
# 2018

## Disclosures regarding capital adequacy of mBank S.A. Group as at 31 December 2018

Warsaw, 26 February 2019
(update 20 August 2019)

**Contents:**

## 1. Introduction

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

Entities included in prudential consolidation according to the rules of the CRR Regulation were taken into account in the process of calculation of consolidated own funds and consolidated own funds requirements as at 31 December 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).

This report has been supplemented with the information regarding variable remuneration of holders of managerial positions for 2018 in the amounts approved by the Annual General Meeting on 28 March 2019, which is presented in chapter 12, page 83 of this report.

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 2018 (hereinafter referred to as Prudentially consolidated financial data for the year 2018) is presented in the Explanatory Note 46 of mBank Group IFRS Consolidated Financial Statements for 2018 (hereinafter referred to as the Consolidated financial statements for the year 2018).

The accounting policies applied for the preparation of the Prudentially consolidated financial data for 2018 are the same as those, which have been applied to the Consolidated financial statements for the year 2018, 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 2018 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
10. Asekum Sp. z o.o.

Detailed information on consolidated entities included in accounting consolidation is presented in Explanatory Note 1 of the Consolidated financial statements for the year 2018.

Reconciliation between the IFRS Consolidated financial statements for the year 2018 and the Prudentially consolidated financial data for the year 2018 compliant with the CRR Regulation is presented below.

| Reconciliation | Consolidated financial statements for the year 2018 | Deconsolidation of entities not included in prudential consolidation | Prudentially consolidated financial data for the year 2018 |
|---|---|---|---|
| **Assets** | **31.12.2018** | **31.12.2018** | **31.12.2018** |
| Cash and balances with the Central Bank | 9 199 264 | 0 | 9 199 264 |
| Financial assets held for trading and derivatives held for hedges | 2 104 302 | 0 | 2 104 302 |
| Non-trading financial assets mandatorily at fair value through profit or loss | 2 836 060 | 104 336 | 2 940 396 |
| Financial assets at fair value through other comprehensive income | 24 338 284 | 0 | 24 338 284 |
| Financial assets at amortised cost | 103 564 317 | 0 | 103 564 317 |
| Intangible assets | 776 175 | 0 | 776 175 |
| Tangible assets | 785 026 | 0 | 785 026 |
| Current income tax assets | 9 336 | 0 | 9 336 |
| Deferred income tax assets | 959 076 | 0 | 959 076 |
| Other assets | 1 178 279 | -54 341 | 1 123 938 |
| **Total Assets** | **145 750 119** | **49 995** | **145 800 114** |
| **Liabilities and equity** | | | |
| **Liabilities** | | | |
| Financial liabilities held for trading and derivatives held for hedges | 981 117 | 0 | 981 117 |
| Financial liabilities measured at amortised cost | 125 611 195 | 50 122 | 125 661 317 |
| Provisions | 258 283 | 0 | 258 283 |
| Current income tax liabilities | 352 962 | 0 | 352 962 |
| Deferred income tax liabilities | 83 | 0 | 83 |
| Other liabilities | 3 330 399 | -127 | 3 330 272 |
| **Total liabilities** | **130 534 039** | **49 995** | **130 584 034** |
| **Equity** | | | |
| **Equity attributable to Owners of mBank S.A.** | **15 213 980** | 0 | **15 213 980** |
| **Share capital:** | **3 574 686** | **0** | **3 574 686** |
| - Registered share capital | 169 348 | 0 | 169 348 |
| - Share premium | 3 405 338 | 0 | 3 405 338 |
| **Retained earnings:** | **11 424 456** | **0** | **11 424 456** |
| - Profit from the previous years | 10 108 005 | 0 | 10 108 005 |
| - Profit for the current year | 1 316 451 | 0 | 1 316 451 |
| **Other components of equity** | **214 838** | **0** | **214 838** |
| **Non-controlling interests** | **2 100** | **0** | **2 100** |
| **Total equity** | **15 216 080** | **0** | **15 216 080** |
| **Total liabilities and equity** | **145 750 119** | **49 995** | **145 800 114** |

Below the reconciliation of equity is presented, from the items included in the IFRS Consolidated financial statements for the year 2018 via the Prudentially consolidated financial data for the year 2018 compliant with the CRR Regulation, to the items included in Common Equity Tier 1 capital of mBank Group as at 31 December 2018.

| Reconciliation | Consolidated financial statements for the year 2018 | Deconsolidation of entities not included in prudential consolidation | Prudentially consolidated financial data for the year 2018 | Items not included in own funds and regulatory adjustments | Own funds in part regarding Common Equity Tier 1 capital |
|---|---|---|---|---|---|
| **Equity** | **31.12.2018** | **31.12.2018** | **31.12.2018** | **31.12.2018** | **31.12.2018** |
| **Share capital:** | **3 574 686** | **0** | **3 574 686** | **-18** | **3 574 668** |
| - Registered share capital | 169 348 | 0 | 169 348 | -18 | **169 330** |
| - Share premium | 3 405 338 | 0 | 3 405 338 | 0 | 3 405 338 |
| **Retained earnings:** | **11 424 456** | **0** | **11 424 456** | **-824 612** | **10 599 844** |
| - Other supplementary capital | 9 826 282 | 0 | 9 826 282 | 0 | 9 826 282 |
| - Other reserve capital | 93 448 | 0 | 93 448 | 0 | 93 448 |
| - General banking risk reserve | 1 153 753 | 0 | 1 153 753 | 0 | 1 153 753 |
| - Undistributed profit from the previous years | -965 478 | 0 | -965 478 | 0 | -965 478 |
| - Profit from the current year | 1 316 451 | 0 | 1 316 451 | -824 612 | 491 839 |
| **Other components of equity** | **214 838** | **0** | **214 838** | **0** | **214 838** |
| - Exchange differences on translation of foreign operations | -5 467 | 0 | -5 467 | 0 | -5 467 |
| - Valuation of financial assets at fair value through other comprehensive income | 145 978 | 0 | 145 978 | 0 | 145 978 |
| - Cash flow hedges | 83 643 | 0 | 83 643 | 0 | 83 643 |
| - Actuarial gains and losses related to post-employment benefits | -9 316 | 0 | -9 316 | 0 | -9 316 |
| **Non-controlling interests** | **2 100** | **0** | **2 100** | **-2 100** | **0** |
| **Regulatory adjustments** | **0** | **0** | **0** | **-1 072 117** | **-1 072 117** |
| - Intangible assets | 0 | 0 | 0 | -746 839 | -746 839 |
| - AIRB shortfall of credit risk adjustments to expected losses | 0 | 0 | 0 | -113 759 | -113 759 |
| - LLP's | 0 | 0 | 0 | -95 484 | -95 484 |
| - Fair value gains and losses arising from the institution's own credit risk related to derivative liabilities | 0 | 0 | 0 | -2 101 | -2 101 |
| - Own CET1 instruments | 0 | 0 | 0 | -32 | -32 |
| - Transitional adjustment related to Accumulated other comprehensive income | 0 | 0 | 0 | -83 643 | -83 643 |
| - Additional value adjustments | 0 | 0 | 0 | -30 259 | -30 259 |
| **Total equity** | **15 216 080** | **0** | **15 216 080** | **-1 898 847** | **13 317 233** |

The prudentially consolidated profit & loss account for mBank Group as at 31 December 2018 presents the net profit amounting to PLN 1 316 369 thousand and the net profit for shareholders amounting to PLN 1 316 451 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 2018 is presented in point 4.1. In point 4.2 the structure of consolidated own funds of mBank Group as at 31 December 2018 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 2018.

| Capital instruments and the related share premium accounts | |
|---|---|
| Paid up capital | 169 330 |
| Supplementary capital from sales of shares over the nominal value | 3 405 338 |
| Other supplementary capital | 9 826 282 |
| Other reserve capitals | 93 448 |
| **Total** | **13 494 398** |

Detailed information on share and supplementary capital is described in Explanatory Notes 36 and 37 of the Consolidated Financial Statements for 2018.

Retained earnings

In Retained earnings item the profit from the previous years of mBank Group prudentially consolidated as at 31 December 2018 in the amount of PLN -965 478 thousand were included. Detailed information regarding retained earnings is described in Explanatory Notes 38 of the Consolidated Financial Statements for 2018.

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 2018 the funds for general banking risk of mBank Group prudentially consolidated amounted to PLN 1 153 753 thousand.

Accumulated other comprehensive income

Accumulated other comprehensive income as at 31 December 2018 amounted to PLN 214 838 thousand. The structure of accumulated other comprehensive income of mBank

| Accumulated other comprehensive income | |
|---|---|
| Exchange differences on translation of foreign operations | - 5 467 |
| Valuation of financial assets at fair value through other comprehensive income | 83 643 |
| Cash flow hedges | 145 978 |
| Actuarial gains and losses related to post-employment benefits | - 9 316 |
| **Total** | **214 838** |

Independently reviewed interim profits

Verified net profit of mBank Group prudentially consolidated for the first half-year and the third quarter of 2018, reduced by every foreseeable charges, was included in the calculation of consolidated Common Equity Tier 1 capital as at 31 December 2018, 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 7 September and 30 November of 2018.

The net profit of mBank Group prudentially consolidated for the first half-year and the third quarter of 2018 reduced by every foreseeable charges amounted to PLN 491 839 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 2018 in the amount of PLN 30 259 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 2018 amounted to PLN 746 839 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 2018 the amount of PLN 2 101 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 2018 in the amount of PLN 113 759 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 2018 the synthetic holdings in the amount of PLN 32 thousand were included.

Net impairment losses

In net impairment losses item as at 31 December 2018 the impairment or reversal of impairment on financial assets not measured at fair value through profit or loss for the fourth quarter of the year 2017 were included in the amount of PLN 95 484 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 accumulated other comprehensive income

Regulatory adjustments in the amount of PLN 83 643 thousand regarding accumulated other comprehensive income as at 31 December 2018 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

Pursuant to the PFSA decision dated 8 January 2015, mBank obtained a written permission 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 the redemption date on 17 January 2025. The issue meets all the requirements of the CRR Regulation.

Pursuant to the PFSA decision of 29 March 2018, mBank obtained a permission to classify cash in the amount of CHF 250 000 thousand as instruments in Tier 2 capital, in accordance with the terms of the loan agreement concluded between mBank S.A. and Commerzbank AG.

Pursuant to the PFSA decision of 28 November 2018, mBank obtained a permission to classify subordinated bonds with a nominal value of PLN 200 000 thousand, issued by the Bank on 9 October 2018 with the redemption date on October 10 October 2030, as instruments in Tier 2 capital.

Pursuant to the PFSA decision of 28 November 2018, mBank obtained a permission to classify subordinated bonds with a nominal value of PLN 550 000 thousand, issued by the Bank on 9 October 2018 with the redemption date on October 10 October 2028, as instruments in Tier 2 capital.

As at 31 December 2018 the amount of PLN 2 454 150 thousand was included in consolidated Tier 2 capital from the virtue of the above mentioned tranches of capital instruments.

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 2018 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 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 31 December 2018 amounted to PLN 15 771 383 thousand.

## Capital instruments' main features of Tier 1 capital

| No. | Items | Common Equity Tier 1 capital | |
|---|---|---|---|
| 1 | Issuer | mBank S.A. | |
| 2 | Unique identifier (eg. CUSIP or Bloomberg identifier for private placement) | PLBRE000012 | |
| 3 | Governing law(s) of the instrument | Polish | |
| | *Regulatory treatment* | | |
| 4 | Transitional CRR rules | CET1 capital | |
| 5 | Post-transitional CRR rules | CET1 capital | |
| 6 | Eligible at solo/(sub-)consolidated / solo & (sub-)consolidated | Solo and (Sub-) consolidated | |
| 7 | Instrument type (types to be specified by each jurisdiction) | Common shares | |
| 8 | Amount recognised in regulatory capital (currency in million, as of most recent reporting date) | mPLN 169 | |
| 9 | Nominal amount of instrument | PLN 4 | |
| 9a | Redemption price | N/A | |
| 10 | Accounting classification | Equity capital | |
| 11 | Number of shares issued | Registration year | Number of shares |
| | | 1986 | 9,988,000 |
| | | 1986 | 12,000 |
| | | 1994 | 2,500,000 |
| | | 1995 | 2,000,000 |
| | | 1997 | 4,500,000 |
| | | 1998 | 3,800,000 |
| | | 2000 | 170,500 |
| | | 2004 | 5,742,625 |
| | | 2005 | 270,847 |
| | | 2006 | 532,063 |
| | | 2007 | 144,633 |
| | | 2008 | 30,214 |
| | | 2010 | 12,395,792 |
| | | 2011 | 16,072 |
| | | 2012 | 36,230 |
| | | 2013 | 35,037 |
| | | 2014 | 36,044 |
| | | 2015 | 28,867 |
| | | 2016 | 41,203 |
| | | 2017 | 31,995 |
| | | 2018 | 20,344 |
| 12 | Perpetual or dated | Perpetual | |
| 13 | Original maturity date | No maturity | |
| 14 | Issuer call subject to prior supervisory approval | N/A | |
| 15 | Optional call date, contingent call dates and redemption amount | N/A | |
| 16 | Subsequent call dates, if applicable | N/A | |
| | *Coupons / dividends* | | |
| 17 | Fixed or floating dividend/coupon | Floating | |
| 18 | Coupon rate and any related index | N/A | |
| 19 | Existence of a dividend stopper | No | |
| 20a | Fully discretionary or mandatory (in terms of timing) | Fully discretionary | |
| 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 | Nonculmulative or cumulative | N/A | |
| 23 | Convertible or non-convertible | Non-convertible | |
| 24 | If convertible or non-convertible, conversion trigger(s) | N/A | |
| 25 | If convertible, fully or partially | N/A | |
| 26 | If convertible, conversion rate | N/A | |
| 27 | If convertible, mandatory or optional conversion | N/A | |
| 28 | If convertible, specify instrument type convertible into | N/A | |
| 29 | If convertible, specify issuer of instrument it converts info | N/A | |

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

## Capital instruments' main features of Tier 2 capital

| No | Transza | 750 mln PLN | 250 mln CHF | 550 mln PLN | 200 mln PLN |
|---|---|---|---|---|---|
| 1 | Issuer | mBank S.A. | mBank S.A. | mBank S.A. | mBank S.A. |
| 2 | Unique identifier (eg. CUSIP or Bloomberg identifier for private placement) | ISIN: PLBRE0005185<br>Seria: MBKO170125 | N/A | Seria: MBKO101028 | Seria: MBKO101030 |
| 3 | Governing law(s) of the instrument | Polish | German and Polish in relations to subordination | Polish | Polish |
| | *Regulatory treatment* | | | | |
| 4 | Transitional CRR rules | Tier 2; Art. 63 | Tier 2; Art. 63 | Tier 2; Art. 63 | Tier 2; Art. 63 |
| 5 | Post-transitional CRR rules | Tier 2 | Tier 2 | Tier 2 | Tier 2 |
| 6 | Eligible at solo/(sub-)consolidated / solo & (sub-)consolidated | Solo and (Sub-) consolidated | Solo and (Sub-) consolidated | Solo and (Sub-) consolidated | Solo and (Sub-) consolidated |
| 7 | Instrument type (types to be specified by each jurisdiction) | Bond<br>„instrumenty kapitałowe"-<br>Polish Banking Act Art.127.2.2 | Loan<br>„pożyczki podporządkowane"-<br>Polish Banking Act Art.127.2.2 | Bond<br>„instrumenty kapitałowe"-<br>Polish Banking Act Art.127.2.2 | Bond<br>„instrumenty kapitałowe"-<br>Polish Banking Act Art.127.2.2 |
| 8 | Amount recognised in regulatory capital (currency in million, as of most recent reporting date) | mPLN 750 | mCHF 250 | mPLN 550 | mPLN 200 |
| 9 | Nominal amount of instrument | In issuance currency:<br>PLN 750 million;<br>in reporting currency:<br>PLN 750 million | In issuance currency:<br>CHf 250 million;<br>in reporting currency:<br>PLN 954 million | In issuance currency:<br>PLN 550 million;<br>in reporting currency:<br>PLN 550 million | In issuance currency:<br>PLN 200 million;<br>in reporting currency:<br>PLN 200 million |
| 9a | Issue price | 100.00% | Not applicable | 100.00% | 100.00% |
| 9b | Redemption price | 100.00% | Not applicable | 100.00% | 100.00% |
| 10 | Accounting classification | Liability – amortised cost | Liability – amortised cost | Liability – amortised cost | Liability – amortised cost |
| 11 | Original date of issue | 17-12-2014 | 21-03-2018 | 09-10-2018 | 09-10-2018 |
| 12 | Perpetual or dated | Dated | Dated | Dated | Dated |
| 13 | Original maturity date | 17-01-2025 | 21-03-2028 | 10-10-2028 | 10-10-2030 |
| 14 | Issuer call subject to prior supervisory approval | Yes | Yes | Yes | Yes |
| 15 | Optional call date, contingent call dates and redemption amount | 1) 17-01-2020<br>No minimum amount; at price 100%;<br>2) Redemption due to a regulatory event (PFSA consent required, notification of investors) at a price of 100%, at any Interest Payment Date | 1) 21-03-2023; integral multiples of CHF 10 mn; notification of the lender, PFSA consent required;<br>2) Redemption due to a tax or regulatory event (PFSA consent required); at the end of Interest Period; notification of the lender | 1) 10-10-2023<br>No minimum amount; at price 100%;<br>2) Redemption due to a regulatory event (PFSA consent required, notification of investors) at a price of 100%, at any Interest Payment Date | 1) 10-10-2025<br>No minimum amount; at price 100%;<br>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 | Redemption due to a regulatory event (PFSA consent required, notification of investors) at a price of 100%, at any Interest Payment Date | 1) integral multiples of CHF 10 mn; notification of the lender, PFSA consent required; at the end of any Interest Period falling not earlier than the 5th anniversary of the Drawdown Date<br>2) Redemption due to a tax or regulatory event (PFSA consent required); at the end of Interest Period; notification of the lender | Redemption due to a regulatory event (PFSA consent required, notification of investors) at a price of 100%, at any Interest Payment Date | Redemption due to a regulatory event (PFSA consent required, notification of investors) at a price of 100%, at any Interest Payment Date |
| | *Coupons / dividends* | | | | |
| 17 | Fixed or floating dividend/coupon | Floating | Floating | Floating | Floating |
| 18 | Coupon rate and any related index | WIBOR 6M + 2,10% | CHF LIBOR 3M + margin | WIBOR 6M + 1,8% | WIBOR 6M + 1,95% |
| 19 | Existence of a dividend stopper | No | No | No | No |

| | | | | | |
|---|---|---|---|---|---|
| 20a | Fully discretionary or mandatory (in terms of timing) | Mandatory | Mandatory | Mandatory | Mandatory |
| 20b | Fully discretionary, partially discretionary or mandatory (in terms of amount) | Mandatory | Mandatory | Mandatory | Mandatory |
| 21 | Existence of step up or other incentive to redeem | No | No | No | No |
| 22 | Nonculmulative or cumulative | Nonculmulative | Nonculmulative | Nonculmulative | Nonculmulative |
| 23 | Convertible or non-convertible | Non-convertible | Non-convertible | Non-convertible | Non-convertible |
| 24 | If convertible or non-convertible, conversion trigger(s) | Not applicable | Not applicable | Not applicable | Not applicable |
| 25 | If convertible, fully or partially | Not applicable | Not applicable | Not applicable | Not applicable |
| 26 | If convertible, conversion rate | Not applicable | Not applicable | Not applicable | Not applicable |
| 27 | If convertible, mandatory or optional conversion | Not applicable | Not applicable | Not applicable | Not applicable |
| 28 | If convertible, specify instrument type convertible into | Not applicable | Not applicable | Not applicable | Not applicable |
| 29 | If convertible, specify issuer of instrument it converts info | Not applicable | Not applicable | Not applicable | Not applicable |
| 30 | Write-down features | No | No | No | No |
| 31 | If write-down, write-down trigger(s) | Not applicable | Not applicable | Not applicable | Not applicable |
| 32 | If write-down, full or partial | Not applicable | Not applicable | Not applicable | Not applicable |
| 33 | If write-down, permanent or temporary | Not applicable | Not applicable | Not applicable | Not applicable |
| 34 | If write-down, description of write-up mechanism | Not applicable | Not applicable | Not applicable | Not applicable |
| 35 | Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument) | Receivables from subordinated liabilities not included in the Bank's own funds, including interest and costs of enforcement | Receivables from subordinated liabilities not included in the Bank's own funds, including interest and costs of enforcement | Receivables from subordinated liabilities not included in the Bank's own funds, including interest and costs of enforcement | Receivables from subordinated liabili-ties not included in the Bank's own funds, including interest and costs of enforcement |
| 36 | Non-compliant transitioned features | No | No | No | No |
| 37 | If yes, specify non-compliant features | Not applicable | Not applicable | Not applicable | Not applicable |

## 4.2 Structure of consolidated own funds

In accordance with the provisions of Regulation No 1423/2013, the structure of own funds is presented below based on Appendix No 4 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 | 13 494 398 |
| Retained earnings | -965 478 |
| Accumulated other comprehensive income | 214 838 |
| 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 | 491 839 |
| **Common Equity Tier 1 (CET1) capital before regulatory adjustments** | **14 389 350** |
| **Common Equity Tier 1 capital: regulatory adjustments** | |
| Additional value adjustments | -30 259 |
| Intangible assets (net related tax liability) | -746 839 |
| 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 | -113 759 |
| Any increase in equity that results from securitised assets | 0 |
| Defined-benefit pension fund assets | 0 |
| Direct and indirect holdings by an institution of own CET1 instruments | -32 |
| 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 | -95 484 |
| Losses for the current financial year | 0 |
| Foreseeable tax charges relating to CET1 items | 0 |
| Regulatory adjustments relating to accumulated other comprehensive income | -83 643 |
| Amount to be deducted from of added to Common Equity Tier 1 capital with regard to additional filters and deductions required pre CRR | -2 101 |
| Qualifying AT1 deductions that exceed the AT1 capital of the institution | 0 |
| **Total regulatory adjustments to Common Equity Tier 1** | **-1 072 117** |
| **Common Equity Tier 1 capital** | **13 317 233** |
| **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 |
| 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 |
| 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 |
| 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) | **13 317 233** |

| | |
|---|---|
| **Tier 2 capital: instruments and provisions** | |
| Capital instruments and the related share premium accounts | 2 454 150 |
| 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** | **2 454 150** |
| **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 |
| **Total regulatory adjustments to Tier 2 capital** | **0** |
| **Tier 2 capital** | **2 454 150** |
| **Total capital (T1 + T2)** | **15 771 383** |
| **Total risk weighted assets** | **76 239 533** |
| **Capital ratios and buffers** | |
| **Common Equity Tier 1 (as a percentage of risk exposure amount)** | **17,47%** |
| **Tier 1 (as a percentage of risk exposure amount)** | **17,47%** |
| **Total capital (as a percentage of risk exposure amount)** | **20,69%** |
| Additional own funds requirement related to Pillar II adjustments to cover FX lending risk to unhedged borrowers* | 3,64% |
| Institution specific buffer requirement (CET1 requirement in accordance with article 92 (1) (a) plus capital conservation and countercyclical buffer requirements, plus systematic risk buffer, plus the systemically important institution buffer (G-SLL or O-SII buffer), expressed as a percentage of risk exposure amount) | 5,24% |
| of which: capital conservation buffer requirement | 1,88% |
| of which: countercyclical buffer requirement | 0,04% |
| of which: systemic risk buffer requirement | 2,82% |
| of which: Global Systemically Important Institution (G-SII) or Other System Important Institution (O-SII) buffer | 0,50% |
| 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 | 8,74% |
| **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) | 9 889 |
| Deferred tax assets arising for temporary differences (amount below 10% threshold, net related tax liability where the conditions in Article 38 (3) are met) | 998 219 |
| **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 |

** Additional own funds requirement related to Pillar II adjustments updated in 2018 based on an administrative decision of PFSA of October 15th , 2018 and subsequent correspondence of November 29th, 2018 . 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 mBank 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 31 December 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 2018 mBank calculated the economic capital at the 99,91% confidence level over a one-year time horizon for credit, market and business risk. The economic capital for operational risk was calculated using the standardised approach applied to calculation of the capital charge for operational risk. Bank calculated capital to cover hard to quantify risks. 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). 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 ≤ 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. According to the monitoring matrix 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 model built internally by the Bank, dedicated to the assessment of specialized lending exposure, classified as financing of: goods, facilities, projects, leveraged acquisition (SPL TOP), which replaced in 2018 a simulation model built by Commerzbank,
- 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).

Both models are 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 specialized lending consists in the fact that:

- for SPL FN depending on the type of real estate (offices, shopping centres, warehouse centres / logistics centres, developer housing projects, hotels) and type of transaction (financing/refinancing),
- for SPL TOP, depending on the type of financing (goods, facilities, projects, leveraged acquisition)

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 appriopriate institution type.

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.

**Formularz EU CRE** – Wymogi dotyczące ujawniania informacji jakościowych związane z modelami IRB, który adresuje zakres ujawnień zgodnie z art. 452 lit. a) do c) Rozporządzenia CRR

| 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) | • group model, developed locally, used locally in the Bank and in the Group (mBank Hipoteczny)<br>• statistical with expert influence | • calculation of regulatory measures<br>• calculation of reserves<br>• calculation of the Bank's financial result / regulatory capital (AIRB)<br>• credit decisions | • annual monitoring performed by the Modelling Unit based on internal Bank data<br>• annual validation performed by the independent Validation Unit | • 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<br>• 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<br>• model quality assessment from the last reporting cycle for the model: green light | • definitions compliant with external regulations (CRR package) and internal ones of the Bank, including definition of "bad" observation<br>• methods used in the model building process: logistic regression, WoE, kernel density estimation<br>• methods used in the model back testing process: GINI, PSI, ETLA test<br>• 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<br>• 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) | • group model, developed locally, used locally in the Bank and in the Group (mLeasing)<br>• statistical with expert influence | • calculation of regulatory measures<br>• calculation of reserves<br>• calculation of the Bank's financial result / regulatory capital (AIRB)<br>• credit decisions | • annual monitoring performed by the Modelling Unit based on internal data (Bank and Group)<br>• annual validation performed by the independent Validation Unit | • 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<br>• 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<br>• model quality assessment from the last reporting cycle for the model: green light | • definitions compliant with external regulations (CRR package) and internal ones of the Bank, including definition of "bad" observation<br>• methods used in the model building process: logistic regression, WoE, ln(odds), kernel density estimation<br>• methods used in the model back testing process: GINI, PSI, ETLA test<br>• 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<br>• description of differences between PD and default rates, see below * |
| Corporate exposures portfolio for commercial banks (rating model for banks) | • central model (origin CommerzBank AG), used locally (mBank)<br>• statistical with expert influence | • calculation of regulatory measures<br>• calculation of reserves<br>• calculation of the Bank's financial result / regulatory capital (AIRB)<br>• credit decisions | • annual validation/monitoring performed by the CommerzBank AG with special consideration of mBank portfolio<br>• annual validation performed by the independent Validation Unit | • 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<br>• 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<br>• model quality assessment from the last reporting cycle for the model: green light | • definitions compliant with external regulations (CRR package) and internal ones of the Bank, including definition of "bad" observation<br>• methods used in the model building process: logistic regression, ln(odds), kernel density estimation<br>• methods used in the model back testing process: AUC, GINI.<br>• 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<br>• possible differences between PD and default rates result from the specificity of the low default portfolio at mBank |

| | | | | | |
|---|---|---|---|---|---|
| Corporate exposures portfolio for special lending of real estates (SPL-FN model) | • group model (origin mBank Hipoteczny), used locally in mBank and in the group (mBank Hipoteczny)<br>• expert model | • calculation of regulatory measures<br>• calculation of reserves<br>• calculation of internal risk measures<br>• calculation of the Bank's financial result / regulatory capital (AIRB)<br>• credit decisions | • annual monitoring performed by the Modelling Unit based on internal data (Bank and Group)<br>• validation performed by an independent Validation Unit in two-year cycles | • 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<br>• 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<br>• model quality assessment from the last reporting cycle for the model: green light | • definitions compliant with external regulations (CRR package) and internal ones of the Bank, including definition of "bad" observation<br>• methods used in the model building process: linear regression (least squares method)<br>• methods used in the model back testing process: GINI<br>• 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 |
| mLeasing retail exposures portfolio (PD retail Leasing rating model) | • group model, used in the Group (mLeasing)<br>• statistical model | • calculation of regulatory measures<br>• calculation of reserves<br>• calculation of internal risk measures<br>• calculation of the Bank's financial result / regulatory capital (AIRB)<br>• credit decisions | • annual monitoring performed by the Modelling Unit based on internal Group data<br>• annual validation performed by the independent Validation Unit | • 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<br>• 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<br>• model quality assessment from the last reporting cycle for the model: green light | • definitions compliant with external regulations (CRR package) and internal ones of the Bank, including definition of "bad" observation<br>• methods used in the model building process: logistic regression, WoE, kernel density estimation<br>• methods used in the model back testing process: GINI, PSI, ETLA test<br>• 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<br>• differences between PD and default rates result from the Bank's conservative approach, ie PD> DR |

| LGD models | | | | | |
|---|---|---|---|---|---|
| Retail exposures portfolio (LGD model) | • local model, developed locally, used locally in the Bank<br>• statistical with expert influence | • calculation of regulatory measures<br>• calculation of the Bank's financial result / regulatory capital (AIRB)<br>• credit decisions | • annual monitoring performed by the Modelling Unit based on internal Bank data<br>• annual validation performed by the independent Validation Unit | • 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<br>• 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<br>• model quality assessment from the last reporting cycle for the model: green light | • definitions compliant with external regulations (CRR package) and internal ones of the Bank, including definition of default<br>• methods used in the model building process: mean<br>• conservative approach: conservative corrections and haircuts, e.g. downturn haircut, lack of recoveries after certain time in default<br>• methods used in the model back testing process: ROC, GINI, calibration of model values to empirical values<br>• 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) | • local model, developed locally, used locally in the Bank<br>• statistical model | • calculation of regulatory measures<br>• calculation of reserves<br>• calculation of the Bank's financial result / regulatory capital (AIRB) | • annual monitoring performed by the Modelling Unit based on internal Bank data<br>• annual validation performed by the independent Validation Unit | • 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<br>• 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<br>• model quality assessment from the last reporting cycle for the model: green light | • definitions compliant with external regulations (CRR package) and internal ones of the Bank, including definition of default<br>• methods used in the model building process: mean<br>• methods used in the model back testing process: ROC, GINI<br>• 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) | • local model, developed locally, used locally in the Bank<br>• statistical with expert influence | • calculation of regulatory measures<br>• calculation of reserves<br>• calculation of the Bank's financial result / regulatory capital (AIRB)<br>• credit decisions | • annual monitoring performed by the Modelling Unit based on internal Bank data<br>• annual validation performed by the independent Validation Unit | • 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<br>• 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<br>• model quality assessment from the last reporting cycle for the model: yellow light | • definitions compliant with external regulations (CRR package) and internal ones of the Bank, including definition of default<br>• methods used in the model building process: mean, linear regression (least squares method)<br>• conservative approach: conservative corrections and haircuts, e.g. downturn haircut<br>• methods used in the model back testing process: ROC, GINI, calibration of model values to empirical values<br>• 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 (CCF model) | • local model, developed locally, used locally in the Bank<br>• statistical model | • calculation of regulatory measures<br>• calculation of reserves<br>• calculation of the Bank's financial result / regulatory capital (AIRB) | • annual monitoring performed by the Modelling Unit based on internal Bank data<br>• annual validation performed by the independent Validation Unit | • 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<br>• the scope of reporting includes the risk assessment of the model along with a synthet- | • definitions compliant with external regulations (CRR package) and internal ones of the Bank, including definition of default<br>• methods used in the model building process: mean<br>• methods used in the model back testing process: ROC, GINI<br>• internal data from at least 5-year time horizon covering all observations qualifying for the rating system were used in the model devel- |

| | | | | | |
|---|---|---|---|---|---|
| | | | | ic summary of the results of the last monitoring and validation of the model<br>• model quality assessment from the last reporting cycle for the model: yellow light | opment process |
| Corporate exposures portfolio for commercial banks (LGD/EAD model) | • central model (origin CommerzBank AG), used locally (mBank)<br>• statistical model | • calculation of regulatory measures<br>• calculation of reserves<br>• calculation of the Bank's financial result / regulatory capital (AIRB)<br>• credit decisions | • annual validation/monitoring performed by the CommerzBank AG with special consideration of mBank portfolio<br>• annual validation performed by the independent Validation Unit | • 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<br>• 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<br>• model quality assessment from the last reporting cycle for the model: yellow light | • definitions compliant with external regulations (CRR package) and internal ones of CommerzBank AG, including definition of default<br>• methods used in the model building process: mean<br>• conservative approach: conservative corrections and haircuts, e.g. risk transfer haircut<br>• 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 |
| mLeasing exposures portfolio (LGD model) | • group model, used in the Group (mLeasing)<br>• statistical with expert influence | • calculation of regulatory measures<br>• calculation of reserves<br>• calculation of the Bank's financial result / regulatory capital (AIRB)<br>• credit decisions | • annual monitoring performed by the Modelling Unit based on internal Group data<br>• annual validation performed by the independent Validation Unit | • 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<br>• 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<br>• model quality assessment from the last reporting cycle for the model: yellow light | • definitions compliant with external regulations (CRR package) and internal ones of the Bank and the Group, including definition of default<br>• methods used in the model building process: mean<br>• conservative approach: conservative corrections and haircuts, e.g. downturn haircut, lack of recoveries after certain time in default<br>• methods used in the model back testing process: ROC, GINI, calibration of model values to empirical values<br>• 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 31/12/2017) with number of obligors for which loss event was realized in the horizon from the end of previous period (31/12/2017) to the end of current period (31/12/2018), 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 15/01/2017 in EU-CR9 data set on 31/12/2017 is verified in time horizon 31/12/2017 – 31/12/2018 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.

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.

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.

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

| a) | b) | c) | d) | e) | f) | | g) | h) | i) |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | Number of obligors | | | | |
| Exposure class | PD range | External rating equivalent | Weighted average PD | Arithmetic average PD by obligors | End of previous year | End of the year | Defaulted obligors in the year | Of which new obligors | Average historical annual default rate |
| 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% | 17 | 5 | 0 | 0 | 0,00% |
| | (0,00032; 0,000526] | AA, AA- | 0,04% | 0,04% | 13 | 29 | 0 | 0 | 0,00% |
| | (0,000526; 0,000848] | A+, A | 0,06% | 0,06% | 11 | 11 | 0 | 0 | 0,00% |
| | (0,000848; 0,00134] | A- | 0,11% | 0,11% | 9 | 9 | 0 | 0 | 0,00% |
| | (0,00134; 0,002074] | BBB+ | 0,15% | 0,17% | 6 | 7 | 0 | 0 | 0,00% |
| | (0,002074; 0,003144] | BBB | 0,29% | 0,27% | 8 | 11 | 0 | 0 | 0,00% |
| | (0,003144; 0,004666] | | 0,39% | 0,39% | 8 | 6 | 0 | 0 | 0,00% |
| | (0,004666; 0,006775] | BBB- | 0,61% | 0,60% | 10 | 7 | 0 | 0 | 0,00% |
| | (0,006775; 0,009621] | BB+ | 0,86% | 0,81% | 8 | 8 | 0 | 0 | 0,00% |
| | (0,009621; 0,013355] | BB | 1,14% | 1,18% | 3 | 2 | 0 | 0 | 0,00% |
| | (0,013355; 0,01811] | | 1,41% | 1,41% | 0 | 1 | 0 | 0 | 0,00% |
| | (0,01811; 0,023979] | BB- | 2,25% | 2,10% | 5 | 3 | 0 | 0 | 0,00% |
| | (0,023979; 0,030982] | | 2,78% | 2,79% | 4 | 2 | 0 | 0 | 0,00% |
| | (0,030982; 0,03904] | B+ | 3,48% | 3,61% | 2 | 2 | 0 | 0 | 6,67% |
| | (0,03904; 0,048571] | B | n/d | n/d | 0 | 0 | 0 | 0 | n/d |
| | (0,048571; 0,06043] | | 5,52% | 5,61% | 1 | 2 | 0 | 0 | 0,00% |
| | (0,06043; 0,075185] | | n/d | n/d | 0 | 0 | 0 | 0 | n/d |
| | (0,075185; 0,093541] | B- | 8,39% | 8,39% | 0 | 1 | 0 | 0 | n/d |
| | (0,093541; 0,11638] | | n/d | n/d | 3 | 0 | 0 | 0 | 0,00% |
| | (0,11638; 0,144795] | CCC+ to C | n/d | n/d | 0 | 0 | 0 | 0 | 0,00% |
| | (0,144795; 0,180147] | | n/d | n/d | 0 | 0 | 0 | 0 | 0,00% |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | (0,180147; 0,224131] | | n/d | n/d | 0 | 0 | 0 | 0 | 0,00% |
| | (0,224131; 1) | | 47,34% | 47,34% | 3 | 1 | 0 | 0 | 0,00% |
| | 1 | DEFAULT | 100,00% | 100,00% | 1 | 0 | 1 | 0 | n/d |
| 10. Corporates: thereof SMEs | (0; 0,000191] | AAA | n/d | n/d | 0 | 0 | 0 | 0 | n/d |
| | (0,000191; 0,00032] | AA+ | 0,03% | 0,03% | 88 | 66 | 0 | 0 | 0,34% |
| | (0,00032; 0,000526] | AA, AA- | 0,04% | 0,04% | 119 | 70 | 0 | 0 | 0,00% |
| | (0,000526; 0,000848] | A+, A | 0,06% | 0,07% | 56 | 63 | 1 | 0 | 1,47% |
| | (0,000848; 0,00134] | A- | 0,11% | 0,11% | 49 | 107 | 0 | 0 | 0,00% |
| | (0,00134; 0,002074] | BBB+ | 0,17% | 0,17% | 71 | 86 | 0 | 0 | 0,58% |
| | (0,002074; 0,003144] | BBB | 0,26% | 0,26% | 119 | 105 | 0 | 0 | 0,27% |
| | (0,003144; 0,004666] | | 0,39% | 0,39% | 162 | 197 | 0 | 0 | 0,53% |
| | (0,004666; 0,006775] | BBB- | 0,57% | 0,57% | 275 | 397 | 0 | 0 | 1,19% |
| | (0,006775; 0,009621] | BB+ | 0,81% | 0,81% | 354 | 437 | 3 | 0 | 0,77% |
| | (0,009621; 0,013355] | BB | 1,15% | 1,14% | 371 | 482 | 1 | 0 | 0,64% |
| | (0,013355; 0,01811] | | 1,55% | 1,56% | 356 | 481 | 7 | 3 | 1,78% |
| | (0,01811; 0,023979] | BB- | 2,12% | 2,10% | 318 | 400 | 4 | 0 | 1,33% |
| | (0,023979; 0,030982] | | 2,71% | 2,72% | 271 | 328 | 6 | 2 | 3,04% |
| | (0,030982; 0,03904] | B+ | 3,48% | 3,51% | 159 | 217 | 7 | 2 | 4,37% |
| | (0,03904; 0,048571] | B | 4,36% | 4,37% | 153 | 135 | 7 | 3 | 2,81% |
| | (0,048571; 0,06043] | | 5,40% | 5,49% | 86 | 79 | 5 | 1 | 5,87% |
| | (0,06043; 0,075185] | | 6,64% | 6,74% | 41 | 63 | 0 | 0 | 5,72% |
| | (0,075185; 0,093541] | B- | 8,49% | 8,56% | 42 | 58 | 2 | 1 | 4,16% |
| | (0,093541; 0,11638] | | 10,23% | 10,42% | 18 | 40 | 3 | 1 | 10,58% |
| | (0,11638; 0,144795] | CCC+ to C | 13,00% | 13,00% | 20 | 27 | 0 | 0 | 2,96% |
| | (0,144795; 0,180147] | | 15,47% | 16,00% | 15 | 13 | 1 | 0 | 3,94% |
| | (0,180147; 0,224131] | | 20,44% | 19,81% | 13 | 16 | 3 | 0 | 8,71% |
| | (0,224131; 1) | | 35,19% | 36,99% | 59 | 52 | 4 | 0 | 3,00% |
| | 1 | DEFAULT | 100,00% | 100,00% | 123 | 65 | 123 | 9 | n/d |
| 12. Corporates: thereof other | (0; 0,000191] | AAA | n/d | n/d | 0 | 0 | 0 | 0 | 0,00% |
| | (0,000191; 0,00032] | AA+ | 0,03% | 0,03% | 29 | 10 | 0 | 0 | 0,00% |
| | (0,00032; 0,000526] | AA, AA- | 0,05% | 0,04% | 21 | 30 | 0 | 0 | 0,00% |
| | (0,000526; 0,000848] | A+, A | 0,06% | 0,07% | 23 | 37 | 0 | 0 | 0,00% |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | (0,000848; 0,00134] | A- | 0,11% | 0,11% | 40 | 43 | 0 | 0 | 1,43% |
| | (0,00134; 0,002074] | BBB+ | 0,17% | 0,17% | 73 | 63 | 0 | 0 | 0,00% |
| | (0,002074; 0,003144] | BBB | 0,26% | 0,26% | 100 | 97 | 0 | 0 | 0,00% |
| | (0,003144; 0,004666] | | 0,39% | 0,39% | 151 | 155 | 2 | 0 | 0,26% |
| | (0,004666; 0,006775] | BBB- | 0,58% | 0,57% | 165 | 173 | 1 | 0 | 0,44% |
| | (0,006775; 0,009621] | BB+ | 0,82% | 0,82% | 203 | 207 | 0 | 0 | 0,39% |
| | (0,009621; 0,013355] | BB | 1,18% | 1,14% | 182 | 173 | 3 | 0 | 0,92% |
| | (0,013355; 0,01811] | | 1,57% | 1,55% | 162 | 156 | 0 | 0 | 0,47% |
| | (0,01811; 0,023979] | BB- | 2,12% | 2,09% | 134 | 106 | 2 | 0 | 0,77% |
| | (0,023979; 0,030982] | | 2,75% | 2,76% | 125 | 100 | 1 | 1 | 1,11% |
| | (0,030982; 0,03904] | B+ | 3,58% | 3,59% | 57 | 88 | 8 | 1 | 3,77% |
| | (0,03904; 0,048571] | B | 4,30% | 4,43% | 99 | 58 | 6 | 2 | 4,17% |
| | (0,048571; 0,06043] | | 5,30% | 5,43% | 53 | 33 | 5 | 0 | 2,89% |
| | (0,06043; 0,075185] | | 6,38% | 6,66% | 50 | 38 | 2 | 1 | 5,54% |
| | (0,075185; 0,093541] | B- | 8,58% | 8,58% | 54 | 64 | 0 | 0 | 3,04% |
| | (0,093541; 0,11638] | | 10,52% | 10,06% | 18 | 10 | 0 | 0 | 3,04% |
| | (0,11638; 0,144795] | CCC+ to C | 12,54% | 12,69% | 7 | 13 | 0 | 0 | 4,27% |
| | (0,144795; 0,180147] | | 16,26% | 16,59% | 9 | 12 | 0 | 0 | 4,38% |
| | (0,180147; 0,224131] | | 20,34% | 20,02% | 17 | 11 | 0 | 0 | 2,02% |
| | (0,224131; 1) | | 35,34% | 44,20% | 158 | 161 | 4 | 2 | 2,69% |
| | 1 | DEFAULT | 100,00% | 100,00% | 256 | 348 | 256 | 9 | 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+ | n/d | n/d | 1 | 0 | 0 | 0 | 0,00% |
| | (0,00032; 0,000526] | AA, AA- | n/d | n/d | 1 | 0 | 0 | 0 | 0,00% |
| | (0,000526; 0,000848] | A+, A | 0,08% | 0,08% | 3 | 3 | 0 | 0 | 0,00% |
| | (0,000848; 0,00134] | A- | 0,11% | 0,11% | 17 | 38 | 0 | 0 | 0,06% |
| | (0,00134; 0,002074] | BBB+ | 0,18% | 0,18% | 301 | 234 | 1 | 0 | 0,07% |
| | (0,002074; 0,003144] | BBB | 0,26% | 0,26% | 852 | 857 | 1 | 1 | 0,06% |
| | (0,003144; 0,004666] | | 0,39% | 0,39% | 719 | 784 | 1 | 0 | 0,10% |
| | (0,004666; 0,006775] | BBB- | 0,56% | 0,56% | 863 | 867 | 7 | 0 | 0,36% |
| | (0,006775; 0,009621] | BB+ | 0,79% | 0,80% | 293 | 461 | 1 | 0 | 0,42% |
| | (0,009621; 0,013355] | BB | 1,12% | 1,12% | 181 | 240 | 0 | 0 | 0,60% |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | (0,013355; 0,01811] | | 1,61% | 1,60% | 176 | 221 | 2 | 0 | 0,79% |
| | (0,01811; 0,023979] | BB- | 2,06% | 2,06% | 95 | 113 | 0 | 0 | 1,13% |
| | (0,023979; 0,030982] | | 2,70% | 2,72% | 87 | 68 | 1 | 0 | 1,53% |
| | (0,030982; 0,03904] | B+ | 3,45% | 3,46% | 71 | 37 | 0 | 0 | 1,50% |
| | (0,03904; 0,048571] | B | 4,41% | 4,34% | 51 | 29 | 1 | 0 | 3,75% |
| | (0,048571; 0,06043] | | 5,42% | 5,38% | 43 | 24 | 1 | 0 | 2,10% |
| | (0,06043; 0,075185] | | 6,82% | 6,84% | 37 | 33 | 1 | 0 | 3,45% |
| | (0,075185; 0,093541] | B- | 8,37% | 8,42% | 40 | 19 | 1 | 0 | 1,53% |
| | (0,093541; 0,11638] | | 10,62% | 10,57% | 62 | 51 | 3 | 0 | 2,85% |
| | (0,11638; 0,144795] | CCC+ to C | 12,85% | 13,12% | 64 | 45 | 5 | 0 | 6,01% |
| | (0,144795; 0,180147] | | 16,21% | 16,03% | 59 | 33 | 6 | 0 | 11,07% |
| | (0,180147; 0,224131] | | 20,40% | 20,14% | 34 | 37 | 5 | 0 | 11,93% |
| | (0,224131; 1) | | 30,80% | 31,00% | 58 | 62 | 13 | 1 | 25,93% |
| | 1 | DEFAULT | 100,00% | 100,00% | 262 | 230 | 262 | 1 | n/d |
| 14. Retail: thereof secured by mortgages / non-SMEs | (0; 0,000191] | AAA | n/d | n/d | 2 | 0 | 0 | 0 | 0,01% |
| | (0,000191; 0,00032] | AA+ | 0,03% | 0,03% | 2313 | 118 | 2 | 0 | 0,03% |
| | (0,00032; 0,000526] | AA, AA- | 0,05% | 0,05% | 17369 | 15732 | 9 | 0 | 0,03% |
| | (0,000526; 0,000848] | A+, A | 0,07% | 0,07% | 34928 | 29532 | 12 | 0 | 0,11% |
| | (0,000848; 0,00134] | A- | 0,10% | 0,10% | 23340 | 18624 | 21 | 0 | 0,08% |
| | (0,00134; 0,002074] | BBB+ | 0,17% | 0,17% | 17270 | 19043 | 7 | 0 | 0,06% |
| | (0,002074; 0,003144] | BBB | 0,25% | 0,25% | 13559 | 12685 | 14 | 0 | 0,14% |
| | (0,003144; 0,004666] | | 0,38% | 0,38% | 8405 | 8278 | 16 | 0 | 0,18% |
| | (0,004666; 0,006775] | BBB- | 0,55% | 0,55% | 5276 | 5151 | 15 | 0 | 0,32% |
| | (0,006775; 0,009621] | BB+ | 0,79% | 0,80% | 1585 | 1770 | 11 | 0 | 0,63% |
| | (0,009621; 0,013355] | BB | 1,13% | 1,13% | 1023 | 1020 | 13 | 0 | 0,91% |
| | (0,013355; 0,01811] | | 1,56% | 1,56% | 1118 | 736 | 9 | 0 | 0,95% |
| | (0,01811; 0,023979] | BB- | 2,07% | 2,07% | 1154 | 690 | 11 | 0 | 1,23% |
| | (0,023979; 0,030982] | | 2,73% | 2,73% | 703 | 500 | 14 | 0 | 1,98% |
| | (0,030982; 0,03904] | B+ | 3,51% | 3,48% | 571 | 446 | 7 | 0 | 2,23% |
| | (0,03904; 0,048571] | B | 4,33% | 4,34% | 535 | 366 | 6 | 0 | 2,86% |
| | (0,048571; 0,06043] | | 5,40% | 5,43% | 632 | 346 | 20 | 0 | 4,16% |
| | (0,06043; 0,075185] | | 6,78% | 6,77% | 782 | 494 | 33 | 0 | 4,46% |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | (0,075185; 0,093541] | B- | 8,50% | 8,54% | 600 | 504 | 26 | 0 | 5,44% |
| | (0,093541; 0,11638] | | 10,32% | 10,30% | 802 | 822 | 36 | 0 | 6,05% |
| | (0,11638; 0,144795] | CCC+ to C | 12,89% | 12,92% | 514 | 512 | 19 | 0 | 6,14% |
| | (0,144795; 0,180147] | | 16,04% | 16,05% | 362 | 434 | 27 | 0 | 9,09% |
| | (0,180147; 0,224131] | | 20,29% | 20,38% | 492 | 425 | 55 | 0 | 11,58% |
| | (0,224131; 1) | | 28,59% | 27,90% | 608 | 455 | 109 | 0 | 21,13% |
| | 1 | DEFAULT | 100,00% | 100,00% | 3158 | 2539 | 3158 | 0 | n/d |
| 16. Retail: thereof other / SMEs | (0; 0,000191] | AAA | 0,02% | 0,02% | 26 | 1 | 0 | 0 | 0,00% |
| | (0,000191; 0,00032] | AA+ | 0,03% | 0,03% | 87 | 12 | 0 | 0 | 0,00% |
| | (0,00032; 0,000526] | AA, AA- | 0,04% | 0,04% | 111 | 27 | 0 | 0 | 0,00% |
| | (0,000526; 0,000848] | A+, A | 0,07% | 0,07% | 314 | 59 | 1 | 0 | 0,06% |
| | (0,000848; 0,00134] | A- | 0,11% | 0,11% | 418 | 970 | 0 | 0 | 0,14% |
| | (0,00134; 0,002074] | BBB+ | 0,18% | 0,18% | 2373 | 4297 | 3 | 1 | 0,13% |
| | (0,002074; 0,003144] | BBB | 0,26% | 0,26% | 3901 | 8840 | 4 | 1 | 0,16% |
| | (0,003144; 0,004666] | | 0,41% | 0,40% | 8722 | 11823 | 9 | 0 | 0,16% |
| | (0,004666; 0,006775] | BBB- | 0,57% | 0,56% | 10808 | 14363 | 27 | 5 | 0,27% |
| | (0,006775; 0,009621] | BB+ | 0,81% | 0,81% | 9448 | 15036 | 30 | 10 | 0,45% |
| | (0,009621; 0,013355] | BB | 1,13% | 1,13% | 10225 | 12031 | 51 | 17 | 0,63% |
| | (0,013355; 0,01811] | | 1,55% | 1,54% | 8939 | 9204 | 93 | 28 | 0,87% |
| | (0,01811; 0,023979] | BB- | 2,08% | 2,09% | 7063 | 6442 | 100 | 26 | 1,36% |
| | (0,023979; 0,030982] | | 2,72% | 2,72% | 6651 | 4828 | 159 | 35 | 1,80% |
| | (0,030982; 0,03904] | B+ | 3,49% | 3,48% | 5263 | 3648 | 178 | 28 | 3,16% |
| | (0,03904; 0,048571] | B | 4,34% | 4,34% | 3852 | 2887 | 180 | 38 | 4,11% |
| | (0,048571; 0,06043] | | 5,44% | 5,43% | 2410 | 2303 | 110 | 32 | 4,92% |
| | (0,06043; 0,075185] | | 6,73% | 6,71% | 2237 | 1946 | 132 | 35 | 5,89% |
| | (0,075185; 0,093541] | B- | 8,38% | 8,39% | 1801 | 1737 | 136 | 35 | 6,04% |
| | (0,093541; 0,11638] | | 10,40% | 10,43% | 1502 | 1748 | 190 | 30 | 8,56% |
| | (0,11638; 0,144795] | CCC+ to C | 12,96% | 12,96% | 1143 | 1515 | 147 | 16 | 10,22% |
| | (0,144795; 0,180147] | | 16,16% | 16,20% | 1026 | 1520 | 152 | 35 | 13,24% |
| | (0,180147; 0,224131] | | 20,13% | 20,10% | 954 | 1495 | 152 | 43 | 16,29% |
| | (0,224131; 1) | | 32,84% | 32,23% | 1912 | 3389 | 539 | 102 | 28,37% |
| | 1 | DEFAULT | 100,00% | 100,00% | 5170 | 5875 | 5170 | 116 | n/d |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| 17. Retail: thereof other / non-SMEs | (0; 0,000191] | AAA | 0,01% | 0,01% | 760 | 28 | 0 | 0 | 0,06% |
| | (0,000191; 0,00032] | AA+ | 0,02% | 0,03% | 2526 | 31 | 2 | 0 | 0,05% |
| | (0,00032; 0,000526] | AA, AA- | 0,05% | 0,05% | 7432 | 7200 | 2 | 0 | 0,04% |
| | (0,000526; 0,000848] | A+, A | 0,07% | 0,07% | 9160 | 8701 | 4 | 0 | 0,07% |
| | (0,000848; 0,00134] | A- | 0,11% | 0,12% | 16770 | 20233 | 22 | 0 | 0,12% |
| | (0,00134; 0,002074] | BBB+ | 0,17% | 0,17% | 44302 | 79566 | 40 | 2 | 0,09% |
| | (0,002074; 0,003144] | BBB | 0,25% | 0,25% | 57947 | 77257 | 52 | 3 | 0,11% |
| | (0,003144; 0,004666] | | 0,39% | 0,39% | 55712 | 52482 | 109 | 21 | 0,21% |
| | (0,004666; 0,006775] | BBB- | 0,56% | 0,56% | 51426 | 58250 | 175 | 34 | 0,32% |
| | (0,006775; 0,009621] | BB+ | 0,82% | 0,82% | 49794 | 56095 | 272 | 51 | 0,56% |
| | (0,009621; 0,013355] | BB | 1,14% | 1,14% | 45162 | 61393 | 367 | 98 | 0,74% |
| | (0,013355; 0,01811] | | 1,55% | 1,56% | 45344 | 52166 | 644 | 121 | 1,15% |
| | (0,01811; 0,023979] | BB- | 2,09% | 2,09% | 36256 | 35425 | 598 | 185 | 1,52% |
| | (0,023979; 0,030982] | | 2,73% | 2,73% | 32210 | 25754 | 718 | 181 | 1,82% |
| | (0,030982; 0,03904] | B+ | 3,48% | 3,46% | 26018 | 34636 | 783 | 162 | 2,31% |
| | (0,03904; 0,048571] | B | 4,32% | 4,33% | 17408 | 17669 | 845 | 207 | 3,46% |
| | (0,048571; 0,06043] | | 5,43% | 5,41% | 11142 | 12777 | 559 | 222 | 4,50% |
| | (0,06043; 0,075185] | | 6,66% | 6,58% | 9011 | 10514 | 560 | 179 | 5,54% |
| | (0,075185; 0,093541] | B- | 8,40% | 8,39% | 6704 | 6689 | 566 | 162 | 6,85% |
| | (0,093541; 0,11638] | | 10,38% | 10,39% | 4901 | 7583 | 589 | 140 | 9,13% |
| | (0,11638; 0,144795] | CCC+ to C | 13,04% | 13,02% | 3465 | 5630 | 517 | 167 | 11,56% |
| | (0,144795; 0,180147] | | 16,13% | 16,10% | 3024 | 4949 | 578 | 183 | 15,10% |
| | (0,180147; 0,224131] | | 20,01% | 19,99% | 2495 | 4637 | 561 | 166 | 19,21% |
| | (0,224131; 1) | | 31,13% | 30,92% | 3543 | 10048 | 1389 | 811 | 32,32% |
| | 1 | DEFAULT | 100,00% | 100,00% | 27103 | 26754 | 27103 | 830 | n/d |

The following table presents the average model LGD values as of 31.12.2018 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 (31.12.2018) | 20,65% | 46,41% | 43,81% | 44,59% | 18,50% |
| Mean model LGD weighted by EAD (31.12.2018) | 25,86% | 50,02% | 46,57% | 32,81% | 17,62% |
| Mean empirical LGD* | 15,20% | 35,80% | 40,22% | 17,6% | 11,58% |
| Mean empirical LGD weighted by EAD* | 20,32% | 45,59% | 35,40% | 17,6% | 13,79% |

* *Retail mortgages exposures and Retail non-mortgages exposures (01.2006-06.2018), Corporate exposures (01.2006-10.2018), Commercial banks exposures (01.2006 - 06.2016), mLeasing exposures (01.2007 - 06.2018)*

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

### 5.4. Supervisory requirements regarding capital ratios

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

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

As of 31 December 2018 mBank Group was obliged to ensure adequate own funds to meet conservation capital buffer of 1,875% of total risk exposure amount, as defined in the Act.

As of the end of December 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 31 December 2018 amounted to 1% and 1,25% respectively, had an impact on the mBank Group specific countercyclical capital buffer.

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

| | 31.12.2018 |
|---|---|
| Total risk exposure amount | 76 239 533 |
| Institution specific countercyclical buffer rate (%) | 0,039900% |
| Institution specific countercyclical buffer requirement* | 30 420 |

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

**Geographical distribution of credit exposures relevant for the calculation of the countercyclical capital buffer in thous. PLN**

| | Breakdown by country: | General credit exposures | | Trading book exposures | | Securitisation exposures | | Own funds requirements | | | | Own funds requirement weights | 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: Securitisa-tion exposures | Total | | |
| 1 | Poland | 16 336 540 | 94 228 268 | 3 095 365 | 0 | 0 | 0 | 5 012 558 | 35 881 | 0 | **5 048 439** | 94,69900 | 0,0000 |
| 2 | Czech Republic | 3 837 042 | 10 298 | 0 | 0 | 0 | 0 | 153 280 | 0 | 0 | **153 280** | 2,87500 | 0,0288 |
| 3 | Slovakia | 936 513 | 67 | 0 | 0 | 0 | 0 | 40 150 | 0 | 0 | **40 150** | 0,75300 | 0,0094 |
| 4 | Luxembourg | 291 688 | 0 | 0 | 0 | 0 | 0 | 23 337 | 0 | 0 | **23 337** | 0,43800 | 0,0000 |
| 5 | Germany | 55 226 | 151 819 | 0 | 0 | 0 | 0 | 19 095 | 0 | 0 | **19 095** | 0,35800 | 0,0000 |
| 6 | Netherlands | 151 045 | 70 727 | 2 367 | 0 | 0 | 0 | 17 322 | 189 | 0 | **17 511** | 0,32800 | 0,0000 |
| 7 | Malta | 83 | 91 660 | 0 | 0 | 0 | 0 | 8 065 | 0 | 0 | **8 065** | 0,15100 | 0,0000 |
| 8 | United States of America | 58 278 | 30 582 | 0 | 0 | 0 | 0 | 5 710 | 0 | 0 | **5 710** | 0,10700 | 0,0000 |
| 9 | Cyprus | 21 783 | 33 985 | 0 | 0 | 0 | 0 | 3 955 | 0 | 0 | **3 955** | 0,07400 | 0,0000 |
| 10 | Sweden | 42 752 | 259 | 0 | 0 | 0 | 0 | 3 427 | 0 | 0 | **3 427** | 0,06400 | 0,0013 |
| 11 | Great Britain | 790 | 11 651 | 0 | 0 | 0 | 0 | 2 222 | 0 | 0 | **2 222** | 0,04200 | 0,0004 |
| 12 | Bahama | 27 466 | 134 | 0 | 0 | 0 | 0 | 2 199 | 0 | 0 | **2 199** | 0,04100 | 0,0000 |
| 13 | Romania | 0 | 7 714 | 0 | 0 | 0 | 0 | 992 | 0 | 0 | **992** | 0,01900 | 0,0000 |
| 14 | Austria | 0 | 10 606 | 0 | 0 | 0 | 0 | 926 | 0 | 0 | **926** | 0,01700 | 0,0000 |
| 15 | Russian Federation | 44 965 | 9 654 | 0 | 0 | 0 | 0 | 838 | 0 | 0 | **839** | 0,01600 | 0,0000 |
| 16 | Ireland | 4 | 7 017 | 0 | 0 | 0 | 0 | 476 | 0 | 0 | **476** | 0,00900 | 0,0000 |
| 17 | Belgium | 2 172 | 1 | 0 | 0 | 0 | 0 | 175 | 0 | 0 | **175** | 0,00300 | 0,0000 |
| 18 | Hungary | 282 | 2 449 | 0 | 0 | 0 | 0 | 111 | 0 | 0 | **111** | 0,00200 | 0,0000 |
| 19 | France | 1 | 601 | 0 | 0 | 0 | 0 | 41 | 0 | 0 | **41** | 0,00100 | 0,0000 |
| 20 | Switzerland | 587 | 1 176 | 0 | 0 | 0 | 0 | 35 | 0 | 0 | **35** | 0,00100 | 0,0000 |
| 21 | Italy | 5 | 90 | 0 | 0 | 0 | 0 | 16 | 0 | 0 | **16** | 0,00000 | 0,0000 |
| 22 | Israel | 73 | 96 | 0 | 0 | 0 | 0 | 10 | 0 | 0 | **10** | 0,00000 | 0,0000 |
| 23 | Australia | 0 | 150 | 0 | 0 | 0 | 0 | 9 | 0 | 0 | **9** | 0,00000 | 0,0000 |
| 24 | Portugal | 0 | 340 | 0 | 0 | 0 | 0 | 5 | 0 | 0 | **5** | 0,00000 | 0,0000 |
| 25 | Spain | 0 | 509 | 0 | 0 | 0 | 0 | 4 | 0 | 0 | **4** | 0,00000 | 0,0000 |
| 26 | Norway | 0 | 112 | 0 | 0 | 0 | 0 | 4 | 0 | 0 | **4** | 0,00000 | 0,0000 |
| 27 | Danemark | 46 | 6 | 0 | 0 | 0 | 0 | 4 | 0 | 0 | **4** | 0,00000 | 0,0000 |
| 28 | United Arab Emirates | 2 | 213 | 0 | 0 | 0 | 0 | 3 | 0 | 0 | **3** | 0,00000 | 0,0000 |
| 29 | Andorra | 0 | 105 | 0 | 0 | 0 | 0 | 2 | 0 | 0 | **2** | 0,00000 | 0,0000 |
| 30 | Indonesia | 0 | 26 | 0 | 0 | 0 | 0 | 2 | 0 | 0 | **2** | 0,00000 | 0,0000 |
| 31 | Lichtenstein | 20 | 0 | 0 | 0 | 0 | 0 | 2 | 0 | 0 | **2** | 0,00000 | 0,0000 |
| 32 | Panama | 0 | 54 | 0 | 0 | 0 | 0 | 1 | 0 | 0 | **1** | 0,00000 | 0,0000 |
| 33 | Other | 9 | 37 | 0 | 0 | 0 | 0 | 1 | 0 | 0 | **1** | 0,00000 | 0,0000 |
| | **Total** | **21 807 371** | **94 670 405** | **3 097 732** | **0** | **0** | **0** | **5 294 976** | **36 070** | **0** | **5 331 046** | **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 subject to a capital buffer which on the basis of KNF administrative decision of July 31st, 2018 amounted to 0,5% of the total risk exposure amount, calculated in accordance with article 92(3) of CRR Regulation, to be maintained on individual and consolidated levels.

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 2,82% in December 2018.

Consequently, the combined buffer requirement set for the mBank Group as of the end of December 2018 amounted to 5,24% of the total risk exposure amount.

Additionally, as a result of the annual risk assessment carried out in 2018 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 3,64% in order to mitigate the risk and 2,73% for Tier 1 capital (on individual basis: 4,18% and 3,14% respectively). Additional capital requirement in Pillar II 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 (risk weight 150%). Consequently, more than half of the additional capital requirement calculated by the PFSA for mBank Group comes from "aligning" the capital requirement to the requirement calculated under the standardised approach. The second important component with effect on an additional capital requirement within Pillar II was related to the BION score quantifying the risk of foreign exchange retail mortgage loans portfolio, taking into account the specific nature of the Bank portfolio, the following factors were taken into account:

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

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

- the basis requirement resulting from CRR provisions to maintain the total capital ratio of 8% and the Tier 1 ratio of 6%,
- the combined buffer requirement of additional 5,24%,
- the additional capital charge in Pillar II on consolidated basis associated with the portfolio of FX housing loans: 3,64% at the level of total capital ratio and 2,73% at the level of Tier 1 capital (on individual basis: 4,18% and 3,14% respectively).

Capital ratios in 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.

| mBank Group | 31.12.2018 | | 30.09.2018 | |
|---|---|---|---|---|
| Capital ratio | Required level | Reported level | Required level | Reported level |
| Total capital ratio (TCR) | 16,88% | 20,69% | 16,70% | 20,21% |
| Tier 1 ratio* | 13,97% | 17,47% | 13,82% | 17,32% |

**Tier 1 ratio reported in mBank Group is equal to CET 1 ratio*

### 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.

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 | | Minimum capital requirements |
|---|---|---|---|---|---|
| | | | 31.12.2018 | 30.09.2018 | 31.12.2018 |
| | 1 | **Credit risk (excluding CCR)** | **67 284 506** | **66 790 053** | **5 382 760** |
| art. 438 lit. c) i d) | 2 | Of which the standardised approach | 15 617 256 | 14 888 554 | 1 249 380 |
| 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 | 51 667 250 | 51 901 499 | 4 133 380 |
| 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** | **895 333** | **893 569** | **71 627** |
| art. 438 lit. c) i d) | 7 | Of which mark to market | 672 448 | 669 775 | 53 796 |
| 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 | 1 597 | 1 107 | 128 |
| art. 438 lit. c) i d) | 12 | Of which CVA | 221 288 | 222 687 | 17 703 |
| 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** | **789 039** | **964 207** | **63 123** |
| | 20 | Of which the standardised approach | 789 039 | 964 207 | 63 123 |
| | 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)** | **24 723** | **19 575** | **1 978** |
| art. 500 | 28 | **Floor adjustment** | **0** | **0** | **0** |
| | **29** | **Total** | **76 239 533** | **75 913 336** | **6 099 163** |

**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 amo-unt | RWAs | Expected losses |
| Category 1 | Less than 2.5 years | | | 50% | | | |
| | Equal to or more than 2.5 years | 62 918 | 0 | 70% | 62 918 | 43 296 | 252 |
| Category 2 | Less than 2.5 years | 1 136 025 | 745 582 | 70% | 1 323 931 | 922 833 | 5 296 |
| | Equal to or more than 2.5 years | 5 170 888 | 1 348 526 | 90% | 5 173 054 | 4 639 457 | 41 384 |
| Category 3 | Less than 2.5 years | 31 410 | 3 991 | 115% | 32 567 | 37 427 | 912 |
| | Equal to or more than 2.5 years | 205 797 | 20 | 115% | 205 813 | 233 258 | 5 763 |
| Category 4 | Less than 2.5 years | | | 250% | | | |
| | Equal to or more than 2.5 years | 39 063 | 0 | 250% | 39 063 | 97 336 | 3 125 |
| Category 5 | Less than 2.5 years | 235 917 | 0 | 0% | 235 917 | 0 | 117 959 |
| | Equal to or more than 2.5 years | 258 414 | 0 | 0% | 258 414 | 0 | 129 207 |
| Total | Less than 2.5 years | 1 403 352 | 749 573 | | 1 592 415 | 960 260 | 124 167 |
| | Equal to or more than 2.5 years | 5 737 080 | 1 348 546 | | 5 739 262 | 5 013 347 | 179 731 |

| Equity under the simple risk-weighted approach | | | | | | |
|---|---|---|---|---|---|---|
| Categories | On- balance-sheet amount | Off-Balance- sheet amount | Risk weight | Exposure amo-unt | 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 30 September 2018** | **67 481** | **5 398** |
| 2 | Asset size | 32 | 3 |
| 3 | Asset quality | 116 | 9 |
| 4 | AIRB model updates | 179 | 15 |
| 5 | Methodology and policy | 0 | 0 |
| 6 | Acquisitions and disposals | 0 | 0 |
| 7 | Foreign exchange movements | 175 | 14 |
| **8** | **Risk weighted exposure amount as of 31 December 2018** | **67 983** | **5 439** |

*Asset size*

The category covers structural changes of the credit portfolio capturing among others new and matured credit exposures. In the fourth quarter of 2018 a significant increase in corporate and retail lending was recorded.

*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 and counterparty credit risk, model recalibrations had an impact on RWA movement in the fourth quarter of 2018.

The coverage of the credit portfolio of mBank Group by AIRB approach amounted to 84% at the end of 2018, based on risk-weighted assets. As of 31 December 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 - income producing real estate 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.

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: | 68% |
| | Corporate exposures | 23% |
| | Specialised lending exposures – income producing real estate | 3% |
| | Retail exposures – mortgage loans | 30% |
| | 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** | **84%** |
| **Roll-out portfolios** | mBank – other specialised lending exposures | 3% |
| | mBank Hipoteczny - Retail exposures – mortgage loans | 2% |
| | **Roll-out** | **5%** |
| **Permanent partial use** | | 11% |
| **Total** | | **100%** |

*Methodology and policy*

In the fourth quarter of 2018 no methodology and policy changes were recorded.

*Foreign exchange movements*

Due to the significant share of foreign currency credit portfolio in mBank Group portfolio foreign exchange movements had an impact on the level of risk-weighted exposure amount for credit and counterparty credit risk in the fourth quarter of 2018.

## 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 | Balance-sheet amount | Off-balance-sheet amount | On-balance-sheet amount | Off-balance-sheet amount | RWAs | RWA density |
| 1 | Central governments or central banks | 36 609 424 | 2 849 | 36 654 125 | 720 | 30 402 | 0,08% |
| 2 | Regional government or local authorities | 506 731 | 64 278 | 630 057 | 20 884 | 130 188 | 20,00% |
| 3 | Public sector entities | 85 740 | 36 297 | 32 304 | 15 504 | 24 745 | 51,76% |
| 4 | Multilateral development banks | 2 489 216 | 0 | 2 489 216 | 0 | 0 | 0,00% |
| 5 | International organisations | 0 | 0 | 0 | 0 | 0 | 0,00% |
| 6 | Institutions | 403 283 | 4 416 | 455 842 | 9 973 | 228 130 | 48,97% |
| 7 | Corporates | 7 812 448 | 4 429 787 | 7 522 530 | 1 371 026 | 8 768 930 | 98,60% |
| 8 | Retail | 2 423 035 | 653 210 | 2 423 035 | 146 501 | 1 924 644 | 74,90% |
| 9 | Secured by mortgages on immovable property | 9 393 539 | 38 752 | 9 393 539 | 19 357 | 3 841 191 | 40,81% |
| 10 | Exposures in default | 350 652 | 1 933 | 305 902 | 903 | 363 960 | 118,63% |
| 11 | Exposures associated with particularly high risk | 34 706 | 0 | 34 706 | 0 | 52 059 | 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 | 0 | 0 | 0 | 0 | 0 | 0,00% |
| 15 | Equity | 204 993 | 0 | 204 993 | 0 | 219 827 | 107,24% |
| 16 | Other items | 15 012 | 12 | 15 012 | 12 | 15 024 | 100,00% |
| **17** | **Total** | **60 328 780** | **5 231 534** | **60 161 261** | **1 584 881** | **15 599 101** | **25,26%** |

**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 | 36 071 205 | 0 | 539 539 | 0 | 44 101 | 0 | 0 | 0 | 0 |
| 2 | Regional government or local authorities | 0 | 0 | 0 | 0 | 650 942 | 0 | 0 | 0 | 0 |
| 3 | Public sector entities | 0 | 0 | 0 | 0 | 0 | 0 | 46 127 | 0 | 0 |
| 4 | Multilateral development banks | 2 489 216 | 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 | 16 420 | 0 | 449 098 | 0 | 0 |
| 7 | Corporates | 0 | 0 | 0 | 0 | 0 | 0 | 145 826 | 0 | 0 |
| 8 | Retail | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 2 569 524 |
| 9 | Secured by mortgages on immovable property | 0 | 0 | 0 | 0 | 0 | 8 358 891 | 285 719 | 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** | **38 560 421** | **0** | **539 539** | **0** | **711 462** | **8 358 891** | **926 770** | **0** | **2 569 524** |

| | 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 | 36 654 845 | 1 280 903 |
| 2 | Regional government or local authorities | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 650 942 | 127 783 |
| 3 | Public sector entities | 1 682 | 0 | 0 | 0 | 0 | 0 | 0 | 47 808 | 1 682 |
| 4 | Multilateral development banks | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 2 489 216 | 0 |
| 5 | International organisations | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 6 | Institutions | 298 | 0 | 0 | 0 | 0 | 0 | 0 | 465 815 | 150 571 |
| 7 | Corporates | 8 747 730 | 0 | 0 | 0 | 0 | 0 | 0 | 8 893 556 | 8 747 684 |
| 8 | Retail | 12 | 0 | 0 | 0 | 0 | 0 | 0 | 2 569 536 | 2 569 536 |
| 9 | Secured by mortgages on immovable property | 754 338 | 13 948 | 0 | 0 | 0 | 0 | 0 | 9 412 896 | 9 412 896 |
| 10 | Exposures in default | 192 493 | 114 312 | 0 | 0 | 0 | 0 | 0 | 306 805 | 306 805 |
| 11 | Exposures associated with particularly high risk | 0 | 34 706 | 0 | 0 | 0 | 0 | 0 | 34 706 | 34 706 |
| 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 |
| 15 | Equity | 195 104 | 0 | 9 889 | 0 | 0 | 0 | 0 | 204 993 | 204 993 |
| 16 | Other items | 15 024 | 0 | 0 | 0 | 0 | 0 | 0 | 15 024 | 15 024 |
| **17** | **Total** | **9 906 680** | **162 966** | **9 889** | **0** | **0** | **0** | **0** | **61 746 142** | **22 852 583** |

**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)** | | | | | | | | | | | | |
| | od 0.00 do 0.15 | 24 196 | 2 969 | 63,57% | 26 083 | 0,12% | 64 | 40,14% | - | 2 255 | 8,65% | 12 | |
| | od 0.15 do 0.25 | 161 419 | 15 724 | 79,97% | 173 993 | 0,22% | 509 | 32,89% | - | 19 622 | 11,28% | 124 | |
| | od 0.25 do 0.50 | 687 790 | 64 593 | 97,08% | 750 495 | 0,36% | 1 865 | 32,24% | - | 121 295 | 16,16% | 885 | |
| | od 0.50 do 0.75 | 375 758 | 55 672 | 114,55% | 439 533 | 0,61% | 1 223 | 31,17% | - | 99 223 | 22,57% | 839 | |
| | od 0.75 do 2.50 | 487 825 | 58 943 | 135,75% | 567 838 | 1,27% | 1 607 | 33,44% | - | 220 504 | 38,83% | 2 402 | |
| | od 2.50 do 10.00 | 155 142 | 7 312 | 135,24% | 165 031 | 4,42% | 433 | 34,55% | - | 135 694 | 82,22% | 2 454 | |
| | od 10.00 do 100.00 | 119 575 | 1 290 | 85,45% | 120 678 | 20,06% | 278 | 30,34% | - | 158 701 | 131,51% | 7 471 | |
| | 100.00 (Default)) | 146 876 | 68 | 0,00% | 146 876 | 100,00% | 285 | 55,09% | - | 144 263 | 98,22% | 79 339 | |
| | **Subtotal** | **2 158 581** | **206 571** | **112,28%** | **2 390 527** | **8,01%** | **6 264** | **33,93%** | **-** | **901 557** | **37,71%** | **93 526** | **94 837** |
| **Exposure class** | **Retail mortgage portfolio (natural persons)** | | | | | | | | | | | | |
| | od 0.00 do 0.15 | 12 280 450 | 339 554 | 49,19% | 12 447 485 | 0,08% | 70 946 | 26,21% | - | 696 403 | 5,59% | 2 681 | |
| | od 0.15 do 0.25 | 4 330 105 | 87 673 | 51,15% | 4 374 949 | 0,20% | 22 285 | 26,24% | - | 478 477 | 10,94% | 2 242 | |
| | od 0.25 do 0.50 | 4 073 833 | 96 793 | 60,21% | 4 132 107 | 0,35% | 19 897 | 26,52% | - | 696 190 | 16,85% | 3 817 | |
| | od 0.50 do 0.75 | 1 032 092 | 26 409 | 60,67% | 1 048 114 | 0,60% | 5 160 | 27,09% | - | 265 269 | 25,31% | 1 696 | |
| | od 0.75 do 2.50 | 1 022 328 | 27 679 | 54,51% | 1 037 417 | 1,31% | 4 958 | 27,65% | - | 447 553 | 43,14% | 3 773 | |
| | od 2.50 do 10.00 | 691 608 | 4 114 | 58,28% | 694 006 | 5,61% | 2 667 | 26,86% | - | 668 226 | 96,29% | 10 456 | |
| | od 10.00 do 100.00 | 587 276 | 1 028 | 55,60% | 587 848 | 17,83% | 1 748 | 27,86% | - | 920 165 | 156,53% | 29 715 | |
| | 100.00 (Default) | 825 462 | 629 | 0,00% | 825 462 | 100,00% | 2 129 | 57,38% | - | 1 264 481 | 153,18% | 397 121 | |
| | **Subtotal** | **24 843 154** | **583 879** | **52,11%** | **25 147 388** | **4,07%** | **129 790** | **27,44%** | **-** | **5 436 764** | **21,62%** | **451 503** | **449 295** |
| **Exposure class** | **Retail non-mortgage portfolio (microfirms)** | | | | | | | | | | | | |
| | od 0.00 do 0.15 | 26 305 | 124 462 | 80,07% | 126 686 | 0,12% | 4 891 | 48,05% | - | 14 260 | 11,26% | 76 | |
| | od 0.15 do 0.25 | 208 306 | 509 536 | 80,38% | 617 588 | 0,20% | 23 086 | 48,07% | - | 98 461 | 15,94% | 604 | |
| | od 0.25 do 0.50 | 926 808 | 601 314 | 80,79% | 1 415 217 | 0,39% | 46 746 | 38,65% | - | 274 443 | 19,39% | 2 034 | |
| | od 0.50 do 0.75 | 1 188 245 | 262 198 | 83,98% | 1 405 381 | 0,62% | 36 616 | 31,38% | - | 311 519 | 22,17% | 2 754 | |
| | od 0.75 do 2.50 | 3 579 541 | 420 632 | 85,71% | 3 940 897 | 1,34% | 106 810 | 32,76% | - | 1 258 622 | 31,94% | 17 517 | |
| | od 2.50 do 10.00 | 1 782 125 | 108 121 | 87,01% | 1 875 371 | 4,85% | 54 551 | 33,82% | - | 818 085 | 43,62% | 30 229 | |
| | od 10.00 do 100.00 | 929 314 | 20 027 | 85,97% | 946 532 | 21,01% | 26 813 | 31,17% | - | 577 922 | 61,06% | 63 274 | |
| | 100.00 (Default) | 527 618 | 1 710 | 0,00% | 527 619 | 100,00% | 17 446 | 73,50% | - | 432 180 | 81,91% | 370 482 | |

| | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **Subtotal** | **9 168 262** | **2 048 000** | **82,37%** | **10 855 291** | **8,16%** | **316 959** | **36,42%** | **-** | **3 785 492** | **34,87%** | **486 970** | **488 371** |
| **Exposure class** | **Retail non-mortgage portfolio (natural persons)** | | | | | | | | | | | | |
| | od 0.00 do 0.15 | 324 045 | 1 108 630 | 71,58% | 1 115 840 | 0,11% | 153 410 | 48,00% | - | 146 758 | 13,15% | 578 | |
| | od 0.15 do 0.25 | 775 272 | 1 805 553 | 70,08% | 2 040 489 | 0,20% | 294 777 | 48,64% | - | 423 360 | 20,75% | 1 974 | |
| | od 0.25 do 0.50 | 1 455 828 | 1 186 013 | 71,19% | 2 301 199 | 0,36% | 325 110 | 49,52% | - | 705 114 | 30,64% | 4 052 | |
| | od 0.50 do 0.75 | 1 053 268 | 342 267 | 74,72% | 1 309 784 | 0,62% | 177 200 | 50,31% | - | 561 574 | 42,88% | 4 060 | |
| | od 0.75 do 2.50 | 3 452 826 | 563 354 | 74,83% | 3 874 253 | 1,39% | 566 464 | 50,45% | - | 2 330 238 | 60,15% | 27 144 | |
| | od 2.50 do 10.00 | 1 919 361 | 117 754 | 77,29% | 2 010 507 | 4,56% | 274 383 | 49,85% | - | 1 547 254 | 76,96% | 45 761 | |
| | od 10.00 do 100.00 | 725 056 | 30 346 | 76,65% | 748 317 | 20,68% | 104 295 | 50,30% | - | 861 672 | 115,15% | 78 032 | |
| | 100.00 (Default) | 812 248 | 4 883 | 0,00% | 812 248 | 100,00% | 81 046 | 70,58% | - | 878 431 | 108,15% | 529 721 | |
| | **Subtotal** | **10 517 904** | **5 158 800** | **71,62%** | **14 212 637** | **7,98%** | **1 976 685** | **50,89%** | **-** | **7 454 401** | **52,45%** | **691 322** | **692 274** |
| **Exposure class** | **Corporations - medium and small enterprises** | | | | | | | | | | | | |
| | od 0.00 do 0.15 | 387 761 | 379 887 | 43,48% | 552 929 | 0,08% | 313 | 40,51% | 2 | 83 308 | 15,07% | 164 | |
| | od 0.15 do 0.25 | 238 740 | 148 894 | 39,13% | 297 000 | 0,18% | 100 | 41,72% | 2 | 80 358 | 27,06% | 226 | |
| | od 0.25 do 0.50 | 731 097 | 480 749 | 45,87% | 951 626 | 0,37% | 316 | 35,65% | 2 | 340 891 | 35,82% | 1 267 | |
| | od 0.50 do 0.75 | 869 645 | 383 506 | 48,73% | 1 056 540 | 0,62% | 446 | 34,20% | 2 | 479 365 | 45,37% | 2 276 | |
| | od 0.75 do 2.50 | 3 778 911 | 1 700 158 | 43,87% | 4 524 845 | 1,48% | 1 684 | 37,42% | 2 | 2 992 250 | 66,13% | 24 826 | |
| | od 2.50 do 10.00 | 1 699 425 | 421 301 | 43,89% | 1 884 313 | 3,95% | 833 | 33,98% | 2 | 1 495 790 | 79,38% | 24 529 | |
| | od 10.00 do 100.00 | 130 741 | 27 024 | 48,47% | 143 839 | 21,32% | 133 | 26,18% | 2 | 138 999 | 96,64% | 7 808 | |
| | 100.00 (Default) | 93 841 | 4 993 | 18,52% | 94 766 | 100,00% | 62 | 67,63% | 2 | 331 174 | 349,46% | 77 100 | |
| | **Subtotal** | **7 930 161** | **3 546 512** | **44,43%** | **9 505 858** | **2,92%** | **3 887** | **36,73%** | **2** | **5 942 135** | **62,51%** | **105 196** | **85 341** |
| **Exposure class** | **Corporations - other** | | | | | | | | | | | | |
| | od 0.00 do 0.15 | 756 907 | 2 974 556 | 32,88% | 1 734 928 | 0,08% | 130 | 48,48% | 2 | 400 016 | 23,06% | 696 | |
| | od 0.15 do 0.25 | 1 249 227 | 1 473 346 | 38,94% | 1 822 983 | 0,18% | 81 | 51,47% | 2 | 751 854 | 41,24% | 1 698 | |
| | od 0.25 do 0.50 | 2 426 793 | 1 816 050 | 49,05% | 3 317 558 | 0,37% | 216 | 42,53% | 2 | 1 917 828 | 57,81% | 5 104 | |
| | od 0.50 do 0.75 | 1 239 815 | 1 654 523 | 41,14% | 1 920 430 | 0,63% | 188 | 42,17% | 2 | 1 401 842 | 73,00% | 5 097 | |
| | od 0.75 do 2.50 | 6 124 912 | 4 419 046 | 44,68% | 8 100 427 | 1,31% | 613 | 45,48% | 2 | 8 288 931 | 102,33% | 48 125 | |
| | od 2.50 do 10.00 | 1 582 380 | 1 366 498 | 36,13% | 2 075 093 | 4,16% | 368 | 42,63% | 2 | 2 642 407 | 127,34% | 35 543 | |
| | od 10.00 do 100.00 | 128 360 | 52 197 | 52,76% | 155 899 | 20,07% | 199 | 33,73% | 2 | 264 399 | 169,60% | 11 171 | |
| | 100.00 (Default) | 887 370 | 129 777 | 26,05% | 921 173 | 100,00% | 343 | 77,40% | 2 | 781 719 | 84,86% | 762 813 | |
| | **Subtotal** | **14 395 764** | **13 885 993** | **40,71%** | **20 048 491** | **5,79%** | **2 138** | **46,56%** | **2** | **16 448 996** | **82,05%** | **870 247** | **833 005** |
| **Exposure class** | **Corporations - specialized lending exposures** | | | | | | | | | | | | |
| | **Subtotal** | **7 140 431** | **2 098 119** | **9,12%** | **7 331 677** | **0,00%** | **444** | **0,00%** | **4** | **5 973 607** | **81,48%** | **303 897** | **248 683** |
| **Exposure class** | **Institutions** | | | | | | | | | | | | |
| | od 0.00 do 0.15 | 291 012 | 3 449 442 | 40,85% | 1 700 060 | 0,06% | 66 | 47,48% | 2 | 492 407 | 28,96% | 512 | |
| | od 0.15 do 0.25 | 80 993 | 10 500 | 45,00% | 85 718 | 0,22% | 6 | 43,59% | 2 | 44 119 | 51,47% | 83 | |
| | od 0.25 do 0.50 | 318 816 | 6 448 | 29,91% | 320 745 | 0,29% | 17 | 44,28% | 3 | 226 083 | 70,49% | 405 | |
| | od 0.50 do 0.75 | 152 596 | 6 693 | 43,40% | 155 501 | 0,61% | 9 | 28,27% | 1 | 71 978 | 46,29% | 274 | |
| | od 0.75 do 2.50 | 24 042 | 39 001 | 49,35% | 43 287 | 1,46% | 9 | 53,05% | 2 | 51 597 | 119,20% | 369 | |
| | od 2.50 do 10.00 | 34 464 | 100 000 | 45,00% | 79 464 | 3,03% | 4 | 54,58% | 1 | 132 018 | 166,14% | 1 339 | |
| | od 10.00 do 100.00 | 0 | 0 | 0,00% | 0 | 0,00% | 0 | 0,00% | 0 | 0 | 0,00% | 0 | |
| | 100.00 (Default) | 0 | 0 | | 0 | 0,00% | 0 | 0,00% | 0 | 0 | 0,00% | 0 | |
| | **Subtotal** | **901 923** | **3 612 084** | **41,05%** | **2 384 775** | **0,02%** | **111** | **34,49%** | **2** | **1 018 202** | **42,70%** | **2 982** | **2 536** |
| | | | | | | | | | | | | | |
| **Total (all portfolios)** | | **77 056 180** | **31 139 958** | **41,05%** | **91 876 644** | **4,81%** | **2 436 278** | **33,66%** | **2** | **46 961 154** | **51,11%** | **3 005 643** | **2 894 342** |

**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 this information as credit derivatives are not 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)**

| | | 31/12/2018 |
|---|---|---|
| 1 | **Total assets as per published financial statements** | **145 750 119** |
| 2 | Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation | -49 995 |
| 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 | 848 928 |
| 5 | Adjustment for securities financing transactions (SFTs) | 706 750 |
| 6 | Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures) | 11 333 647 |
| EU-6A | (Adjustment for intragroup exposures excluded from the leverage ratio total exposure measure in accordance with Article 429(7) of Regulation (EU) No 575/2013) | 0 |
| EU-6B | (Adjustment for exposures excluded from the leverage ratio total exposure measure in accordance with Article 429(14) of Regulation (EU) No 575/2013) | 0 |
| 7 | Other adjustments | -3 839 353 |
| 8 | **Leverage ratio total exposure measure** | **154 750 096** |

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

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

| | | 31/12/2018 |
|---|---|---|
| | **On-balance sheet exposures (excluding derivatives and SFTs)** | |
| 1 | On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral) | 139 562 951 |
| 2 | (Asset amounts deducted in determining Tier 1 capital) | -1 072 117 |
| **3** | **Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets)** | 138 490 834 |
| | **Derivative exposures** | |
| 4 | Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin) | 523 227 |
| 5 | Add-on amounts for PFE associated with all derivatives transactions (mark- to-market method) | 1 331 780 |
| 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** | 1 855 007 |
| | SFT exposures | |
| 12 | Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions | 3 042 944 |
| 13 | (Netted amounts of cash payables and cash receivables of gross SFT assets) | 0 |
| 14 | Counterparty credit risk exposure for SFT assets | 27 664 |
| 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** | 3 070 608 |
| | Other off-balance sheet exposures | |
| 17 | Off-balance sheet exposures at gross notional amount | 36 273 190 |
| 18 | (Adjustments for conversion to credit equivalent amounts) | -24 939 543 |
| 19 | **Other off-balance sheet exposures** | 11 333 647 |
| | 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 | 13 317 233 |
| 21 | Leverage ratio total exposure measure | 154 750 096 |
| | Leverage ratio | |
| 22 | Leverage ratio | 8,61% |
| | **Choice on transitional arrangements and amount of derecognised fiduciary items** | |
| EU-23 | Amount of derecognised fiduciary items in accordance with Article 429(11) of Regulation (EU) No 575/2013 | transitional |
| EU-24 | Choice on transitional arrangements for the definition of the capital measure | 0 |

mBank 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 1 capital and leverage ratio of mBank Group calculated in accordance with a transitional definition of Tier 1 capital as of 31 December 2018 and 30 June 2018 (in PLN thousand)

| | 31.12.2018 | 30.06.2018 |
|---|---|---|
| Exposure value | 154 750 096 | 148 903 110 |
| Capital and regulatory adjustments | | |
| Tier 1 capital - transitional definition | 13 317 233 | 12 684 868 |
| Regulatory adjustments - Tier 1 - transitional definition | -1 072 117 | -1 135 039 |
| Leverage ratio | | |
| Leverage Ratio - using a transitional definition of Tier 1 | 8,61% | 8,52% |

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

- inclusion in Common Equity Tier I capital the verified net profit of the mBank Group for the first half of 2018 and the third quarter of the year 2018, net of expected charges and dividends, on the basis of the PFSA decisions of September 7, 2018, and November 30, 2018 respectively;
- classification of capital instruments issued within incentive programs in the period from September 1, 2017 till September 30, 2018 as instruments in Common Equity Tier I capital on the basis of the PFSA decision of December 19, 2018;
- expansion of the mBank Group business activity;
- changes of foreign exchange rates.

***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 is 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 2018 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.

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 has a dedicated collateral policy in the area of corporate banking. 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 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.

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.

**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 | 59 266 993 | 46 090 072 | 44 772 708 | 1 317 364 | not applicable |
| 2 | Total debt securities | 32 279 051 | 32 538 | 32 538 | 0 | not applicable |
| **3** | **Total exposures** | **121 771 371** | **55 855 608** | **53 021 590** | **2 834 018** | not applicable |
| 4 | Of which defaulted | 1 134 296 | 736 266 | 723 636 | 12 629 | not applicable |

### 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 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 2018 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.

*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 - in PLN thousand.

| | | a) | b) |
|---|---|---|---|
| | | Net value of exposures at the end of the period | Average net exposures over the period |
| 1 | Central governments or central banks | 0 | 0 |
| 2 | Institutions | 4 511 472 | 6 761 949 |
| 3 | Corporates | 47 830 084 | 45 971 579 |
| *4* | *Of which: Specialised lending* | 8 989 867 | 8 876 509 |
| *5* | *Of which: SMEs* | 11 391 465 | 10 775 620 |
| 6 | Retail | 52 962 570 | 50 538 891 |
| *7* | *Secured by real estate property* | 27 248 955 | 26 459 094 |
| *8* | *SMEs* | 2 270 363 | 2 245 862 |
| *9* | *Non-SMEs* | 24 978 592 | 24 213 232 |
| *10* | *Qualifying revolving* | 0 | 0 |
| *11* | *Other retail* | 25 713 615 | 24 079 797 |
| *12* | *SMEs* | 10 728 202 | 9 990 046 |
| *13* | *Non-SMEs* | 14 985 413 | 14 089 751 |
| 14 | Equity | 0 | 0 |
| ***15*** | ***Total IRB approach*** | **105 304 126** | **103 272 419** |
| 16 | Central governments or central banks | 36 612 273 | 35 433 450 |
| 17 | Regional governments or local authorities | 571 009 | 680 222 |
| 18 | Public sector entities | 122 036 | 111 929 |
| 19 | Multilateral development banks | 2 489 216 | 2 011 427 |
| 20 | International organisations | 0 | 0 |
| 21 | Institutions | 407 699 | 340 487 |
| 22 | Corporates | 12 242 235 | 11 516 037 |
| *23* | *Of which: SMEs* | 2 999 515 | 1 453 832 |
| 24 | Retail | 3 076 245 | 3 187 141 |
| *25* | *Of which: SMEs* | 53 995 | 19 556 |
| 26 | Secured by mortgages on immovable property | 9 432 291 | 9 162 431 |
| *27* | *Of which: SMEs* | 26 845 | 9 851 |
| 28 | Exposures in default | 352 586 | 408 504 |
| 29 | Items associated with particularly high risk | 34 706 | 31 023 |
| 30 | Covered bonds | 0 | 0 |
| 31 | Claims on institutions and corporates with a short-term credit assessment | 0 | 0 |
| 32 | Collective investments undertakings | 0 | 120 |
| 33 | Equity exposures | 204 993 | 213 866 |
| 34 | Other exposures | 15 025 | 13 364 |
| ***35*** | ***Total standardised approach*** | **65 560 314** | **63 110 001** |
| ***36*** | ***Total*** | **170 864 440** | **166 382 420** |

**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 - 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 | 396 529 | 38 255 | 2 000 | 2 053 940 | 1 019 436 | 1 188 | 1 000 124 | 4 511 472 |
| 3 | Corporates | 47 126 148 | 12 657 | 134 | 401 451 | 9 057 | 0 | 280 637 | 47 830 084 |
| 4 | Retail | 52 946 292 | 10 | 0 | 1 707 | 2 661 | 0 | 11 900 | 52 962 570 |
| 5 | Equity | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| ***6*** | ***Total IRB approach*** | **100 468 969** | **50 922** | **2 134** | **2 457 098** | **1 031 154** | **1 188** | **1 292 661** | **105 304 126** |
| 7 | Central governments or central banks | 33 646 667 | 2 927 556 | 38 050 | 0 | 0 | 0 | 0 | 36 612 273 |
| 8 | Regional governments or local authorities | 571 009 | 0 | 0 | 0 | 0 | 0 | 0 | 571 009 |
| 9 | Public sector entities | 122 036 | 0 | 0 | 0 | 0 | 0 | 0 | 122 036 |
| 10 | Multilateral development banks | 0 | 0 | 0 | 0 | 2 489 216 | 0 | 0 | 2 489 216 |
| 11 | International organisations | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 12 | Institutions | 37 020 | 37 791 | 3 085 | 0 | 293 732 | 11 682 | 24 389 | 407 699 |
| 13 | Corporates | 11 631 300 | 12 899 | 0 | 55 312 | 662 | 296 919 | 245 143 | 12 242 235 |
| 14 | Retail | 787 859 | 1 728 374 | 560 012 | 0 | 0 | 0 | 0 | 3 076 245 |
| 15 | Secured by mortgages on immovable property | 6 455 046 | 2 471 980 | 504 661 | 0 | 0 | 0 | 604 | 9 432 291 |
| 16 | Exposures in default | 297 927 | 6 624 | 2 670 | 1 | 4 | 42 | 45 318 | 352 586 |
| 17 | Items associated with particularly high risk | 34 706 | 0 | 0 | 0 | 0 | 0 | 0 | 34 706 |
| 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 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 21 | Equity exposures | 145 746 | | 0 | 59 247 | 0 | 0 | 0 | 204 993 |
| 22 | Other exposures | 15 025 | 0 | 0 | 0 | 0 | 0 | 0 | 15 025 |
| ***23*** | ***Total standardised approach*** | **53 744 341** | **7 185 224** | **1 108 478** | **114 560** | **2 783 614** | **308 643** | **315 454** | **65 560 314** |
| ***24*** | ***Total*** | **154 213 310** | **7 236 146** | **1 110 612** | **2 571 658** | **3 814 768** | **309 831** | **1 608 115** | **170 864 440** |

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.

**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 - 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, WASTE MANAGEMENT AND REMEDIATION ACTIVITIES | CONSTRUCTION | WHOLESALE AND RETAIL TRADE; REPAIR OF MOTOR VEHICLES AND MOTORCYCLES | TRANSPORTATION AND STORAGE | ACCOMMODATION AND FOOD SERVICE ACTIVITIES | INFORMATION AND COMMU-NICATION | 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 | 4 375 895 | 0 |
| 3 | Corporates | 1 301 | 458 459 | 13 964 765 | 1 824 121 | 452 019 | 8 409 920 | 10 378 275 | 2 249 468 | 180 142 | 1 947 666 | 51 049 | 5 709 528 |
| 4 | Retail | 73 631 | 6 448 | 1 451 428 | 16 047 | 104 002 | 1 239 956 | 3 054 232 | 1 169 861 | 519 320 | 767 156 | 416 288 | 505 514 |
| 5 | Equity | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| ***6*** | ***Total IRB approach*** | **74 932** | **464 907** | **15 416 193** | **1 840 168** | **556 021** | **9 649 876** | **13 432 507** | **3 419 329** | **699 462** | **2 714 822** | **4 843 232** | 6 215 042 |
| 7 | Central governments or central banks | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 7 784 228 | 0 |
| 8 | Regional governments or local authorities | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 578 | 0 |
| 9 | Public sector entities | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 3 044 | 0 | 0 | 0 | 0 |
| 10 | Multilateral development banks | 0 | 0 | 0 | 0 | 0 | 0 | 0 | | 0 | 0 | 2 489 216 | 0 |
| 11 | International organisations | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 12 | Institutions | 0 | | 20 013 | 0 | 0 | 0 | 0 | 0 | 0 | 57 | 387 629 | 0 |
| 13 | Corporates | 122 900 | 358 | 3 052 548 | 233 558 | 79 577 | 505 676 | 905 169 | 428 845 | 80 087 | 765 657 | 3 589 543 | 356 704 |
| 14 | Retail | 93 | 7 | 593 | 11 | 22 | 646 | 1 674 | 449 | 121 | 437 | 180 | 60 |
| 15 | Secured by mortgages on immovable property | 7 902 | | 4 506 | | | 105 258 | 21 157 | 7 736 | 303 628 | 0 | 7 405 | 509 944 |
| 16 | Exposures in default | 2 | 1 | 81 414 | 68 093 | 1 | 235 | 2 058 | 578 | 4 | 2 248 | 98 999 | 20 420 |
| 17 | Items associated with particularly high risk | | | 379 | 0 | 0 | 0 | 0 | 0 | 0 | 500 | 1 435 | 0 |
| 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 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 21 | Equity exposures | 0 | 0 | 8 | 0 | 0 | 25 203 | 0 | 0 | 0 | 0 | 14 456 | 85 295 |
| 22 | Other exposures | 0 | 0 | 1 770 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 91 | 0 |
| ***23*** | ***Total standardised approach*** | **130 897** | **366** | **3 161 231** | **301 662** | **79 600** | **637 018** | **930 058** | **440 652** | **383 840** | **768 899** | **14 373 760** | **972 423** |
| ***24*** | ***Total*** | **205 829** | **465 273** | **18 577 424** | **2 141 830** | **635 621** | **10 286 894** | **14 362 565** | **3 859 981** | **1 083 302** | **3 483 721** | **19 216 992** | **7 187 465** |

| | | m) | o) | p) | q) | r) | s) | t) | u) | m) | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | 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; UNDIFFER-ENTIATED GOODS- AND SERVICES-PRODUCING ACTIVITIES OF HOUSEHOLDS FOR OWN USE | ORGANIZACJE I ZESPOŁY EKSTERYTORIALNE | 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 | 135 577 | 0 | 0 | 4 511 472 |
| 3 | Corporates | 927 513 | 1 079 446 | 1 146 | 3 902 | 33 771 | 44 831 | 112 762 | 0 | 0 | 47 830 084 |
| 4 | Retail | 1 718 221 | 452 121 | 2 244 | 195 462 | 793 529 | 112 235 | 40 364 675 | 136 | 64 | 52 962 570 |
| 5 | Equity | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| ***6*** | ***Total IRB approach*** | **2 645 734** | **1 531 567** | **3 390** | **199 364** | **827 300** | **157 066** | **40 613 014** | **136** | **64** | **105 304 126** |
| 7 | Central governments or central banks | 0 | 0 | 28 135 889 | 0 | 0 | 0 | 692 156 | 0 | 0 | 36 612 273 |
| 8 | Regional governments or local authorities | 0 | 0 | 570 411 | 0 | 0 | 0 | 20 | 0 | 0 | 571 009 |
| 9 | Public sector entities | 0 | 0 | 35 968 | 29 589 | 43 267 | 10 168 | 0 | 0 | 0 | 122 036 |
| 10 | Multilateral development banks | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 2 489 216 |
| 11 | International organisations | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 12 | Institutions | 0 | 0 | 0 | 0 | | | 0 | 0 | 0 | 407 699 |
| 13 | Corporates | 261 915 | 137 365 | 0 | 37 861 | 50 541 | 256 004 | 1 377 927 | 0 | 0 | 12 242 235 |
| 14 | Retail | 515 | 222 | 0 | 77 | 85 | 60 | 2 288 958 | 782 033 | 2 | 3 076 245 |
| 15 | Secured by mortgages on immovable property | 1 197 | 54 385 | 0 | 6 849 | 3 221 | 7 743 | 2 987 691 | 5 403 669 | 0 | 9 432 291 |
| 16 | Exposures in default | 44 | 8 | 934 | 19 265 | 687 | 1 | 44 504 | 13 090 | 0 | 352 586 |
| 17 | Items associated with particularly high risk | 0 | 0 | 0 | 0 | 0 | 0 | 32 392 | 0 | 0 | 34 706 |
| 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 | 0 |
| 21 | Equity exposures | 20 791 | 58 130 | 0 | 0 | 0 | 0 | 1 110 | 0 | 0 | 204 993 |
| 22 | Other exposures | 0 | 0 | 0 | 0 | 0 | 0 | 13 164 | 0 | 0 | 15 025 |
| ***23*** | ***Total standardised approach*** | **284 462** | **250 110** | **28 743 202** | **93 641** | **97 801** | **273 976** | **7 437 922** | **6 198 792** | **2** | **65 560 314** |
| ***24*** | ***Total*** | **2 930 196** | **1 781 677** | **28 746 592** | **293 005** | **925 101** | **431 042** | **48 050 936** | **6 198 928** | **66** | **170 864 440** |

**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 - in PLN thousand.

| | | a) | b) | c) | d) | e) | f) |
|---|---|---|---|---|---|---|---|
| | | Net exposure value | | | | | |
| | | 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 | 0 | 2 803 665 | 767 352 | 127 999 | 812 456 | 4 511 472 |
| 3 | Corporates | 5 420 | 17 922 793 | 20 205 858 | 9 170 757 | 525 256 | 47 830 084 |
| 4 | Retail | 1 201 | 9 204 370 | 8 754 095 | 29 836 085 | 5 166 819 | 52 962 570 |
| 5 | Equity | 0 | 0 | 0 | 0 | 0 | 0 |
| ***6*** | ***Total IRB approach*** | **6 621** | **29 930 828** | **29 727 305** | **39 134 841** | **6 504 531** | **105 304 126** |
| 7 | Central governments or central banks | 0 | 6 981 831 | 19 849 969 | 2 321 763 | 7 458 710 | 36 612 273 |
| 8 | Regional governments or local authorities | 0 | 119 265 | 395 813 | 55 896 | 35 | 571 009 |
| 9 | Public sector entities | 0 | 66 607 | 10 452 | 44 949 | 28 | 122 036 |
| 10 | Multilateral development banks | 0 | 0 | 1 095 801 | 1 393 415 | 0 | 2 489 216 |
| 11 | International organisations | 0 | 0 | 0 | 0 | 0 | 0 |
| 12 | Institutions | 656 | 128 314 | 852 | 0 | 277 877 | 407 699 |
| 13 | Corporates | | 6 235 324 | 4 040 538 | 1 509 711 | 456 662 | 12 242 235 |
| 14 | Retail | 28 | 227 117 | 279 727 | 1 986 402 | 582 971 | 3 076 245 |
| 15 | Secured by mortgages on immovable property | 4 | 77 312 | 736 753 | 8 589 106 | 29 116 | 9 432 291 |
| 16 | Exposures in default | 0 | 3 480 | 55 333 | 183 148 | 110 625 | 352 586 |
| 17 | Items associated with particularly high risk | 0 | 0 | 0 | 0 | 34 706 | 34 706 |
| 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 | 0 | 0 |
| 21 | Equity exposures | 0 | 0 | 0 | 0 | 204 993 | 204 993 |
| 22 | Other exposures | 0 | 0 | 0 | 0 | 15 025 | 15 025 |
| ***23*** | ***Total standardised approach*** | **688** | **13 839 250** | **26 465 238** | **16 084 390** | **9 170 748** | **65 560 314** |
| ***24*** | ***Total*** | **7 309** | **43 770 078** | **56 192 543** | **55 219 231** | **15 675 279** | **170 864 440** |

# 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 expected credit losses 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 loss-events. 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.

***Corporate portfolio - Impairment triggers***

The list of definite loss events in corporate portfolio:

1. The number of days past due is above 90 days (14 days in the case of banks) and the overdue amount exceeds PLN 3,000 and PLN 500 for Private Banking.
2. The Bank has sold exposures with a significant economic loss related to the decrease of the debtor creditworthiness.
3. 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 loan/transaction agreement, as initially stipulated, which resulted in:
   a. reduction of financial liabilities by remitting part of these obligations, or
   b. 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.
4. Filing by the debtor or filing by the Bank, the parent or subsidiary entity of the Bank a bankruptcy motion against debtor or filing similar motion in respect of credit obligations of the debtor towards the Bank, the parent or subsidiary entity of the Bank.
5. 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.
6. Termination of part or whole credit agreement by the Bank and the beginning of restructuring/collection procedures.
7. Client's fraud.
8. Bank expects a loss on a client's exposure.

In addition the Bank identifies so-called 'soft' loss events, introduced in order to signal situations, which may result in the loss of the debtor's ability to repay loan to the Bank. Credit analyst in this case assesses additionally whether the event impacted adversely the obligor's creditworthiness.

***Retail portfolio - Impairment triggers***

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 delay in repayment, which is identified in different ways depending on the abovementioned approach. In the retail banking in Poland, impairment trigger is identified, when the total of all customer's exposures past due more than

30 days exceeds PLN 500 and the eldest delay exceeds 90 days.

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

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

a. enforced restructuring of debt,
b. bankruptcy of debtor,
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.

***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.

### 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

***Calculating impairment charges and provisions***

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.

Under new approach exposures Bank classifies credit exposures to stages:

- Stage 1 – exposures for which the risk did not increase significantly since the initial recognition in the loan portfolio,
- Stage 2 – exposures for which, as at the reporting date, a significant deterioration in credit quality was identified compared to the date of their initial recognition,
- Stage 3 – exposures for which credit-impairment was found during its lifetime in portfolio,
- POCI (purchased or originated credit-impaired asset) – assets identified as credit-impaired at initial recognition.

In the Bank the assignment of exposure to stage 2 takes place according to the Transfer Logic algorithm, which defines the qualitative and quantitative criteria indicating a significant increase of credit risk.

***Significant deterrioration of credit quality (classification to stage 2)***

A significant deterioration in credit quality is recognised for the asset concerned on the basis of quantitative and qualitative criteria, with the asset being transferred to Stage 2 once at least one of such qualitative or quantitative criteria is met.

Qualitative criteria are:

- More than 30 days past due, involving materiality threshold (The number of days for which the longest overdue amount of the exposure concerned is greater than or equal to 31 days. At the same time, the amount of capital or an off-balance-sheet commitment is greater than or equal to PLN 500 in case of retail exposure and greater than or equal to PLN 3000 in case of corporate exposure).

- Occurrence of the Forborne flag (the client status shows that he or she is experiencing difficulties in repaying the loan commitment, as defined by the Bank).
- Occurrence of the Watch flag (the Bank's internal process designed to identify corporate clients who are subject to increased monitoring in terms of changes in credit quality, in accordance with the Watch List classification rules adopted by the Bank).

The quantitative criterion of the Transfer Logic is based on a significant deterioration in credit quality, which is assessed on the basis of a relative long-term change in Probability of Default (PD), specified for the exposure at the reporting date, relative to the long-term PD specified on initial recognition.

***Calculation of impairment losses and provisions***

Valuation allowances and provisions are measured at the level of a single contract or exposure (agreement) by measuring expected credit losses (ECL). In the group approach, expected credit losses are the multiplication of individual for each exposure estimated value of PD, LGD and EAD and the final value of expected credit losses is the sum of expected credit losses in particular periods discounted with the effective interest rate. If on the reporting date the exposure credit risk did not increase significantly since the initial recognition, the Bank calculates impairment provisions in the amount equal to 12-month expected credit losses (12m ECL). If the exposure credit risk increased significantly since the initial recognition (exposure is in the stage 2), the Bank calculates impairment provisions in the amount equal to life-time expected credit losses (Lt ECL).

In the individual approach (all balance sheet and off-balance sheet credit exposures with an impairment in the corporate loan portfolio are treated as individually significant), the expected credit losses are calculated as a difference between the gross carrying amount of the asset and the present value of the estimated future cash flows discounted with the effective interest rate. The method of calculating the expected recoveries takes place in scenarios and depends on the Bank's chosen strategy for the client.

***Use of macroeconomics scenarios in ECL estimation***

The Bank is required to set an expected credit loss in a way which meets the expectations for various forward-looking macroeconomic scenarios in case of portfolio estimation of ECL. The non-linearity factor (NLF) is set in order to adjust the value of an expected credit loss. The values of NLF are used as scaling factors for individual ECLs. The NLF values are calculated based on 3 simulations, which result from relevant macroeconomic scenarios (baseline, optimistic, pessimistic scenario).

In the case of individual estimation of ECL, the assumed recovery scenarios take into account various modeling conditions of macroeconomic environment.

***Fair Value for credit assets***

If the conditions for the measurement of a credit asset at amortized cost (IFRS 9, point 4.1.2) are not met, then it is measured at FVtPL (Fair Value through Profit & Loss) or by FVOCI (Fair Value through Other Comprehensive Income).

- ***Fair value valuation of non-impaired credit assets***

The valuation for non-impaired exposure is based on its discounted estimated future cash flows.

Future cash flows are determined taking into account:

- repayment schedule, and in the absence of a schedule (revolving products) - based on a statistical estimation of the annual credit limit utilization in expected behavioral exposure period.

• time value of money, based on risk-free interest rates set in the process of forecasting interest flows,

• cash flows amount and their schedule fluctuations stemming from the option of prepayment (early partial or full repayment of the principal) included in the loan agreement by applied by prepayment factors,

• uncertainty of cash flows resulting from credit risk throughout the forecasted lifetime of the exposure by modifying contract flows using multi-year credit risk parameters LT PD and LT LGD.

• other factors that would be taken into consideration by the potential exposure buyer (overhead costs and the profit margin expected by market participants) during the process of calibration of the discount rate used in the valuation process.

Due to requirements of IFRS 13 for the exposures for which there are no quotes on an active market, the Bank calibrates the discount rate based on fair value at the date of the initial recognition (i.e. the cost price of exposure). Calibration margin reflects market valuation of costs related to maintaining exposures in the portfolio and market expectations about profit margin realized on similar exposures.

- ***Fair value valuation of impaired financial assets***

Impaired Financial assets are valuated based on expected recoveries. In the case of retail financial assets the valuation reflected by LGD parameters, and for corporate financial assets refers to individual recovery scenarios.

*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 | | 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 | | | | | |
| 1 | Central governments or central banks | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 2 | Institutions | 0 | 4 514 008 | 2 536 | 0 | 223 | 0 | 4 511 472 |
| 3 | Corporates | 1 115 981 | 47 880 999 | 1 166 896 | 0 | 8 758 | -198 830 | 47 830 084 |
| *4* | Of which: Specialised lending | 0 | 9 238 550 | 248 683 | 0 | 0 | -21 846 | 8 989 867 |
| 5 | Of which: SMEs | 98 834 | 11 377 839 | 85 208 | 0 | 7 866 | -8 448 | 11 391 465 |
| 6 | Retail | 2 319 495 | 52 365 655 | 1 722 580 | 0 | 476 524 | -270 585 | 52 962 570 |
| *7* | Secured by real estate property | 973 035 | 26 819 149 | 543 229 | 0 | 122 742 | -212 280 | 27 248 955 |
| *8* | SMEs | 146 944 | 2 218 207 | 94 788 | 0 | 22 419 | -35 431 | 2 270 363 |
| *9* | Non-SMEs | 826 091 | 24 600 942 | 448 441 | 0 | 100 323 | -176 849 | 24 978 592 |
| *10* | Qualifying revolving | 0 | 0 | 0 | 0 | 0 | | 0 |
| *11* | Other retail | 1 346 460 | 25 546 506 | 1 179 351 | 0 | 353 782 | -58 305 | 25 713 615 |
| *12* | SMEs | 529 329 | 10 686 933 | 488 060 | 0 | 112 754 | -16 372 | 10 728 202 |
| *13* | Non-SMEs | 817 131 | 14 859 573 | 691 291 | 0 | 241 028 | -41 933 | 14 985 413 |
| 14 | Equity | 0 | 0 | 0 | 0 | 0 | | 0 |
| **15** | **Total IRB approach** | **3 435 476** | **104 760 662** | **2 892 012** | **0** | **485 505** | **-469 415** | **105 304 126** |
| 16 | Central governments or central banks | 0 | 36 612 276 | 3 | 0 | 0 | -8 | 36 612 273 |
| 17 | Regional governments or local authorities | 0 | 571 456 | 447 | 0 | 0 | 0 | 571 009 |
| 18 | Public sector entities | 0 | 122 080 | 44 | 0 | 0 | 0 | 122 036 |
| 19 | Multilateral development banks | 0 | 2 489 216 | 0 | 0 | 0 | 0 | 2 489 216 |
| 20 | International organisations | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 21 | Institutions | 0 | 408 039 | 340 | 0 | 0 | 0 | 407 699 |
| 22 | Corporates | 0 | 12 277 312 | 35 077 | 0 | 153 | -1 315 | 12 242 235 |
| *23* | Of which: SMEs | 0 | 3 005 827 | 6 312 | 0 | 0 | -2 | 2 999 515 |
| 24 | Retail | 0 | 3 214 894 | 138 649 | 0 | 53 | -11 | 3 076 245 |
| *25* | Of which: SMEs | 0 | 53 995 | | 0 | 0 | 0 | 53 995 |
| 26 | Secured by mortgages on immovable property | 0 | 9 432 341 | 50 | 0 | 0 | 0 | 9 432 291 |
| *27* | Of which: SMEs | 0 | 26 845 | 0 | 0 | | 0 | 26 845 |
| 28 | Exposures in default | 1 126 492 | 0 | 773 906 | 0 | 17 957 | -152 094 | 352 586 |
| 29 | Items associated with particularly high risk | 0 | 34 706 | 0 | | 0 | 0 | 34 706 |
| 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 | 0 | 0 | 0 | 0 | 0 | 0 |
| 33 | Equity exposures | 0 | 258 446 | 53 453 | 0 | 0 | 0 | 204 993 |
| 34 | Other exposures | 0 | 15 025 | 0 | 0 | 0 | 0 | 15 025 |
| ***35*** | **Total standardised approach** | **1 126 492** | **65 435 791** | **1 001 969** | **0** | **18 163** | **-153 428** | **65 560 314** |
| ***36*** | Total | **4 561 968** | **170 196 453** | **3 893 981** | **0** | **503 668** | **-622 843** | **170 864 440** |
| *37* | Of which: Loans | 3 905 814 | 85 601 854 | 2 910 197 | 0 | 0 | -469 415 | 86 597 471 |
| *38* | Of which: Debt securities | 20 062 | 32 311 288 | 19 760 | 0 | 0 | 0 | 32 311 590 |
| *39* | Of which: Off-balance-sheet exposures | 144 497 | 36 238 191 | 109 191 | 0 | 0 | 0 | 36 273 497 |

**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 | | Specific credit risk adjustment | General credit risk adjustment | Accumulated write-offs | Credit risk adjust-ment charges | Net values |
| | | | Defaulted exposures | Non-defaulted exposures | | | | | |
| a) | 1 | Agriculture, Forestry And Fishing | 7 571 | 206 554 | 8 296 | 0 | 808 | -2 282 | 205 829 |
| b) | 2 | Mining And Quarrying | 96 275 | 466 134 | 97 136 | 0 | 100 | -2 745 | 465 273 |
| c) | 3 | Manufacturing | 615 731 | 18 530 949 | 569 256 | 0 | 14 308 | -44 424 | 18 577 424 |
| d) | 4 | Electricity, Gas, Steam And Air Conditioning Supply | 127 625 | 2 074 219 | 60 014 | 0 | 157 | -10 971 | 2 141 830 |
| e) | 5 | Water Supply; Sewerage, Waste Management And Remedia-tion Activities | 12 039 | 634 839 | 11 257 | 0 | 859 | -826 | 635 621 |
| f) | 6 | Construction | 564 937 | 10 173 211 | 451 254 | 0 | 18 634 | -110 513 | 10 286 894 |
| g) | 7 | Wholesale And Retail Trade; Repair Of Motor Vehicles And Motorcycles | 483 440 | 14 309 960 | 430 835 | 0 | 45 664 | -57 739 | 14 362 565 |
| h) | 8 | Transportation And Storage | 79 795 | 3 856 691 | 76 505 | 0 | 10 189 | -3 118 | 3 859 981 |
| i) | 9 | Accommodation And Food Service Activities | 49 875 | 1 084 185 | 50 758 | 0 | 3 903 | -25 677 | 1 083 302 |
| j) | 10 | Information And Communication | 104 274 | 3 485 007 | 105 560 | 0 | 5 921 | -9 807 | 3 483 721 |
| k) | 11 | Financial And Insurance Activities | 252 280 | 19 120 584 | 155 872 | 0 | 7 075 | -2 248 | 19 216 992 |
| l) | 12 | Real Estate Activities | 283 102 | 7 067 276 | 162 913 | 0 | 1 913 | -11 264 | 7 187 465 |
| m) | 13 | Professional, Scientific And Technical Activities | 105 075 | 2 948 391 | 123 270 | 0 | 10 655 | -5 300 | 2 930 196 |
| | 14 | Administrative And Support Service Activities | 66 897 | 1 764 562 | 49 782 | 0 | 4 332 | -1 312 | 1 781 677 |
| o) | 15 | Public Administration And Defence; Compulsory Social Security | 1 000 | 28 746 121 | 529 | 0 | 5 | 0 | 28 746 592 |
| p) | 16 | Education | 38 591 | 273 926 | 19 512 | 0 | 1 480 | -2 357 | 293 005 |
| q) | 17 | Human Health And Social Work Activities | 13 088 | 927 108 | 15 095 | 0 | 1 558 | -1 047 | 925 101 |
| r) | 18 | Arts, Entertainment And Recreation | 6 438 | 432 190 | 7 586 | 0 | 628 | -541 | 431 042 |
| s) | 19 | Other Service Activities | 1 632 914 | 47 899 002 | 1 480 980 | 0 | 375 479 | -330 672 | 48 050 936 |
| t) | 20 | Activities Of Households As Employers; Undifferentiated Goods- And Services-Producing Activities Of Households For Own Use | 21 021 | 6 195 475 | 17 568 | 0 | 0 | 0 | 6 198 928 |
| u) | 21 | Activities Of Extraterritorial Organisations And Bodies | 0 | 69 | 3 | 0 | 0 | 0 | 66 |
| | 22 | Other | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| | **23** | **Total** | **4 561 968** | **170 196 453** | **3 893 981** | **0** | **503 668** | **-622 843** | **170 864 440** |

**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 | | Specific credit risk adjustment | General credit risk adjustment | Accumulated write-offs | Credit risk adjustment charges Defaulted exposures | Gross Carrying values |
| | | Defaulted exposures | Non-defaulted exposures | | | | | |
| 1 | Poland (PL) | 4 060 065 | 153 559 124 | 3 405 879 | 0 | 485 798 | -537 071 | 154 213 310 |
| 2 | Czech Republic (CZ) | 112 311 | 7 245 380 | 121 545 | 0 | 17 123 | -45 963 | 7 236 146 |
| 3 | Slovakia (SK) | 69 725 | 1 116 756 | 75 869 | 0 | 449 | -36 749 | 1 110 612 |
| 4 | Germany (DE) | 20 | 2 513 547 | 1 156 | 0 | 0 | -2 | 2 512 411 |
| 5 | Great Britain (GB) | 109 | 1 325 722 | 279 | 0 | 42 | -3 | 1 325 552 |
| 6 | Luxemburg (LU) | 42 | 2 799 916 | 911 | 0 | 0 | 0 | 2 799 047 |
| 7 | Other | 319 696 | 1 636 008 | 288 342 | 0 | 256 | -3 055 | 1 667 362 |
| 8 | ***Total*** | **4 561 968** | **170 196 453** | **3 893 981** | **0** | **503 668** | **-622 843** | **170 864 440** |

**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 | 3 706 080 | 666 585 | 183 170 | 264 961 | 444 539 | 2 804 534 |
| Debt securities | 0 | 0 | 0 | 0 | 0 | 0 |
| Total exposures | **3 706 080** | **666 585** | **183 170** | **264 961** | **444 539** | **2 804 534** |

**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 but past due > 30 days and <= 90 days | Of which: performing forborne | Of which non-performing: | | | | On performing exposures | | On non-performing exposures | |
| | | | | | Of which: defaulted | Of which: impaired | Of which: forborne | | Of which: forborne | | Of which: forborne |
| Debt securities | 9 648 058 | 0 | 0 | 54 347 | 54 347 | 54 347 | 54 347 | -875 | 0 | -36 093 | -36 093 |
| Loans and advances | 99 836 530 | 654 986 | 627 755 | 4 175 185 | 3 622 422 | 4 080 831 | 1 277 900 | -431 935 | -14 237 | -2 574 972 | -601 135 |
| Off-balance-sheet exposures | 36 271 470 | 0 | 0 | 134 355 | 134 025 | 0 | 0 | 58 429 | 107 | 50 980 | 48 120 |

| | l) | m) |
|---|---|---|
| | Collaterals and financial guarantees received | |
| | On non performing exposures | Of which: forborne exposures |
| Debt securities | 0 | 0 |
| Loans and advances | 936 420 | 910 784 |
| 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 thous | a)<br>Accumulated specific credit risk adjustment | b)<br>Accumulated general credit risk adjustment |
|---|---|---|---|
| **1** | **Opening balance 01.01.2018** | **2 971 222** | 0 |
| 2 | Increases due to amounts set aside for estimated loan losses during the period | 1 261 277 | 0 |
| 3 | Decreases due to amounts reversed for estimated loan losses during the period | -338 421 | 0 |
| 4 | Decreases due to amounts taken against accumulated credit risk adjustments | -689 213 | 0 |
| 5 | Transfers between credit risk adjustments | 655 | 0 |
| 6 | Impact of exchange rate differences | 12 453 | 0 |
| 7 | Business combinations, including acquisitions and disposals of subsidiaries | 0 | 0 |
| 8 | Other adjustments | 0 | 0 |
| **9** | **Closing balance 31.12.2018** | **3 217 973** | 0 |
| 10 | Recoveries on credit risk adjustments recorded directly to the statement of profit or loss | -9 | 0 |
| 11 | Specific credit risk adjustments directly recorded to the statement of profit or loss | 0 | 0 |

*In light of the changes in the 4th quarter 2018 resulting in necessary adjustments of the disclosures regarding impact of IFRS 9 implementation as of January 1st, 2018, which induced reclassification of the part of the credit portfolio, Group presents changes from 1st January 2018 to 31th December 2018 in tables EU CR2-A and EU CR2-B, taking account of this reclassification.*

**EU CR2-B –Changes in the stock of defaulted and impaired loans and debt securities**, the table below is supplementary to the previous one and presents reconciliation of defaulted exposures - in PLN thousand.

| | in PLN thous. | a) Gross carrying value defaulted exposures |
|---|---|---|
| **1** | **Opening balance 01.01.2018** | **5 103 842** |
| 2 | Loans and debt securities that have defaulted or impaired since the last reporting period | 1 093 011 |
| 3 | Returned to non-defaulted status | -300 905 |
| 4 | Amounts written off | -784 520 |
| 5 | Other changes | -129 707 |
| **6** | **Closing balance 31.12.2018** | **4 981 721** |

*In light of the changes in the 4th quarter 2018 resulting in necessary adjustments of the disclosures regarding impact of IFRS 9 implementation as of January 1st, 2018, which induced reclassification of the part of the credit portfolio, Group presents changes from 1st January 2018 to 31th December 2018 in tables EU CR2-A and EU CR2-B, taking account of this reclassification.*

## 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.

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. Transitional arrangements concerning IFRS 9

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, capital ratios and leverage ratio, presented in the document already reflect the full impact of IFRS 9.

## 11. Remuneration Policy for Employees Having Material Impact on the Risk Profile

mBank S.A. (hereinafter referred to as the "Bank"), subject to 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, and the Banking Law of 29 August 1997 (Journal of Laws of 2015, item 128, as amended), is obliged to announce qualitative and quantitative information regarding the remuneration policy in a generally accessible manner.

***Information on the process of determining the policy of variable components of remuneration***

The Bank has in place the "Remuneration Policy for Employees Having a Material Impact on the Risk Profile of mBank S.A." (hereinafter referred to as the "Remuneration Policy"), which was adopted for the first time during the meeting of the Supervisory Board in December 2011. Since then, the Remuneration Policy has been subject to annual verification. Policy applicable in the mBank in 2018 was approved by Resolution of the Supervisory Board No. 66/18 as at 28 February 2018.

Remuneration Policy is compliant with:

1/ EBA (European Banking Authority) guidelines on sound remuneration policies under Articles 74 (3) and 75 (2) of Directive 2013/36/EU and disclosures under Article 450 of Regulation (EU) No. 575/2013 – EBA/GL/2015/22 of 27 June 2016,

2/ Polish Banking Law Act of 29 August 1997 implementing 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,

3/ Regulation of the Minister of Development and Finance of 6 March 2017 on the Risk Management System, Internal Control System, Remuneration Policy, and Detailed Method for Banks' Internal Capital Assessment.

The aim of the Remuneration Policy is to support sound and effective risk management, ensure that decisions made do not expose the Bank to excessive risk, i.e. risk exceeding the Bank's risk appetite accepted by the Supervisory Board, support the implementation of the strategy and limit conflicts of interest.

The "Risk Takers Identification Policy of mBank S.A." (hereinafter referred to as the "Identification Policy"), approved by the Management Board, the Remuneration Committee and the Supervisory Board of the Bank, stipulates the rules of identifying persons whose professional activities have material impact on the Bank's risk profile, and meets the following requirements arising from:

1/ 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 material impact on an institution's risk profile,

2/ Regulation of the Minister of Development and Finance of 6 March 2017 on the Risk Management System, Internal Control System, Remuneration Policy and Detailed Method for Banks' Internal Capital Assessment.

The Identification Policy, similarly to the Remuneration Policy for Employees Having a Material Impact on the Risk Profile, has been subject to annual verification.

**Remuneration Committee of the Supervisory Board**

In March 2012, the Remuneration Committee of the Supervisory Board was established and has been operating in the Bank since then. The Committee supports the Supervisory Board in fulfilling its statutory obligations and conducting its activities resulting from the law. The Remuneration Committee is composed of the members of the Bank's Supervisory Board. As at the end of 2018, the Committee was composed of:

1. Dr Andre Carls – Committee Chairman
2. Maciej Leśny – Committee Chairman
3. Tomasz Bieske – Committee Member
4. Stephan Engels – Committee Member

Pursuant to the applicable Rules of the Remuneration Committee, its main tasks include:

I. With respect to mBank:
   1/ issuing opinions on the remuneration policy (and proposed changes in this respect) applicable in the mBank and submitting its opinion to the Supervisory Board,
   2/ monitoring the remuneration policy applicable in the Bank and assisting the Bank's bodies in matters regarding the development and implementation of this policy,
   3/ verifying on an annual basis the "Remuneration Policy for Employees Having Material Impact on the Risk Profile of mBank S.A." and the "Risk Takers Identification Policy" adopted by the Supervisory Board, and proposing potential modifications in these policies,
   4/ verifying the bonus pool of mBank Group calculated on the basis of EP index (*Economic Profit*),
   5/ assessing on an annual basis the appropriateness of the remuneration policy and procedures applicable in mBank Group in line with the existing regulatory requirements; submitting the assessment results to the Supervisory Board,
   6/ issuing recommendations to the Supervisory Board on general guidelines for the Management Board on the remuneration level and structure of the top managerial staff, including in particular the head of the compliance unit and the head of the internal audit unit, whose remuneration should not differ from the remuneration of other persons holding key positions in the Bank; monitoring the level and structure of remuneration, in particular risk takers' remuneration,
   7/ determining on an annual basis the components of the Group's results applied to the risk takers who are not Management Board members (i.e. the status of the Group's results for the risk takers of mBank Group who are not Management Board members),
   8/ verifying the remuneration paid to risk takers. The amounts of bonuses and basic remuneration paid to risk takers are reported to the Remuneration Committee every year within 60 calendar days following the approval of the consolidated financial statements of mBank Group for a given year by the Annual General Meeting,
   9/ verifying the remuneration paid to risk takers. The bonus amounts and basic remuneration paid to risk takers
   10/ issuing opinions and monitoring the variable remuneration of the persons holding managerial positions in the area of risk management, compliance and internal audit.

II. With respect to the Management Board members of mBank:
   1. considering matters concerning the rules and amounts of remuneration of the Management Board members, including:
      a/ approving management contracts,
      b/ determining the amounts of remuneration and severance pay,

      and issuing recommendations in this respect to the Supervisory Board.
   2. approving and setting the MBO goals (Management By Objective) and results for the Management Board members,
   3. preparing on an annual basis the score cards of the risk takers who are Management Board members of mBank,

4. verifying the Bonus Pool for the Management Board members and recommending its division among the Management Board members to the Supervisory Board,
5. issuing opinions for the Supervisory Board on reducing, suspending or returning the payment in whole or in part or on decreasing the amount of the deferred and non-deferred bonus of the Management Board members in accordance with the provisions of the "Remuneration Policy for Employees Having Material Impact on the Risk Profile of mBank S.A.",
6. issuing opinions for the Supervisory Board on suspending the payment in whole or in part or decreasing the amount of severance pay for members of the Management Board under the provisions of the management contract,
7. determining on an annual basis 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 the aforementioned bonus,
8. presenting opinions concerning approval for the Management Board members to engage in competitive activity or to sit on management or supervisory boards of companies outside mBank Group,
9. making other decisions or carrying out other activities defined in or arising from the "Remuneration Policy for Employees Having Material Impact on the Risk Profile of mBank S.A." or the contracts concluded with the Management Board members.

In 2018, the Remuneration Committee of the Supervisory Board held 4 meetings (it additionally adopted two decisions by circular procedure), whereas the Supervisory Board, being a governing body supervising remuneration in the Bank, held 7 meetings.

**Process of determining the policy of variable remuneration components**

The annual process of verifying and introducing appropriate amendments to policies concerning remuneration and identification of employees having material impact on the risk profile of the Bank is coordinated by the Director of the Corporate Governance Department (organisational unit reporting directly to the President of the Management Board of mBank) supported by a team of employees responsible for HR, risk management, legal issues and compliance (in issues related to the 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.)

The policies of the risk takers remuneration and identification of positions having material impact on the risk profile of the Bank are assessed and modified by the Supervisory Board based on the recommendation of the Management Board, taking into account the opinion of the Remuneration Committee.

***The most relevant information concerning the determination of remuneration in 2018***

The total remuneration of the Management Board members or other employees having material impact on the risk profile of the Bank has been divided into a fixed part (annual basic remuneration and fixed benefits) and a variable part. The variable remuneration is composed of a bonus granted to a member of the Management Board or other employees having material impact on the risk profile of the Bank for a given financial year. The fixed remuneration is determined in a clear and verifiable manner, ensuring effective implementation of the Remuneration Policy. The maximum level of the variable remuneration components of the persons who are subject to the Remuneration Policy cannot exceed 100% of the basic remuneration (in the case of the Management Board members) or the fixed remuneration (in the case of other employees) paid for a given financial year.

A part of the variable remuneration is paid in the form of subscription warrants issued and executed pursuant to the rules and within the deadlines set forth in the Incentive Programme and the Incentive Programme Rules.

*Members of the Management Board:*

The Supervisory Board determines the bonus amount for a given calendar year for each Management Board member individually, based on the assessment of MBO achievement with respect to a period of at least 3 years, with the proviso that the bonus amount depends on the bonus pool. The bonus pool is a total of the base amounts calculated for each Management Board member. The base amount is calculated as a multiple of the basic salary, which depends on the Economic Profit (EP); EP is calculated for a period of 3 years pursuant to the rules specified in the Risk Takers Remuneration Policy.

MBO is set by a member of the Management Board and the Remuneration Committee of the Supervisory Board for the following financial year by the end of the year preceding the financial year. In accordance with the rules of determining the business and development objectives MBO for the Management Board Members, approved, among others, by the Remuneration Committee of the Supervisory Board:

1/ team quantitative objectives (at the level of mBank Group) account for 25% to 65% of the objectives (the cost to income ratio, capacity to pay out dividends, the NII ratio, gross profit),

2/ individual quantitative objectives account for 15% to 50% of the objectives (objectives determined depending on the responsibility of a given Management Board Member),

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

The bonus consists of a non-deferred part (40% of the bonus) and a deferred part (60% of the bonus).

Both the deferred part and the non-deferred part are divided into equal portions: 50% paid in cash and 50% paid in subscription warrants. The non-deferred part in cash is paid in the year when the bonus is awarded. The other half of the non-deferred part (50%) is paid in the form of subscription warrants, not earlier than after the lapse of 12 months from the AGM date.

The deferred part, both the cash portion and the subscription warrant portion, is paid in 5 equal annual tranches. In each tranche, the cash portion is paid once the consolidated financial statements of mBank Group for the previous calendar year have been approved, and the subscription warrant portion is paid not earlier than after the lapse of 12 months from the date on which the consolidated financial statements are approved.

*Employees who are not Management Board Members:*

The Management Board of mBank assesses the performance of an employee on an annual basis as well as in longer time intervals and in the case when it finds that the employee met the annual/long-term business and development MBO objective (Management By Objective), upon having taken into account the value of the total remuneration of the employee, it can decide to determine the bonus amount. The decision on the bonus amount is made at the sole discretion of the Management Board of the Bank, which in accordance with its independent assessment and decision confirms the accomplishment of MBO, taking into account the situation in financial markets in the last/previous financial periods. The bonus amount can reach the amount of the annual fixed remuneration of the employee (total of the basic remuneration paid to the employee every month in the year for which the bonus and fixed benefits are awarded).

MBO is determined by the Management Board of mBank (the objectives result from the objectives determined for the Management Board of mBank - the rule of cascading objectives down through management levels) for the next financial year until 31 December of the year preceding the financial year. In accordance with the rules of determining the business and development objectives MBO for mBank, approved, among others, by the Remuneration Committee of the Supervisory Board:

1/ team quantitative objectives (at the level of mBank Group) account for 10% to 20% of the objectives (depending on the area, they include: the cost to income ratio, economic profit, net profit of the business line, the NII ratio; their weights depend on the impact an individual manager has on them),

2/ individual quantitative and qualitative objectives account for 65% to 90% of the objectives (objectives determined depending on the responsibility in a given position, the objectives cascaded by the Management Board Member supervising this position). In particular, objectives related to management efficiency have weights of up to 10%.

If the amount of the variable remuneration component determined by the Management Board does not exceed the limit of PLN 200,000, the Management Board of the Bank may decide not to defer the variable remuneration for the following years and pay the variable remuneration in whole in the form of non-deferred cash instead. The aforesaid limit for the employees who are not Management Board Members was introduced taking into account local factors, such as the level of remuneration paid to key position holders, and aiming at unifying the rules of paying variable remuneration adopted under the Group's remuneration policy by Commerzbank, which is the majority shareholder of the Bank.

If the amount of the variable remuneration exceeds the limit, the bonus consists of the non-deferred part (60% of the bonus) and the deferred part (40% of the bonus).

Both the deferred part and the non-deferred part are divided into equal portions: 50% paid in cash and 50% paid in subscription warrants. The non-deferred part in cash is paid in the year when the bonus is awarded. The other half of the non-deferred part (50%) is paid in the form of subscription warrants, not earlier than after the lapse of 12 months from the AGM date.

The deferred part, both the cash portion and the subscription warrant portion, is paid in 3 equal annual tranches. In each tranche, the cash portion is paid once the consolidated financial statements of mBank Group for the previous calendar year have been approved, and the subscription warrant portion is paid not earlier than after the lapse of 12 months from the date on which the consolidated financial statements are approved.

The costs resulting from the deferred tranches in the form of shares are settled in accordance with the International Financial Reporting Standards.

***Information on the performance assessment criteria which form the basis for the entitlement to remuneration components***

The Supervisory Board of mBank, based on recommendation of the Remuneration Committee of the Supervisory Board in the case of Management Board Members, and the Management Board in the case of employees who are not Management Board Members may decide to withhold in whole or reduce the amount of a deferred tranche if it concludes that in a time horizon longer than one financial year (i.e., a period of at least 3 years), a Risk Taker had a direct and negative impact on the financial result or the market position of the Bank or mBank Group in the period under assessment, or directly contributed to significant financial losses, where at least one of the score card components has not been met or any of the premises stipulated in Article 142 (2) of the Banking Law Act has occurred.

The Management Board of mBank may take a decision on suspending in whole or decreasing the amount of the discretionary bonus for a given financial year, as well as the amount 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 when the Bank is threatened by insolvency (Article 142 (2) of the Banking Law Act). Suspending in whole 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.

Moreover, a Risk Taker may be obliged, under the rules and within the time limit determined under a decision of the Supervisory Board of mBank / the Management Board of mBank, to return the bonus awarded and paid for a given calendar year (i.e. the non-deferred part and all deferred parts), if he/she has violated the rules and standards adopted in mBank Group, has materially violated the generally applicable law or has directly contributed to significant financial losses being the consequence of his/her deliberate adverse actions to the detriment of mBank Group, or has contributed to financial sanctions being imposed on the Bank by supervisory bodies under a final and non-appealable decision.

The decision on the occurrence of the said events may be taken by the end of the calendar year when the last tranche of the deferred part of the bonus awarded for the year in which the event occurred is paid.

***Aggregated quantitative information concerning the remuneration paid to the holders of positions having impact on the risk profile, divided by business lines used in managing the Bank***

The following information for 2018 listed below include the staff costs of positions having material impact on the risk profile incurred in 2018: remuneration costs, social insurance costs and remuneration in the form of subscription warrants.

| Remuneration costs in 2018 (PLN'000) | |
|---|---|
| Financial Markets Area | 7 563 |
| Corporate and Investment Banking Area | 18 118 |
| Retail Banking Area | 24 672 |
| Head of Operations and IT | 10 090 |
| Finance Area | 8 050 |
| Risk Management Area | 9 740 |
| General Area | 13 870 |
| mBank | 92 103 |

***Aggregated quantitative data regarding the remuneration paid to holders of managerial positions in the Bank (PLN'000):***

| Number of persons | | Management Board Members<br>7 | Other Risk Takers<br>70 |
|---|---|---|---|
| Fixed remuneration paid in 2018 | | 15 207 | 31 240 |
| Variable remuneration for 2018[1] | | - | - |
| Non-deferred part | Cash | - | - |
| | Financial instrument - number of shares | - | - |
| | Financial instrument - amount of the component[2] | - | - |
| Deferred part | Cash | - | - |
| | Financial instrument - number of shares | - | - |
| | Financial instrument - amount of the component[2] | - | - |
| Variable remuneration awarded in the previous years - paid in 2018[3] | Cash | 3 199 | 8 902 |
| | Financial instrument - number of shares | 7 743 shares | 10 359 shares |
| | Financial instrument - amount of the component[2] | 3 199 | 4 457 |
| Variable remuneration awarded in the previous years - deferred[3] | Cash | 3 557 | 4 115 |
| | Financial instrument - number of shares | 8 616 shares | 9 951 shares |
| | Financial instrument - amount of the component[2] | 3 557 | 4 115 |
| Amount of deferred remuneration awarded in 2018, paid and reduced due to the adjustment made on account of results | | - | - |
| Payments related to com-mencement and termination of the employment relationship - severance pay | Number of persons | - | 3 |
| | Value | - | 556 |
| | Highest payment | - | 321 |
| Number of persons who received total remuneration in the amount of at least EUR 1 million (remuneration in the range between EUR 1M – 1.5M) | | 1 | - |

| | | |
|---|---|---|
| Deferred variable remuneration paid in 2018 to former Risk Takers | 3 353 | 2 037 |
| Former Risk Takers' variable remuneration deferred to the next years | 3 295 | 1 317 |

[1]As at the date of publishing this report, the variable remuneration for 2018 for the employees indicated in the table above has not yet been approved by competent authorities of the Bank. This document will be modified by including in it information on the variable remuneration for 2018 awarded in 2019, after the Annual General Meeting approves the financial statements for 2018.

[2]As per the value on the award date.

[3]Together with the variable remuneration paid to the Risk Takers after terminating their employment.

## 12. Remuneration Policy for Employees Having Material Impact on the Risk Profile - update of the information after the approval of the variable part of remuneration, regarding 2018 year, by the competent authorities of mBank

***Aggregated quantitative data regarding the remuneration paid to holders of managerial positions in the Bank (PLN'000):***

| Number of persons | | Management Board Members | Other Risk Takers |
|---|---|---|---|
| | | 7 | 70 |
| Fixed remuneration paid in 2018 | | 15 207 | 31 240 |
| Variable remuneration for 2018 | | 7 800 | 14 465 |
| Non-deferred part | Cash | 1 560 | 9 404 |
| | Financial instrument - number of shares | 3 580 shares | 4 984 shares |
| | Financial instrument - amount of the component[1] | 1 560 | 2 169 |
| Deferred part | Cash | 2 340 | 1 446 |
| | Financial instrument - number of shares | 5 365 shares | 3 316 shares |
| | Financial instrument - amount of the component[1] | 2 340 | 1 446 |
| Variable remuneration awarded in the previous years - paid in 2018[2] | Cash | 3 199 | 8 902 |
| | Financial instrument - number of shares | 7 743 shares | 10 359 shares |
| | Financial instrument - amount of the component[1] | 3 199 | 4 457 |
| Variable remuneration awarded in the previous years – deferred[2] | Cash | 3 557 | 4 115 |
| | Financial instrument - number of shares | 8 616 shares | 9 951 shares |
| | Financial instrument - amount of the component[1] | 3 557 | 4 115 |
| Amount of deferred remuneration awarded in 2018, paid and reduced due to the adjustment made on account of results | | - | - |
| Payments related to commencement and termination of the employment relationship - severance pay | Number of persons | - | 3 |
| | Value | - | 556 |
| | Highest payment | - | 321 |
| Number of persons who received total remuneration in the amount of at least EUR 1 million (remuneration in the range between EUR 1M – 1.5M) | | 1 | - |

| | | |
|---|---|---|
| Deferred variable remuneration paid in 2018 to former Risk Takers | 3 353 | 2 037 |
| Former Risk Takers' variable remuneration deferred to the next years | 3 295 | 1 317 |

[1]As per the value on the award date.

[2]Together with the variable remuneration paid to the Risk Takers after terminating their employment.