	1 899 292
20	International organisations	0	0	0	0	0		0
21	Institutions	0	373 759	328	0	0	0	373 431
22	Corporates	0	11 426 998	38 337	0	0	-1 217	11 388 661
23	*Of which: SMEs*	0	2 696 078	3 292	0	0	-419	2 692 786
24	Retail	0	3 368 308	132 617	0	10	-7	3 235 691
25	*Of which: SMEs*	0	53 461	33 744	0	0		19 717
26	Secured by mortgages on immovable property	0	9 141 936	52	0	0	0	9 141 884
27	*Of which: SMEs*	0	1 821	0	0	0	0	1 821
28	Exposures in default	1 203 178	0	774 720	0	1 878	-191 059	428 458
29	Items associated with particularly high risk	5 200	31 705	0	0	0	0	36 905
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	0
32	Collective investments undertakings	0	160	0	0	0		160
33	Equity exposures	56 932	221 168	53 453	0	0	0	224 647
34	Other exposures	0	21 956	0	0	0	0	21 956
35	***Total standardised approach***	**1 265 310**	**61 170 440**	**1 000 217**	**0**	**1 888**	**-192 649**	**61 435 533**
36	***Total***	**5 196 647**	**162 739 590**	**3 858 144**	**0**	**269 170**	**-695 790**	**164 078 093**
37	*Of which: Loans*	3 972 348	84 362 288	2 832 825	0	0	-503 142	85 501 811
38	*Of which: Debt securities*	0	32 066 730	448	0	0	0	32 066 282
39	*Of which: Off-balance-sheet exposures*	143 703	28 136 260	108 728	0	0	0	28 171 235

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						Net values
			Non-defaulted exposures	Ekspozycje, których nie dotyczy niewykonanie zobowiązania	Specific credit risk adjustment	General credit risk adjustment	Accumulated write-offs	Credit risk adjustment charges (a+b-c-d)	(a+b-c-d)
a)	1	Agriculture, Forestry And Fishing	7 572	140 928	8 092	0	349	-2 298	140 408
b)	2	Mining And Quarrying	97 614	472 184	98 655	0	60	-13 487	471 143
c)	3	Manufacturing	740 988	16 991 038	563 822	0	9 882	-46 219	17 168 204
d)	4	Electricity, Gas, Steam And Air Conditioning Supply	132 816	2 061 322	84 653	0	4	-7 568	2 109 485
e)	5	Water Supply; Sewerage, Waste Management And Remediation Activities	13 070	651 445	12 813	0	615	-476	651 702
f)	6	Construction	635 776	9 980 282	445 945	0	12 527	-103 368	10 170 113
g)	7	Wholesale And Retail Trade; Repair Of Motor Vehicles And Motorcycles	436 234	13 499 623	402 432	0	26 983	-66 278	13 533 425
h)	8	Transportation And Storage	77 709	3 759 075	75 834	0	6 481	-3 621	3 760 950
i)	9	Accommodation And Food Service Activities	53 166	1 156 992	48 776	0	2 032	-25 964	1 161 382
j)	10	Information And Communication	79 228	3 295 563	79 715	0	2 758	-9 881	3 295 076
k)	11	Financial And Insurance Activities	264 571	18 430 305	91 357	0	4 668	-2 048	18 603 519
l)	12	Real Estate Activities	306 435	6 883 163	166 159	0	1 731	-12 290	7 023 439
m)	13	Professional, Scientific And Technical Activities	101 174	2 408 005	112 973	0	5 892	-4 788	2 396 206
	14	Administrative And Support Service Activities	21 572	1 609 818	24 140	0	3 175	-1 306	1 607 250
o)	15	Public Administration And Defence; Compulsory Social Security	983	27 579 592	703	0		-1	27 579 872
p)	16	Education	39 761	258 328	18 227	0	1 010	-2 579	279 862
q)	17	Human Health And Social Work Activities	11 607	862 023	14 236	0	767	-1 076	859 394
r)	18	Arts, Entertainment And Recreation	45 276	404 866	34 910	0	304	-1 997	415 232
s)	19	Other Service Activities	2 115 311	46 144 805	1 557 699	0	189 932	-390 545	46 702 417
t)	20	Activities Of Households As Employers; Undifferentiated Goods- And Services-Producing Activities Of Households For Own Use	15 784	6 150 151	17 000	0	0	0	6 148 935
u)	21	Activities Of Extraterritorial Organisations And Bodies		82	3	0	0	0	79
	22	Other	0	0	0	0	0	0	0
	23	**Total**	**5 196 647**	**162 739 590**	**3 858 144**	**0**	**269 170**	**-695 790**	**164 078 093**

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)	b)	c)	d)	e)	f)	g)
		Gross Carrying values						Net values
		Defaulted exposures	Non-defaulted exposures	Specific credit risk adjustment	General credit risk adjustment	Accumulated write-offs	Credit risk adjustment charges	Defaulted exposures
1	Poland (PL)	4 598 481	146 513 675	3 300 568	0	267 283	-566 388	147 811 588
2	Czech Republic (CZ)	157 150	5 961 979	164 369	0	1 542	-78 200	5 954 760
3	Slovakia (SK)	68 210	1 061 269	71 543	0	345	-35 929	1 057 936
4	Germany (DE)	2	3 330 049	890	0	0	0	3 329 161
5	Great Britain (GB)	101	1 194 740	233	0	0	-4	1 194 608
6	Luxemburg (LU)	31	2 152 052	1 116	0	0	0	2 150 967
7	Other	372 672	2 525 826	319 425	0	0	-15 269	2 579 073
8	***Total***	**5 196 647**	**162 739 590**	**3 858 144**	**0**	**268 224**	**-695 790**	**164 078 093**

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 ≤ 60 days	> 30 days ≤ 60 days	> 30 days ≤ 60 days	>90 dni, ≤180 dni	>180 dni, ≤1 rok	>1 rok
Loans	2 654 374	485 997	128 031	305 761	370 737	3 004 345
Debt securities	46 988	0	0	0	0	0
Total exposures	**2 701 362**	**485 997**	**128 031**	**305 761**	**370 737**	**3 004 345**

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				Of which performing:		Of which non-performing	
		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	33 667 670	0	0	46 988	46 988	46 988	0	-5 548	0	-12 878	0
Loans and advances	95 256 282	1 384 200	892 806	4 918 734	4 245 239	4 014 772	1 091 931	-355 537	-15 105	-2 765 168	-309 500
Off-balance-sheet exposures	**41 755 016**	**0**	**24 120**	**146 242**	**139 494**	**0**	**124 421**	**52 063**	**174**	**67 985**	**60 212**

		l)	m)
		Collaterals and financial guarantees received	
		On non performing exposures	Of which forborne exposures
010	Debt securities	0	0
020	Loans and advances	1 123 545	580 408
030	Off-balance-sheet exposures	0	0

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 tys.	a) Accumulated specific credit risk adjustment	b) Accumulated general credit risk adjustment
1	**Opening balance (01.01.2018)**	**2 538 488**	---
2	Increases due to amounts set aside for estimated loan losses during the period	425 892	---
3	Decreases due to amounts reversed for estimated loan losses during the period	-141 230	---
4	Decreases due to amounts taken against accumulated credit risk adjustments	-297 346	---
5	Transfers between credit risk adjustments	-14 814	---
6	Impact of exchange rate differences	26 217	---
7	Business combinations, including acquisitions and disposals of subsidiaries	0	---
8	Other adjustments	21 264	---
9	**Closing balance (30.06.2018)**	**2 558 471**	---
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	---

For the Opening Balance the reported value is as at 01.01.2018.

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.

	w tys. PLN	a) Gross carrying value defaulted exposures
1	**Opening balance (01.01.2018)**	**5 061 786**
2	Loans and debt securities that have defaulted or impaired since the last reporting period	634 950
3	Returned to non-defaulted status	-259 547
4	Amounts written off	-388 026
5	Other changes	-18 651
6	**Closing balance (30.06.2018)**	**5 030 512**

For the Opening Balance the reported value is as at 01.01.2018. The closing balance of the gross carrying value of defaulted exposures is lower than the opening balance value mainly due to sales in the retail portfolio.

8. Transitional arrangements for mitigating the impact of the introduction of IFRS 9 on own funds

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. Information on own funds and capital ratios, including leverage ratio, presented in the document already reflect the full impact of IFRS 9.