

**2016**

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**Disclosures  
on Capital Adequacy of  
mBank Hipoteczny S.A.  
as at 31 December 2016**

Warsaw, 3 March 2017  
(update 19 September 2017)

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## **1. Introduction**

Capital adequacy is defined as an extent to which risks taken by Bank (measured through capital requirement) can be absorbed by risk coverage capital (measured by own funds) at given significance level (a risk appetite) and at given time horizon. The Bank plans and monitors capital adequacy at two levels:

1. Regulatory requirement (Pillar I) where regulatory capital requirement is compared with regulatory own funds (regulatory capital),
2. Internal models (Pillar II) where internal capital calculated using internal methods is compared with available financial resources specified by Bank.

„Information Policy of mBank Hipoteczny S.A.” defines scope and principles of publishing information on capital adequacy specified in 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, with further amendments as well as Commission Implementing and Delegated Regulations (EU) (hereinafter referred to as CRR). The information policy introduced by a resolution of the Bank’s Management Board and approved by the Supervisory Board, is published on the website of Bank [www.mhipoteczny.pl](http://www.mhipoteczny.pl).

Disclosures are published on the website of mBank Hipoteczny S.A. (hereinafter referred to as Bank) at the time of the Bank’s financial statements publication.

The published information is verified by an auditor, then the information is approved by the Management Board of the Bank.

Information presented are based on standalone data for Bank (the Bank has no subsidiaries) according to the requirements of the CRR Regulation are contained in the presented document.

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

## 2. The scope of prudential consolidation

The Bank does not own any subsidiary, therefore, the following data are standalone data of the Bank. The Bank is a part of mBank Group.

## 3. Reconciliation of Common Equity Tier 1 capital item in relation to own funds of the institution and balance sheet in the audited financial statement

Reconciliation of equities included in the financial statement of the Bank for 2016 prepared in accordance with International Financial Reporting Standards to positions included in the own funds of the Bank as at 31 December 2016 is presented below.

Reconciliation	Financial Statement for the year 2016	Items not included in own funds and regulatory adjustments	Own funds in part regarding Common Equity Tier 1 capital
Equity	31.12.2016	31.12.2016	31.12.2016
<b>Share capital:</b>	<b>614 792</b>	-	<b>614 792</b>
Registered share capital	309 000	-	309 000
Share premium	305 792	-	305 792
<b>Retained earnings:</b>	<b>290 053</b>	<b>(9 656)</b>	<b>280 397</b>
Other supplementary capital	224 131	-	224 131
General banking risk reserve	42 500	-	42 500
Profit for the current year	23 422	(9 656)	13 766
<b>Other components of equity</b>	<b>(1 146)</b>	<b>(264)</b>	<b>(1 410)</b>
Valuation of available for sale financial assets	(1 168)	(255)	(1 423)
Actuarial gains and losses relating to post-employment benefits	22	(9)	13
<b>Regulatory adjustments</b>	-	<b>(139 709)</b>	<b>(139 709)</b>
Intangible assets	-	(13 191)	(13 191)
IRB shortfall of credit risk adjustments to expected losses	-	(114 085)	(114 085)
Net impairment write-downs on loans and advances	-	(11 238)	(11 238)
Additional Value Adjustments	-	(1 195)	(1 195)

## 4. Capital adequacy

The guiding principle of managing of capital in the Bank is maintaining of the capital on the level ensuring stable development of the Bank and covering of both minimum capital requirement and remaining risk categories recognised by the Bank as significant. Capital management is based on principles specified in the Banking Law and good practices.

The main aim of capital management is to ensure that capital resources to the Bank that will be sufficient to cover risk exposures, and in particular ensuring of implementation of required capitalisation within the limits of risk appetite.

The Bank manages the capital for risk covering using system of limits and early warning indicators, basing the core of the concept on principles formulated within consolidated supervision in the Capital Group, supporting implementation of strategic capital objectives. The Bank acts within Principles of capital management and planning policy which aim is to ensure effective use of available capital.

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. It allows to maintain the ratio of Common Equity Tier 1 capital (calculated as the quotient of Common Equity Tier 1 capital and total amount of risk exposure) as well as the total capital ratio (calculated as the quotient of own funds and the total amount of risk exposure) at least at the level required by supervising institution.

Strategic capital objectives of the Bank are oriented towards maintaining of both total capital ratio and Common Equity Tier 1 capital ratio on the level appropriately higher than level required by the

supervising institution. It allows to maintain safe business development meeting the supervisory requirements in the long perspective.

## **5. Own funds**

Own funds include Common Equity Tier 1 capital, Additional Tier 1 capital and Tier 2 capital. As at 31 December 2016, the Bank does not identify Additional Tier 1 capital. Detailed information on particular elements of the Bank's own funds as at 31 December 2016 are presented in point 5.1. Point 5.2 presents the structure of own funds of the Bank as at 31 December 2016.

### **5.1. Main information**

#### **COMMON EQUITY TIER 1 CAPITAL**

##### Capital instruments and the related share premium accounts

As at 31 December 2016, the item Capital instruments and the related share premium accounts includes share capital and supplementary capital from the sales of shares above nominal value reduced by the Bank's costs of issuing. In case of issues that took place after 28 July 2013, in accordance with the Banking Law Act and CRR Regulation, the Bank obtained approval of the Financial Supervision Authority (KNF) to classify them to Common Equity Tier 1 capital.

<b>Capital instruments and the related share premium accounts</b>	<b>31.12.2016</b>
Registered share capital	309 000
Supplementary capital from the sales of shares above nominal value	305 792
<b>Total</b>	<b>614 792</b>

Detailed information concerning share and supplementary capital are presented in Notes 36 and 37 of the financial statement of mBank Hipoteczny S.A. for 2016.

##### Accumulated other comprehensive income

The item Accumulated other comprehensive income presents unrealised gains and losses that constitute the Bank's other components of equity as at 31 December 2016 in the amount of PLN (1 146) thousand. The structure of accumulated other comprehensive income of the Bank as at 31 December 2016 is described below.

<b>Accumulated other comprehensive income</b>	<b>31.12.2016</b>
<b>Instruments available for sale</b>	<b>(1 168)</b>
- unrealized gains on debt instruments	(1 442)
- deferred tax	274
<b>Actuarial gains and losses on fringe benefits after employment period</b>	<b>22</b>
- actuarial gains	27
- deferred tax	(5)
<b>Total accumulated other comprehensive income</b>	<b>(1 146)</b>

##### Other reserve capitals

Other reserve capitals constitute the other supplementary capital made of profit deductions and is intended for purposes specified in the articles of association or other provisions of law. As at 31 December 2016 other reserve capitals amounted to PLN 224 131 thousand.

#### Fund for general banking risk

The Bank allocates part of the net profit to the fund for general banking risk to cover unexpected risks and future losses. The fund for general banking risk is subject to distribution only with the consent of shareholders expressed during general meeting. As at 31 December 2016, the fund for general banking risk amounted to PLN 42 500 thousand.

#### Independently reviewed interim profits

In the calculation of Common Equity Tier 1 capital as at 31 December 2016 a verified net profit of mBank Hipoteczny S.A. for the first half of 2016 was included. Net profit achieved by mBank Hipoteczny S.A. in the first half of 2016 amounted to PLN 13 766 thousand. In accordance with the decision dated 3rd November 2016, the Bank obtained KNF approval for classification of net profit for the first half of 2016 to Common Equity Tier 1 capital in the amount of PLN 13 766 thousand.

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

#### Intangible assets

In accordance with Art. 37 of the CRR Regulation, intangible assets are included in the account of Common Equity Tier 1 capital after reduction by the amount of associated deferred tax liabilities. In the calculation of Common Equity Tier 1 capital as at 31 December 2016 the amount of PLN 13 191 thousand on account of tangible assets was included.

#### Negative amounts resulting from the calculation of expected loss amounts

The Bank, which constitutes an institution that calculates risk-weighted exposure amounts using IRB method, is obliged to include negative amounts resulting from the calculation of expected loss amounts in the calculation of own funds. 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 Common Equity Tier 1 capital as at 31 December 2016 in the amount of PLN 114 085 thousand.

#### Net impairment losses

In the item of net impairment losses as at 31 December 2016, the value of net impairment losses due to the loss of value of loans and advances in the period from 1 July 2016 to 31 December 2016 was presented, recognised in the profit and loss account in the amount of PLN 11 237 thousand. Used approach is consistent with provisions of the Commission Delegated Regulation (EU) No. 183/2014 dated 20 December 2013 that supplements the CRR Regulation in relation to technical regulatory standards regarding determination of the manner of calculation of adjustments resulting from specific and general credit risk.

#### Regulatory adjustments relating to unrealised gains and losses

In accordance with the Banking Law Act, in 2016 in the calculation of Common Equity Tier 1 capital institutions should include unrealised losses associated with assets or liabilities valued according to fair value in the amount of 100% of their value, while unrealised profits could be valued in the amount of 60% of their value. Regulatory adjustments in the amount of PLN 264 thousand, related to unrealised profits as at 31 December 2016, constitute an item adjusting the position of the cumulated comprehensive income, referred to above.

### **ADDITIONAL TIER 1 CAPITAL**

As at 31 December 2016, instruments that could be treated as Additional Tier 1 capital are not identified in the Bank.

### **TIER 2 CAPITAL**

#### Capital instruments and subordinated loans

In accordance with the decision dated 17 December 2012, mBank Hipoteczny S.A. obtained approval of KNF to classify funds in the amount of PLN 100 000 thousand to supplementary funds in accordance

with terms and conditions of the subordinated loan agreement concluded on 16 October 2012 between mBank Hipoteczny S.A. and mBank S.A. with a repayment date on 19 December 2022. As at 31 December 2016, the full amount of loan, that is PLN 100 000 thousand, was classified to Tier 2 capital.

In accordance with the decision dated 7 January 2016, mBank Hipoteczny S.A. obtained approval of KNF to classify funds in the amount of PLN 100 000 thousand to supplementary funds in accordance with terms and conditions of the subordinated loan agreement concluded on 12 November 2015 between mBank Hipoteczny S.A. and mBank S.A. with a repayment date on 15 December 2025. As at 31 December 2016, the full amount of loan, that is PLN 100 000 thousand, was classified to Tier 2 capital.

In accordance with the provisions of Commission Implementing Regulation (EU) No. 1423/2013 dated 20 December 2013, establishing technical implementing standards in the scope of requirements regarding disclosure of information on own funds of institutions in accordance with the CRR Regulation (hereinafter referred to as Regulation No. 1423/2013), the description of main characteristics of capital instruments included in own funds of the Bank as at 31 December 2016 is presented on the next page in the table prepared on the basis of a template that constitute appendix II to the Regulation No. 1423/2013.

#### **TOTAL CAPITAL**

The total capital item includes the amount of own funds of the Bank as at 31 December 2016 that constitutes the sum of Common Equity Tier 1 capital and Tier 2 capital. Own funds of the Bank as at 31 December 2016 amounted to PLN 954 070 thousand.

**mBank Hipoteczny S.A.**  
**Disclosure on Capital Adequacy of mBank Hipoteczny S.A.**  
**as at 31 December 2016**

**Capital instruments' main features**

			Series A	Series B	Series C	Series D	Series E	Series F	Series G
1	Issuer	mBank Hipoteczny S.A.	mBank Hipoteczny S.A.	mBank Hipoteczny S.A.	mBank Hipoteczny S.A.	mBank Hipoteczny S.A.	mBank Hipoteczny S.A.	mBank Hipoteczny S.A.	mBank Hipoteczny S.A.
2	Unique identifier (eg. CUSIP or Bloomberg identifier for private placement)	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable
3	Governing law(s) of the instrument	Polish	Polish	Polish	Polish	Polish	Polish	Polish	Polish
	<i>Regulatory treatment</i>								
4	Transitional CRR rules	Tier 2 Capital	Tier 2 Capital	Tier 1 Capital	Tier 1 Capital	Tier 1 Capital	Tier 1 Capital	Tier 1 Capital	Tier 1 Capital
5	Post-transitional CRR rules	Tier 2 Capital	Tier 2 Capital	Tier 1 Capital	Tier 1 Capital	Tier 1 Capital	Tier 1 Capital	Tier 1 Capital	Tier 1 Capital
6	Eligible at solo/(sub-)consolidated / solo & (sub-)consolidated(sub-)	Solo	Solo	Solo	Solo	Solo	Solo	Solo	Solo
7	Instrument type (types to be specified by each jurisdiction)	Subordinated loan – Polish Banking Law Act Art. 127.1	Subordinated loan – Polish Banking Law Act Art. 127.1	Ordinary share, Art. 28 CRR					
8	Amount recognised in regulatory capital (currency in million, as of most recent reporting date)	PLN 100	PLN 100	PLN 50	PLN 85	PLN 40	PLN 100	PLN 100	PLN 140
9	Nominal amount of instrument	Issue currency: PLN 100M; In reporting currency: PLN 100M	Issue currency: PLN 100M; In reporting currency: PLN 100M	PLN 50M	PLN 85M	PLN 40M	PLN 100M	PLN 100M	PLN 140M
9a	Issue price	100.00%	100.00%	PLN 100	PLN 100	PLN 100	PLN 100	PLN 1 000	PLN 1 000
9b	Redemption price	100.00%	100.00%	Not applicable					
10	Accounting classification	Liability – amortised cost	Liability – amortised cost	Share capital					
11	Original date of issue	16-10-2012	16-11-2015	18-03-1999	15-03-2000	20-01-2006	23-11-2012	13-11-2014	24-07-2015
12	Perpetual or dated	Dated	Dated	Perpetual	Perpetual	Perpetual	Perpetual	Perpetual	Perpetual
13	Original maturity date	19-12-2022	15-12-2025	No term	Bez określonego				
14	Issuer call subject to prior supervisory approval	Yes	Yes	Not applicable					
15	Optional call date, contingent call dates and redemption amount	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable
16	Subsequent call dates, if applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable
	<i>Coupons / dividends</i>								
17	Fixed or floating dividend/coupon	Floating coupon	Floating coupon	Floating dividend					
18	Coupon rate and any related index	PLN WIBOR 3M+3.5%	PLN WIBOR 3M+3.5%	Not applicable					
19	Existence of a dividend stopper	Not applicable	Not applicable	No	No	No	No	No	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Mandatory	Mandatory	Partly discretionary					
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Mandatory	Mandatory	Fully discretionary					
21	Existence of the option of increasing interest or other incentives to redeem	No	No	No	No	No	No	No	No
22	Noncumulative or cumulative	Noncumulative	Noncumulative	Noncumulative	Noncumulative	Noncumulative	Noncumulative	Noncumulative	Noncumulative
23	Convertible or non-convertible	Non-convertible	Non-convertible	Non-convertible	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	Not applicable	Not applicable	Not applicable	Not applicable
25	If convertible, fully or partially	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable
26	If convertible, conversion rate	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable
27	If convertible, mandatory or optional conversion	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable
28	If convertible, specify instrument type convertible into	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable
29	If convertible, specify issuer of instrument it converts into	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable
30	Write-down features	Not applicable	Not applicable	No	No	No	No	No	No
31	If write-down, write-down trigger(s)	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable
32	If write-down, full or partial	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable
33	If write-down, permanent or temporary	Not applicable	Not applicable	Not applicable	Not applicable	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	Not applicable	Not applicable	Not applicable	Not applicable
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	The lowest priority of satisfaction and will rank only to the extent permitted by applicable laws relating to creditors' right	The lowest priority of satisfaction and will rank only to the extent permitted by applicable laws relating to creditors' right	Not applicable					
36	Non-compliant transitional features	No	No	No	No	No	No	No	No
37	If yes, specify non-compliant features	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable

## 5.2. Own funds structure

In accordance with provisions of the Regulation No. 1423/2013, the structure of own funds based on a template that constitute appendix VI to the Regulation No. 1423/2013 is presented below. Taking into account the clarity and the value in use of the document for its recipients, in the table below the scope of disclosures is limited to non-zero items.

Common Equity Tier 1 capital: instruments and reserves	Amount at disclosure date (As at 31.12.2016)
Capital instruments and the related share premium accounts	614 792
Accumulated other comprehensive income (to include unrealised gains and losses under the applicable accounting standards)	(1 146)
Other reserve capital	224 131
Funds for general banking risk	42 500
Independently reviewed interim profits net of any foreseeable charge or dividend	13 766
<b>Common Equity Tier 1 (CET1) capital before regulatory adjustments</b>	<b>894 043</b>
Common Equity Tier 1 capital: regulatory adjustments	
Additional Value Adjustments	(1 195)
Intangible assets (net of related deferred tax liability)	(13 191)
Negative amounts resulting from the calculation of expected loss amounts	(114 085)
Net impairment losses	(11 238)
Regulatory adjustments relating to unrealised gains and losses pursuant to Article 467 and 468 of the CRR Regulation	(264)
Of which: filter for unrealised gain related to assets or liabilities measured at fair value	(264)
<b>Total regulatory adjustments to Common Equity Tier 1 capital</b>	<b>(139 973)</b>
<b>Common Equity Tier 1 capital</b>	<b>754 070</b>
<b>Additional Tier 1 capital</b>	<b>-</b>
<b>Common Equity Tier 1 capital ( Tier 1 capital = Common Equity Tier 1 capital + Additional Tier 1 capital)</b>	<b>754 070</b>
Tier 2 capital: instruments and provisions	
Capital instruments and the related share premium accounts	200 000
<b>Tier 2 capital before regulatory adjustments</b>	<b>200 000</b>
<b>Tier 2 capital</b>	<b>200 000</b>
<b>Total capital (Tier 1 capital + Tier 2 capital)</b>	<b>954 070</b>
<b>Total risk weighted assets</b>	<b>6 562 489</b>
Capital ratios and buffers	
<b>Common Equity Tier 1 (as a percentage of risk exposure amount)</b>	<b>11.49%</b>
<b>Tier 1 (as a percentage of risk exposure amount)</b>	<b>11.49%</b>
<b>Total capital (as a percentage of risk exposure amount)</b>	<b>14.54%</b>
<b>Institution specific buffer requirement in accordance with article 92 (1) (a) plus capital conservation and countercyclical buffer requirements, plus systemic risk buffer, plus the systemically important institution buffer (G-SII or O-SII buffer), expressed as a percentage of risk exposure amount)</b>	<b>1.25%</b>
of which: capital conservation buffer requirement	1.25%
of which: countercyclical buffer requirement	0.00%
<b>Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)</b>	<b>3.49%</b>

## **6. Capital requirements**

### **6.1. Internal capital adequacy assessment – description of the approach**

mBank Hipoteczny S.A. obtained consent issued by Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin) on 14 August 2012 in cooperation with KNF (KNF letter dated 27 August 2012) to apply internal rating methods in terms of assignment of exposures due to specialist lending to risk category (IRB slotting approach method) to calculate capital requirement due to credit risk. On the basis of consent issued on 2 April 2014 by BaFin in cooperation with KNF (KNF letter dated 10 April 2014), the Bank extended applied IRB Approach with further rating models.

By the letter dated 12 December 2013, the Bank informed KNF on the extension of the plan of gradual implementation of internal rating method in mBank Hipoteczny S.A. with the class of retail exposures secured on housing real estates.

In the second half of 2016, the Bank filed a Pre-validation Request, and in 2017 it intends to file a final Request for using statistical methods to calculate capital requirements for credit risk with regard to the retail portfolio acquired in cooperation with mBank S.A.

In the calculation of total capital ratio of the Bank as at 31 December 2016, the total capital requirement was designated taking into account the capital requirement due to credit risk with application of the IRB method in accordance with provisions of the CRR Regulation and also own funds were designated with an application of deduction resulting from the IRB Approach and were at the level higher than 80% of comparative total capital requirement (so called regulatory floor), in accordance with provisions of the CRR Regulation.

### **6.2. Results of the internal capital adequacy assessment**

The key element of the risk management process in the Bank is the mechanism that assumes maintaining of own funds on the level that provides the ability to absorb unexpected losses due to any types of risks resulting from the business activity conducted by the Bank. This aim is implemented in the scope of ICAAP (Internal Capital Adequacy Assessment Process) which through mechanisms of estimation of adequacy of internal capital reinforces associations between risk profile (level), risk management mechanism and owned capital.

Through the implementation of the ICAAP, the Bank performs current and future assessment of capital adequacy in the context of necessity to maintain it, even in very difficult economic conditions and ensures that an institution owns adequate internal capital in relation to the risk profile. The process is subject to regular reviews implemented by the Management Board of the Bank and is supervised by the Supervisory Board.

Internal capital is value estimated by the Bank that is necessary to cover all significant types of risks identified in the operations in the scope of risk inventory process - it constitutes the sum of economic capital used to cover types of risks included in the process of calculation of economic capital and the capital used for covering of remaining types of risks (including hard to quantify risks).

Economic capital is determined using appropriate quantitative methods allowing for reflection of the degree of risk in an adequate manner. Currently total economic capital covers the following elements:

- economic capital to cover credit risk,
- economic capital to cover market risk,
- economic capital to cover operational risk,
- economic capital to cover business risk.

Capital for covering remaining types of risks (including hard to quantify risks) is estimated in accordance with the rules defined in the ICAAP.

The risk management system is associated with capital and process management at its planning. Risk appetite is defined as acceptable level of risk specified in terms of value and expressed using internal capital, which is defined by the Risk Management Strategy of the Bank.

### **6.3. Additional information about using the internal ratings-based approach**

#### **6.3.1. Clarification and review of controls on rating systems (including a description of the degree of their independence and scopes of responsibilities) and a review of the rating systems**

As regards the portfolios subject to the IRB approach, the rating models used in specialised lending within the commercial portfolio are subject to monitoring which is performed at least once a year by the model Owners who are independent of the model Users. The monitoring comprises analyses carried out at the individual case level, as well as portfolio analyses. More frequent verification of a rating system by the model Owners is dependent on the occurrence of factors (internal and/or external) which may contribute significantly to a change in the value of a model's component parameters. The effectiveness of a rating system's elements is also tested on a current basis by the model Owners in the case of default loans.

The rating models for the commercial portfolio are also subject to annual validation performed by a Validation Unit which is independent of the units responsible for building, rebuilding and using the rating models at the Bank. The validation of the rating system for specialised lending is qualitative and quantitative in nature. The scope of qualitative validation covers, among other things, evaluating the rules for constructing a model, testing the theoretical correctness and the correctness of implementation of the rating models, and analysing the quality of the data used for building the model. In quantitative validation, the main object of evaluation is the functioning of a model in terms of the discriminant power of the model, as well as the stability of the model.

The rating system for specialised lending is also subject to the annual reviews of the Bank's rating systems. As part of the review, the Internal Audit Department evaluates corporate governance, the principles of segmentation and the correctness of determination of capital requirements, stress tests used in assessing capital adequacy, the integrity of the process of assigning ratings, credit risk mitigation methods, and the data quality management process.

#### **6.3.2. Description of factors which affected the losses incurred in the previous period**

As regards the portfolios subject to the IRB approach – the commercial portfolio, specialised lending with the use of supervisory categories – the Bank calculates impairment allowances on the basis of an individual analysis and a portfolio analysis (exposures for which no impairment was identified in the individual analysis). The Bank does not use the PD and LGD parameters as defined in its own estimates of the parameters according to an internal rating model for measuring impairment for this portfolio. The Bank measures impairment for credit exposures in accordance with International Accounting Standard 39.

The amount of the losses incurred in 2016 was lower than the amount of the losses incurred in 2015. The main reasons for the drop were a decrease in the number of identified cases of default and an improvement in the factors which affect LGD estimates in the portfolio analysis – a slight improvement in the average rate of recovery from collateral, an improvement in the ratio representing the relationship of the value of an exposure to the value of collateral.

### **6.4. Supervisory requirements for capital ratios**

The Bank maintains capital ratios above minimal levels that result from provisions of the CRR Regulation, as well as above levels that were expected from the Bank in 2016 by the banking supervision (total capital ratio – 13.25%, Tier 1 capital ratio – 10.25%).

Strategic capital objectives of the Bank are oriented towards maintaining of both total capital ratio and Common Equity Tier 1 capital ratio on the level appropriately higher than level required by the supervising institution. It allows to maintain safe business development meeting the supervisory requirements in the long perspective.

Capital ratios are calculated on the basis of the total amount of risk exposure, corresponding to the sum of risk exposure amounts for particular types of risks, calculated in accordance with provisions of the CRR Regulation.

## 6.5. Quantitative data regarding capital adequacy

The total amount of risk exposure of the Bank as at 31 December 2016 consists of:

- risk-weighted exposure amount for credit risk, counterparty credit risk, calculated using the IRB slotting approach and a standardised approach for exposures permanently excluded from the IRB Approach as well as exposures subject to temporary exclusion,
- operational risk exposure amount, calculated using basic indicator approach.

There is no trading portfolio in the Bank, therefore, the Bank does not calculate risk-weighted exposure amounts in relation to other types of risks.

31.12.2016	Risk exposure amount	Own funds requirement
<b>TOTAL</b>	<b>6 562 489</b>	<b>524 999</b>
<b>Credit risk</b>	<b>6 372 126</b>	<b>509 770</b>
Under IRB approach	3 995 905	319 672
Under standardised approach	2 376 221	190 098
<b>Operational risk</b>	<b>190 363</b>	<b>15 229</b>
<b>Total capital ratio</b>	<b>14.54%</b>	
<b>Common Equity Tier 1 capital ratio</b>	<b>11.49%</b>	
<b>Tier 1 capital ratio</b>	<b>11.49%</b>	

The below table presents the risk-weighted exposure amount for credit risk and counterparty credit risk in division that takes into account applied approaches and classes of exposures in the scope of the approach

31.12.2016	Gross exposure	Exposure value pre CCF and CRM*	Total exposure covered by guarantees**	Risk weighted exposure amount	Own funds requirement
<b>Credit and counterparty credit risk</b>	<b>12 087 817</b>	<b>12 079 574</b>	<b>(248 626)</b>	<b>6 372 126</b>	<b>509 770</b>
<b>IRB approach</b>	<b>5 855 079</b>	<b>5 852 969</b>	-	<b>3 995 905</b>	<b>319 672</b>
Corporates - Specialised Lending	5 763 365	5 763 365	-	3 951 439	316 115
Other non-credit-obligation assets	91 714	89 604	-	44 466	3 557
<b>Standardised Approach</b>	<b>6 232 738</b>	<b>6 226 605</b>	<b>(248 626)</b>	<b>2 376 221</b>	<b>190 098</b>
Central governments or central banks exposures	1 139 579	1 139 579	-	-	-
Regional governments or local authorities exposures	73 223	73 201	-	64 366	5 149
Public sector entities exposures	67 267	67 247	(67 247)	-	-
Institutions exposures	85 816	85 816	-	4 490	359
Corporates exposures	181 433	181 379	(181 379)	-	-
Retail exposures	717 393	716 797	-	479 342	38 348
Secured by mortgages on immovable property exposures	3 957 141	3 955 966	-	1 821 100	145 688
Exposures in default	10 878	6 612	-	6 915	553
Equities exposures	8	8	-	8	1

\* CCF - Credit Conversion Factor, CRM - Credit Risk Mitigation

\*\* Total exposure covered by guarantees relates to exposures which basic collateral is a guarantee of local government units that meets the requirements of the CRR Regulation.

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The table below presents exposures for which the requirement is calculated using standard approach broken down by exposures permanently excluded from the IRB Approach and exposures subject to temporary exclusion.

<b>31.12.2016</b>	<b>Gross exposure</b>	<b>Exposure value pre CCF and CRM</b>	<b>Total exposure covered by guarantees</b>	<b>Risk weighted exposure amount</b>	<b>Own funds requirement</b>
<b>Standardised Approach</b>	<b>6 232 738</b>	<b>6 226 605</b>	<b>(248 626)</b>	<b>2 376 221</b>	<b>190 098</b>
Exposures under the permanent partial use of the standardised approach	1 671 448	1 667 386	(248 626)	185 185	14 815
Exposures under the standardised approach with prior supervisory permission to carry out a sequential IRB implementation	4 561 290	4 559 219	-	2 191 036	175 283

The table below presents credit exposures for which the requirement was calculated using the IRB slotting Approach broken down into supervisory categories of risk as at 31 December 2016.

<b>Risk category</b>	<b>Gross exposure</b>	<b>Of which:</b>		
		<b>off balance sheet exposures</b>	<b>Risk weighted exposure amount</b>	<b>Average risk weight</b>
1	2 243	-	1 570	70.00%
2	5 258 725	1 049 123	3 765 046	89.44%
3	157 828	-	181 502	115.00%
4	1 329	-	3 321	250.00%
5*	343 240	-	-	0.00%
<b>Total</b>	<b>5 763 365</b>	<b>1 049 123</b>	<b>3 951 439</b>	<b>83.82%</b>

\* category for exposure in default

## **7. Capital buffers**

On the basis of the Act on macroprudential supervision over the financial system and crisis management in the financial system as well as the relevant amendment to the Banking Act, starting from January 2016 mBank Hipoteczny S.A. has been obliged to maintain specific capital buffers:

- Conservation buffer ratio of 1.25%;
- Countercyclical buffer ratio specific to institutions, which currently amounts to 0%.

The foreign credit exposures in mBank Hipoteczny S.A. represent less than 2% of the total risk-weighted exposures, therefore, in the table on the geographical distribution of the relevant credit exposures for the purpose of calculating a countercyclical buffer the entire portfolio was allocated to Poland. In the table, the exposures from the following countries were allocated to the location of the institution: Germany, Austria, the United States, Belgium, and Great Britain, which represent a total of 0.077% of the total value of the Bank's original exposures.

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The geographical distribution of the relevant credit exposures for the purpose of calculating a countercyclical buffer as at 31 December 2016.

Country	General credit exposures		Own funds requirements		Own funds requirement weights	Countercyclical capital buffer rate
	Exposure value for SA	Exposure value IRB	Of which: General credit exposures	Total		
Poland	6 232 738	5 855 079	509 770	509 770	100.00	0.00

The amount of the countercyclical buffer specific to institutions as at 31 December 2016.

<b>Amount of institution-specific countercyclical capital buffer</b>	
Total risk exposure amount	6 372 126
Institution specific countercyclical buffer rate	0.00
Institution specific countercyclical buffer requirement	0.00

## **8. Leverage ratio**

The regulatory leverage ratio as at 31 December 2016 was calculated on the basis of the provisions of Commission Delegated Regulation (EU) 2015/62 of 10 October 2014 amending Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to the leverage ratio (hereinafter: "Regulation 2015/62").

The leverage ratio is calculated as a measure of Tier 1 capital divided by the total exposure measure and is expressed as a percentage. The total exposure measure is the sum of the exposure values specified in accordance with Regulation 2015/62 in respect of all assets and off-balance sheet items not deducted when determining the measure of Tier 1 capital.

The Tier 1 capital for the leverage ratio was calculated in accordance with Regulation 575/2013, using the national options defined in Article 171a of the Banking Act.

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The table below presents information regarding the leverage ratio as at 31 December 2016 and the division of the total exposure measure which makes up the leverage ratio in accordance with Commission Implementing Regulation 2016/200 (EU) of 15 February 2016 laying down implementing technical standards with regard to the disclosure of the leverage ratio for institutions, according to Regulation (EU) No 575/2013 of the European Parliament and of the Council (hereinafter: "Regulation 2016/200").

<b>On-balance sheet exposures (excluding derivatives and SFTs)</b>	
On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	10 607 425
(Asset amounts deducted in determining Tier 1 capital)	(139 973)
<b>Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets)</b>	<b>10 467 452</b>
<b>Derivative exposures</b>	
Replacement cost associated with all derivatives transactions (ie net of eligible cash variation margin)	45 161
Add-on amounts for PFE associated with all derivatives transactions (mark-to-market method)	16 687
<b>Total derivatives exposures</b>	<b>61 848</b>
<b>Other off-balance sheet exposures</b>	
Off-balance sheet exposures at gross notional amount	1 269 921
Adjustments for conversion to credit equivalent amounts)	(1 054 610)
<b>Other off-balance sheet exposures</b>	<b>215 311</b>
<b>Exempted exposures in accordance with Article 429(7) and (14) of Regulation (EU) No 575/2013 (on and off balance sheet)</b>	
<b>(Intragroup exposures (solo basis) exempted in accordance with Article 429(7) of Regulation (EU) No 575/2013 (on and off balance sheet)</b>	<b>(76 836)</b>
<b>Capital and total exposure</b>	
<b>Tier 1 capital</b>	<b>754 070</b>
<b>Leverage ratio total exposure measure</b>	<b>10 667 775</b>
<b>Leverage ratio</b>	
<b>Leverage ratio</b>	<b>7.07%</b>
<b>Choice on transitional arrangements and amount of derecognised fiduciary items</b>	
Choice on transitional arrangements for the definition of the capital measure	Transitional

The table below presents the reconciliation of the total exposure for calculating the leverage ratio to the value of the assets in the Bank's published financial statements for 2016.

	<b>31.12.2016</b>
Total assets as per published financial statements	10 649 499
Adjustments for derivative financial instruments	16 687
Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	215 311
(Adjustment for intragroup exposures excluded from the leverage ratio total exposure measure in accordance with Article 429(7) of Regulation (EU) No 575/2013)	(76 836)
Other adjustments	(136 886)
<b>Leverage ratio total exposure measure</b>	<b>10 667 775</b>

Disclosure of qualitative information about the risk of excessive leverage and the factors which affect the leverage ratio.

#### Disclosure on qualitative items

Description of the processes used to manage the risk of excessive leverage	Bank has the excessive leverage risk management policy. It defines the organizational framework and regulates the process of managing the risk of excessive leverage in the Bank. It contains the scope and division of responsibilities in the management of the risk of excessive leverage, as well as steps of risk management.
Description of the factors that had an impact on the leverage Ratio during the period to which the disclosed leverage Ratio refers	Leverage ratio has increased by 0.45 p.p. as at 31th of December 2016 compared to end of December 2015 due to higher total exposure and own funds increase. The other significant factor was implementing Regulation (EU) 2015/62 (i.ex. off-balance exposure converting factor).

The leverage ratio is subject to constant monitoring. The Bank monitors the level of leverage ratio on the basis of quarterly information, analyses possible significant changes and their reasons.

The level of the leverage ratio above 5% is recognised as safe and does not require any additional actions. In case of decline of the ratio below indicated level, the ALCO Committee will consider taking appropriate actions.

In the scope of applicable management information system, the report on the current level of leverage ratio and possible risks regarding maintaining safe levels of the factor, taking into account the influence of current losses and losses possible to predict in the future, the influence of current dynamic and planned dynamics of lending activity is submitted to the ALCO Committee. The process of analysis is implemented through the control of implementation of strategy, plans and financial projection.

## 9. Applied credit risk mitigation techniques

### 9.1 Assessment of collaterals and their 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 on financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realise the asset and settle liability simultaneously.

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

As at 31 December 2016, the Bank did not own derivative credit instruments.

#### *Collaterals*

Credit risk taken by the Bank by means of providing loan products to clients may be reduced through collaterals. Types of collaterals accepted by the Bank and the principles of their establishment are described in detail in the internal regulations of the Bank.

The rules of valuation of loan collaterals and collateral management are described in applicable policies and procedures of the Bank. An important element of the collateral policy is an assumption that by taking decision on granting of a product that bears credit risk, the Bank aims to obtain a collateral of the highest quality and value adequate to the scale of risk.

Fulfilment of a protective role by a collateral occurs in accordance with conditions discussed in the part "Main types of collaterals". The Bank regularly monitors the quality of collaterals, the monitoring covers in particular the effectiveness of the legal establishment of the collateral, valuation of the collateral and validity of documentation, e.g. assignment of rights from collateral agreement.

#### *Collaterals on real estates*

In the process of granting mortgage loans, the Bank assesses and determines the value of collaterals in accordance with provisions of the Act on Covered bonds and Mortgage Banks and the Regulations of determining the mortgage lending value of the property (hereinafter the Regulations) approved by KNF.

The process of determining the mortgage lending value of the property (hereinafter BHWN) is implemented by employees of the Bank who meet competence requirements specified in the Regulations. The basis for determining of BHWN is an expert's opinion on the mortgage lending value developed in accordance with regulations applicable in the Bank. BHWN determined by an employee of the Bank ensures adequacy of collateral over the whole duration of agreement and constitutes a basis for indicating of maximum amount of loan, in accordance with provisions of the Act on Covered bonds and Mortgage Banks.

Retail area (portfolio of loans granted in cooperation with mBank S.A.)

The Bank carefully selects real estates that may constitute a subject of collateral. The scope of process of collateral assessment covers analysis of features of a real estate proposed for collateral and analysis of liquidity of a local market of similar real estate resulting with assignment of a real estate to specified segment, i.e. typical/unusual real estate. Applied segmentation aims to ensure assumed effectiveness of recovery from accepted collateral.

The Bank applies additional limitations in the scope of relation of loan amount to the level of determined actual amount, reflecting the current level of prices for similar real estate available on the market. The indicator may not exceed:

- 80% of determined actual volume for typical residential real estates,
- 70% of determined actual volume for unusual residential real estates.

In case of covering a loan with insurance of low own contribution, the Bank allows for granting of a loan in the amount exceeding the abovementioned ratios, however, not more than up to the established BHWN.

The Bank periodically monitors the value and quality of owned legal collaterals of mortgage loans portfolio. In the scope of this process for residential real estate, the Bank analyses changes in prices of real estates on the market in order to identify evidence of impairment for a credit exposure.

Corporates

The Bank observes the rule that in accordance with the Act on Covered bonds and Mortgage Banks the value of LTV ratio must not exceed 100%. Additional information furthermore, in the Credit Policy of the Bank maximum values of the LTV ratio were determined that depend on the type of financed real estate and are as follow<sup>1</sup>:

- 90% for office, commercial and warehouse properties and
- 80% for housing developers and hotels.

The Bank periodically monitors the value of real estates that are the subject of collateral. The monitoring also covers collaterals entered into the Cover Register. The principles of monitoring of the value of collaterals are described in detailed internal regulations of the Bank.

In the scope of corporate loan monitoring, the legal status of real estates, on which mortgages are established for the Bank, is verified. The verification is done through reviewing of a land register via website of the Ministry of Justice.

The validity of insurance policies of real estates that constitute mortgage collateral for the Bank is monitored and reported to the Management Board of the Bank in monthly cycles.

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<sup>1</sup> The Bank defined three levels of criteria: fully accordant with the Credit Policy of the Bank, exclusion from the Credit Policy and not covered by the Credit Policy (knock-out criteria)

## **9.2. Main types of collaterals**

### Retail

- Mortgage on real estates

A mortgage on a financed (or other) real property is a basic collateral for mortgage loans. The Bank accepts only a first charge mortgage entry. The mortgage registration equals 150% of the original loan exposure. The Bank secures itself only on those real properties the type of right to which was indicated in the Act on Covered bonds and Mortgage Banks (exclusion relates to cooperative ownership right).

- Bridging insurance

For loans, for which the target collateral has the form of a mortgage on a real property, a so-called "bridging insurance" is used up until the time when that mortgage is established.

- Assignment of rights from insurance policy against fire and other accidents of a mortgaged real property

In case of all loans secured with a mortgage on a real property, the Bank requires provision of insurance of a real property against fire and other accidents in the entire duration of the loan agreement.

- Claim for establishing of a mortgage in the future

In case of loans granted for purchase of a real property from a developer, until removal of a purchased real property from a land register kept for a real property covered with investment, a claim for establishing of a mortgage on a purchased real property in the future is entered for the Bank in section IV. This collateral is provided in the Act on Covered bonds and Mortgage Banks and is applied alongside bridging insurance.

- Transfer of receivables from development agreement

In case of loans granted for purchase of a real property from a developer, the Bank requires transfer of receivables resulting from agreement concluded between the developer and the client, which, in case of a failure of a final agreement, secures the Bank's claim in terms of paid amount of loan.

### Corporates

In case of mortgage loans, the basic collateral is a mortgage on a financed real property. The Bank accepts only a first charge mortgage entry. The Bank secures itself only on those real properties the type of right to which was indicated in the Act on Covered bonds and Mortgage Banks.

Additional collateral is applied by the Bank in case of loans in the corporate area:

- declaration of submission to enforcement under Art. 777 of the Code of Civil Procedure;
- assignment from lease agreements;
- assignment from insurance policy;
- pledge on shares of the company owned by the borrower or pledge on shares of the company of the borrower's general partner;
- pledge on the bank account of the borrower;
- power of attorney to the bank account of the borrower;
- promissory note guaranteed by sponsors or partners as a transition collateral until the time of establishing of a mortgage on a real property.

### Public sector

In case of loans for local government units (JST) and loans guaranteed by JST granted to special purpose companies established by them and health care institutions, mandatory legal collaterals of repayment of a granted loan are:

- for JST - Blank promissory note of the Borrower together with bill declaration;
- for health care institutions and special purpose companies established by JST - JST guarantee according to civil law;

The following may constitute an additional collateral of repayment of a loan:

- mortgage on real property;
- assignment of rights from insurance policy of construction against all construction risks of a real property;
- assignment of rights from insurance policy against fire and other accidents of a mortgaged real property;
- assignments or a pledge on receivables due to lease agreements;
- bank guarantee;
- pledge on rights, including pledge on shares of a special purpose company;
- accession to a loan debt.

Values of exposures per type of recognised collateral broken down to exposure classes are presented in Note 6.3 to this document. As a recognition of a collateral, the Bank uses unfunded credit protection in a form of guarantees of local government units that meet the requirements of the CRR Regulation.

### **9.3. Market or credit risk concentration**

Due to the fact that the scope of activity is limited by an act, the Bank is exposed to increased risk of concentration on the real property market. Taking this into account, the Bank aims for maximum available diversification of credit risk and avoiding its excessive concentration, which consists in limiting of involvement in single entities and groups of affiliated investors. Thus understood limitation is achieved through systematic increasing of share of retail mortgage loans in the balance sheet of the Bank.

To actively manage the concentration risk, the Bank has an internal system that limits the market and credit risk concentration. At the same time, the Bank observes supervisory guidelines regarding the limits of lending and concentration. Risk limits are threshold values the observance of which aims to ensure implementation of objectives given the available resources. The structure and the level of limits is established by the Management Board of the Bank, and all cases of exceeding of internal concentration limits are reported to the Management Board of the Bank immediately after their occurrence.

Due to increasingly greater differentiation between particular segments of real property market, the Bank takes into account the concentration into separate types of financed real property while developing the policy of income producing real estate and sales plans as well as in current credit decisions in a given segment. The Bank has established and monitored exposures in particular segments of the real estate market, appropriately to the risk associated with them.

Additionally, the Bank monitors the market for its geographical differentiation in order to identify markets with variable saturation in particular real estate segments. For that reason, the Bank controls the risk resulting from geographical concentration through establishing and monitoring of limits for financing of projects in particular provinces.

Having regard to limitation of concentration of risk resulting from exposure in the same currency, the Bank monitors the currency structure of exposure portfolio on a monthly basis.

The Bank controls the concentration limits of exposures to single entity or group of entities related by equity or organisationally, which amounts to 25% of eligible capital of the Bank, and additionally on a daily basis monitors exposures for exceeding of 10% of the eligible capital of the Bank in relation to a single entity or group of entities related by equity or organisationally.

The Bank analyses key market risk concentrations associated with its operations and business events. Within risk concentration analysis, the Bank monitors e.g. influence of changes of market risk factors, such as: exchange rates, interest rates.

## **10. Credit risk adjustments**

### **10.1. Past due and impaired exposures– definitions used**

#### *Definition of past due exposures*

The exposures against clients, for whom at least one receivable is past due by one or more days, are assumed as past due exposures. Whereby, in case of portfolio granted in cooperation with mBank S.A., the past due exposure is an exposure on delayed contracts (by one or more days). No impairment is recognised in respect of loans and advances past due for less than 90 days, unless other available information indicates their impairment. In rare cases for loans and advances overdue by over 90 days, the Bank does not recognise impairment if there is particular evidence demonstrating lack of impairment of those loans and advances.

#### *Definition of impaired exposures*

The Bank measures the impairment of credit exposures in accordance with International Accounting Standard no. 39.

For the purposes of impairment analysis four portfolios are distinguished in the Bank:

- retail portfolio obtained in cooperation with mBank S.A.,
- commercial portfolio,
- JST portfolio,
- portfolio of remaining retail loans.

Commercial portfolio is divided into two sub-portfolios, distinguishing commercial loans (developer loans, commercial loans and loans for legal persons) and other loans for individual entrepreneurs.

Credit exposure is considered to be burdened with evidence of impairment when for a debtor (owner of the contract) an evidence of default is identified.

The Bank applies uniform definition of default in all areas of credit risk management, including for the purposes of calculation of impairment losses, provisions and capital requirement. The default definition is based on the definition included in the CRR Regulation.

The Bank assumes that a default occurred in relation to given debtors, if at least one of the following events took place:

- a) any of the exposures of a client against the Bank, Bank's parent company is pas due by over 90 days and the overdue amount exceeds PLN 500 for retail clients and PLN 3000 for other clients,
- b) deterioration of counterparty/transaction credit quality. The Bank recognises that the debtor probably will not fully fulfil its credit obligations against the Bank, parent entity of the Bank without actions of the Bank, such as implementation of a collateral, if such exists,
- c) qualification of an entity to a default situation by the Bank's parent entity.

In case of retail portfolio obtained in cooperation with mBank, exceeding of threshold amount of PLN 500 occurs when the total past due amount on all credit exposures of the debtor (overdue by over 31 days) exceeds PLN 500.

Reclassification of at least one liability of a client to the default category causes reclassification of all liabilities of the client to the default category.

The following indicate deterioration of credit quality of a client/transaction in accordance with the above definition:

- a) preparation of a loss impairment as a result of significant deterioration of debtor's creditworthiness,
- b) sale by the Bank of an exposure with significant economic loss associated with changes in its creditworthiness,
- c) the Bank's permission for forced restructuring of credit liability, if it may cause reduction of financial liabilities through amortisation of significant part of the liability or deferring of payment of the principal amount, interests or - if applicable - commission,
- d) filing by the Bank of a bankruptcy motion against debtor or filing similar motion in respect of credit obligations of the debtor towards the Bank, the parent of the Bank,
- e) declaration of bankruptcy of a debtor or obtaining by the debtor of similar legal protection, causing avoidance or delay of repayment of credit liabilities against the Bank, Bank's parent company.

For portfolios of corporate loans, JST and other retail loans apart from hard evidence (specified above) that determine *default* event occurrence, the Bank identifies soft evidence. Occurrence of a soft evidence does not automatically cause necessity for classification as a default event. Soft evidences have supplementary nature. These are issues which Bank should additionally consider during analysis of the situation of the borrower and which may indicate its deterioration. If in the Bank's opinion identified soft evidence have significant meaning for a particular case, the Bank should proceed with an assessment whether a default event occurred regardless of lack of hard evidence.

## **10.2. Quantitative information**

### *Specific and general credit risk adjustments*

While determining the value of exposure, the Bank applies the following adjustments due to particular credit risk:

- adjustments regarding loss impairments of exposures of individual significance,
- adjustments regarding loss impairments of exposures that are not individually significant, determined within group assessment,
- adjustments regarding impairment losses incurred as a result of events that occurred, but were not reported yet (referred to as IBNR impairment losses) for an exposure without recognised impairment

Due to application of International Financial Reporting Standards, the Bank does not apply adjustments for general credit risk.

### *Retail portfolio obtained in cooperation with mBank S.A.*

Calculation of impairment losses on balance sheet credit exposures and provisions on off-balance sheet credit exposures in parameters based on risk determined using methodology applied for advanced method of internal ratings (AIRB) on the basis of group models applicable in mBank Group (the Bank is a local user). Those parameters are subjected to adjustments that aim to fulfil applicable regulations.

Estimation of a provision for transactions which lost their value is made on the basis of LGD model for default clients which on the basis of historical data estimates future discounted recoveries conditioned by a type of transaction, the level of its security, the time the client is in a default state and occurrence of delay.

*Retail loan portfolio, JST and other retail loans*

The Bank calculated loss impairments on the basis of individual analysis (commercial and JST portfolio) and portfolio analysis (retail portfolio and those exposures from the commercial and JST portfolio for which no value loss was identified in the individual analysis).

In case of no evidence of impairment against credit exposure, in the portfolio analysis an impairment loss is calculated for incurred, but not identified losses.

The portfolio analysis covers all retail and commercial loans not covered by the individual analysis. The Bank applies estimated parameters for the purposes of impairment measurement specifying the rate of healing (ZLGD), indicator of faulty collaterals (BD) and indicator of relationship between recovery and the value of collateral (CCR), as well as individual for each exposure indicator of relationship between a debt and the value of collateral (LTV) used for determination of LGD in the portfolio analysis and additionally parameters PD and LIP. The Bank assumes that LIP amounts to 8 months for the commercial loan portfolio and 12 months for retail loans. PD parameter is currently determined using 3 year time series. LGD parameter is estimated on the basis of data from 2009, selection of the scope of data is made in order to ensure adequacy of estimation of the amount of impairment losses to current economic conditions. Each of separated portfolios has its own set of ZLGD, BD, CRR and PD parameters.

In case of finding of evidence of impairment, the Bank calculates impairment losses in the individual analysis for commercial and JST portfolio. The process of calculation in the individual analysis consists in:

- a) determination of estimated future cash flows (repayments) both from collaterals and payments made by borrowers, including planned costs,
- b) in the calculation of difference between balance sheet value of a given asset and current value of estimated profits and costs discounted with effective interest rate,
- c) booking of impairment losses.

In case of evidence of impairment and individual analysis of a given credit exposure, not stating the loss of value, impairment loss is calculated on the basis portfolio parameters analysis.

In case of assets for which a permanent impairment was identified, the Bank executes stricter monitoring, e.g. revaluation of the mortgage lending value of the property constituting collateral of a loan.

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*Subjective distribution of exposures*

The distribution of gross exposure of the Bank broken down by exposure classes and depending on the type of counterparty is presented below. The summary includes the division into the value of exposures for standard and IRB methods.

31.12.2016	Standardised Approach		IRB		Total		Average gross exposure in 2016**
	Gross exposure	EAD*	Gross exposure	EAD*	Gross exposure	EAD*	
Central governments or central banks exposures	1 139 579	1 139 579	-	-	1 139 579	1 139 579	1 102 907
Regional governments or local authorities exposures	73 223	321 826	-	-	73 223	321 826	81 718
Public sector entities exposures	67 267	-	-	-	67 267	-	69 612
Institutions exposures	85 816	85 816	-	-	85 816	85 816	91 816
Corporates exposures, of which:	181 433	-	5 763 365	4 714 242	5 944 798	4 714 242	5 824 476
- SME exposures	181 433	-	5 763 365	4 714 242	5 944 798	4 714 242	5 824 476
Retail exposures, of which:	717 393	639 123	-	-	717 393	639 123	457 434
- natural persons exposures	717 393	639 123	-	-	717 393	639 123	457 434
Secured by mortgages on immovable property exposures	3 957 141	3 923 308	-	-	3 957 141	3 923 308	3 468 847
- SME exposures	91 707	91 568	-	-	91 707	91 568	98 940
- natural persons exposures	3 865 434	3 831 740	-	-	3 865 434	3 831 740	3 369 907
Exposures in default	10 878	6 572	-	-	10 878	6 572	13 936
- SME exposures	1 916	25	-	-	1 916	25	6 238
- natural persons exposures	8 962	6 547	-	-	8 962	6 547	7 698
Equity exposures	8	8	-	-	8	8	8
Other non-credit-obligation assets	-	-	91 714	89 604	91 714	89 604	98 195

\*EAD (Exposure At Default) - the value of exposure after application of credit risk mitigation techniques and application of credit conversion factors for off-balance sheet items

\*\*Average gross exposure in 2016 was determined as average exposure at the end of four quarters of 2016.

*The residual maturity breakdown*

The summary of gross exposures per residual maturity dates broken down by applied methods and exposure classes within a method as at 31 December 2016 is presented below

	1D - 3M	3M - 6M	6M - 12M	1Y - 5Y	> 5Y	No term	Total
<b>IRB Approach</b>	<b>49 669</b>	<b>18 079</b>	<b>110 766</b>	<b>1 281 519</b>	<b>4 303 332</b>	<b>91 714</b>	<b>5 855 079</b>
Corporates exposure - Specialised Lending	49 669	18 079	110 766	1 281 519	4 303 332	-	5 763 365
Other non-credit-obligation assets	-	-	-	-	-	91 714	-
<b>Standardised Approach</b>	<b>273 340</b>	<b>4 019</b>	<b>127 903</b>	<b>836 876</b>	<b>4 990 592</b>	<b>8</b>	<b>6 232 738</b>
Central governments or central banks exposures	239 008	0	124 853	775 718	-	-	1 139 579
Regional governments or local authorities exposures	0	0	2 220	8 402	62 601	-	73 223
Public sector entities exposures	-	-	0	496	66 771	-	67 267
Institutions exposures	31 825	3 953	-	11 727	38 311	-	85 816
Corporates exposures	-	-	0	7 527	173 906	-	181 433
Retail exposures	-	-	6	2 840	714 547	-	717 393
Secured by mortgages on immovable property exposures	62	66	477	28 731	3 927 805	-	3 957 141
Exposures in default	2 445	0	347	1 435	6 651	-	10 878
Equities exposures	-	-	-	-	-	8	8
<b>Total</b>	<b>323 009</b>	<b>22 098</b>	<b>238 669</b>	<b>2 118 395</b>	<b>9 293 924</b>	<b>91 722</b>	<b>12 087 817</b>

**mBank Hipoteczny S.A.**  
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*Impaired exposures and overdue exposure per client type*

Client type	Gross exposures with impairment recognised	Specific credit risk adjustments for exposures with impairment recognised	Overdue gross exposures	Specific credit risk adjustments for exposures with impairment recognised
Cash and balances with the central bank	-	-	-	-
Amonuts due from other banks	-	-	-	-
Loans and advances to clients, in which:	312 923	91 578	464 627	87 174
Corporate clients	304 605	89 185	414 416	84 806
Individual clients	8 318	2 393	49 299	2 368
Public sector clients	-	-	912	-
Other receivables	-	-	-	-
<b>Total</b>	<b>312 923</b>	<b>91 578</b>	<b>464 627</b>	<b>87 174</b>

*Impaired exposures and overdue exposure per client type broken down by countries*

Client type	Gross exposures with impairment recognised	Specific credit risk adjustments for exposures with impairment recognised	Overdue gross exposures	Specific credit risk adjustments for exposures with impairment recognised
Poland	312 923	91 578	464476	87 173
Germany	-	-	151	1
<b>Total</b>	<b>312 923</b>	<b>91 578</b>	<b>464 627</b>	<b>87 174</b>

*Reconciliation of changes of adjustments for impaired exposures*

Change in adjustment amounts in 2016	As at 01.01.2016	Created	Release	Receivables write-offs	Other adjustments	As at 31.12.2016
Balance-sheet exposures	83 051	36 549	(10 864)	(17 588)	430	91 578
Off-balance sheet exposures	-	-	-	-	-	-
<b>Total</b>	<b>83 051</b>	<b>36 549</b>	<b>(10 864)</b>	<b>(17 588)</b>	<b>430</b>	<b>91 578</b>

## 11. Operational risk

By operational risk the Bank understand a possibility to incur loss resulting from inadequate or defective internal processes, systems, errors or activities undertaken by an employee of the Bank and external events.

While organizing the operational risk management process, the Bank takes into account regulatory requirements. Resolutions, as well as recommendations of the Financial Supervision Authority (in particular including Recommendation M) constitute starting point for preparation of the framework of control system and operational risk management.

The general principle of operational risk management in the Bank is its minimisation - limitation of causes of occurrence of operational events, reduction of probability of their occurrence and the severity of potential effects.

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 Hipoteczny is a specialised bank, established and operating on the basis of the Act of Covered bonds and Mortgage Banks. Its basic specialisation consists in ability to issue mortgage covered bonds and public sector covered bonds that constitute key sources of financing in the bank's balance sheet. This specialisation determines limited product range of the Bank. The Bank offers mortgage loans for financing of real estates in two business lines - commercial banking and retail banking. The sources of client acquisition are: own sales conducted by specialised services of the Bank, sales via the branch network of mBank Group and sales via other sale channels.

For retail customers this process is implemented within the so called agency model in collaboration with mBank S.A. and within a pooling model, in the scope of which the Bank acquires mortgage loans granted by mBank S.A. that can constitute the basis for issuing of covered bonds.

With the introduction of retail lending, mechanisms of detection and operational risk management were launched in this area. The process of fraud detection and registration mechanisms and mechanisms of analysing errors in transactions and customer complaints was launched. The Bank observes all changes that influence the operational risk profile. So far the collected data do not indicate increasing of operational risk level in the retail banking line. As the portfolio of loans granted to natural persons develops, the increase of losses for retail banking business line may be anticipated, which, however, due to the nature of conducted activity, should not reach the distribution of the operational risk, typical for commercial banks. This phenomenon is subject to constant monitoring.

The Bank has Business Continuity Plan that was implemented and tested within implementation of Recommendation D.

Within classification of the Bank's activity, in accordance with the CRR Regulation, the following business lines are separated:

- Trading and sales,
- Commercial banking,
- Retail banking,
- Payments and settlement.

There was no change in risk profile in 2016 comparing to 2015. The sum of actual losses without recovery amounted to PLN 7.2 thousand. The largest operational loss in the reported period was assigned to the loss event category "Execution of transactions, delivery and operational processes management" in accordance with appendix no. 1 to Recommendation M of KNF regarding operational risk management in banks and the CRR Regulation.

Losses are monitored according to the following risk categories:

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

According to the above distribution, the largest loss in 2016 was incurred by the Bank due to the category - execution, delivery and process management.

With application of database, information on losses resulting from operational risk are recorded with a focus on the reason of their occurrence and analysing for necessary corrective actions.

## **12. Remuneration policy in respect of persons having significant influence on the risk profile of the Bank**

### ***Information on the policy of variable remuneration***

Principles of establishing variable remuneration components of persons holding managerial positions, who have significant influence on the risk profile of the Bank are specified by "Policy for remuneration of persons having significant influence on the risk profile of mBank Hipoteczny S.A.", hereinafter referred to as "Policy", adopted by the Resolution of the Supervisory Board no. 27/2015 dated 26 June 2015 with further amendment - the Resolution of the Supervisory Board no. 14/2016 dated 14 April 2016. The Policy was established on the basis of:

- Resolution No. 258/2011 of the Polish Financial Supervision Authority dated 4 October 2011 on detailed principles of functioning of the risk management system and internal control system and specific terms of assessing internal capital as well as the principles of determining a policy on variable items of remuneration of persons holding managerial positions in the bank, hereinafter PFSA Resolution No. 258/2011 and
- principles defined in directive of the European Parliament and of the Council 2013/36/EU 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 (Capital Requirements Directive IV, CRD IV).

The purpose of adopted Policy is to support proper and effective risk management, provision of making decisions not burdened with excessive risk, i.e. risk going beyond accepted by the Supervisory Board willingness to take risks by the Bank and to support implementation of strategy and limitation of conflicts of interest.

The list of positions having significant influence on the Bank's risk profile including justification of their selection are specified in a separate document accepted by the Bank's Management Board and Supervisory Board - "Policy of identification of employees having significant influence on the bank's risk profile", corresponding to the requirements of Commission Delegated Regulation (EU) no. 604/2014 dated 4 March 2014 that supplements the directive of the European Parliament and Council 2013/36/UE in relation to regulatory technical standards in relation to quality criteria and appropriate quantitative criteria of determining of categories of employees, whose professional activity has significant influence on the risk profile of the institution.

The Supervisory Board is the governing body that supervise remunerations.

In 2016 there were three meetings of the Supervisory Board.

The Bank did not use services of an external consultant while establishing "Policy for remuneration of persons having significant influence on the risk profile of mBank Hipoteczny S.A." and "Policy of identification of employees having significant influence on the bank's risk profile."

### ***The most important information concerning the formation of remuneration***

Variable remuneration includes bonuses granted to a member of the Management Board or other employees for a given financial year. Variable remuneration is established in a transparent manner, possible to verify, ensuring effective implementation of the Policy.

The maximum level of the amount of variable remuneration components of persons covered by the Policy may not exceed 100% of the basic remuneration paid to a given employee for a financial year.

Variable remuneration is part of total remuneration (annual basic remuneration and variable remuneration) for Management Board members or other employees. Variable remuneration is established taking into account market practices, in both banking sector and nationwide market, verified on the basis of market payroll reports and remuneration policy of the mBank Group.

A part of variable remuneration is paid in phantom shares. The number of phantom shares, which will be established for a member of the Management Board or other employee for a given financial year on the account of variable remuneration (both non-deferred and deferred part), constitutes a result of dividing the amount of the variable remuneration established in accordance with the Policy principles by the value of a phantom share at the end of financial year for which the remuneration is established.

The value of phantom share is the quotient of book value of the shares of the Bank and the number of ordinary shares, where the book value of the Bank is defined as: total assets reduced by total liabilities of

the Bank. The book value of the Bank and the number of ordinary shares are derived from the financial statement of the Bank for a financial year for which variable remuneration is granted after its previous approval by the Supervisory Board. The number of phantom shares can take fractional values and is rounded to 4 decimal places.

#### Members of the Management Board

The amount of bonus for particular members of the Management Board is established by the Supervisory Board which takes into account whether a member of the Management Board completed an established annual/multi-annual business and development objective - Management By Objective ("MBO"). The decision on granting of a bonus and its amount is the exclusive competence of the Supervisory Board which according to its own assessment and decision confirms achieving of MBO, taking into account situation on financial markets in the last/previous financial periods.

Variable remuneration is granted in accordance with the following rules:

- 1) 60% of the bonus amount is granted in the year following a given financial year (non-deferred bonus):
  - 50% in a form of cash payment,
  - 50% in a form of non-cash payment in phantom shares of the Bank.
- 2) 40% of the bonus will be deferred to three successive years in three equal, annual tranches. Bonus within each trench is granted to a member of the Management Board upon meeting of specified conditions, in an analogous manner as 60% of the bonus amount granted after the financial year for which the bonus is calculated, i.e.:
  - 50% in a form of cash payment,
  - 50% in a form of non-cash payment in phantom shares of the Bank.

#### Employees who are not members of the Management Board:

The Bank's Management Board executes an annual assessment, or an assessment covering longer periods, of an employee's work and if it deems that the employee completed an established annual/multi-annual business and development objective - ("MBO"), after considering the complete amount of the employee's remuneration, may make a decision that will establish the amount of so called discretionary bonus. The decision on granting of a discretionary bonus and its amount is the exclusive competence of the Management Board of the Bank which according to its own assessment and decision confirms achieving of MBO, taking into account situation on financial markets in the last/previous financial periods.

MBO is established by the Management Board of the Bank (objectives must result from objectives established for the Management Board of the bank - the principle of cascading of objectives to subsequent levels of management) for subsequent financial year within a term accordant with a schedule applicable for a given year. In accordance with principles of establishing of MBO business and development objectives adopted in the Bank:

- group quantitative objectives (at the Bank's level) constitute up to 20%,
- individual quantitative objectives constitute 65% to 90% of the objectives (objectives established depending on the responsibility of a given position, objectives cascaded by the member of the Management Board that supervises that position),
- individual quality objectives constitute up to 20% of the objectives.

Variable remuneration is granted in accordance with the following rules:

- 1) 60% of the bonus is granted in the year following the given accounting year:
  - 50% in a form of cash payment,
  - 50% in a form of non-cash payment in phantom shares of the Bank,
- 2) 40% of the bonus will be deferred to three successive years in three equal, annual tranches. The bonus under each tranche is granted to an employee upon meeting specific conditions, in the same way to the 60% of the bonus granted after the accounting year for which the bonus is calculated, i.e.:
  - 50% in a form of cash payment,
  - 50% in a form of non-cash payment in phantom shares of the Bank.

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

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

*Members of the Management Board*

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

The Supervisory Board may decide to suspend in whole or reduce the amount of deferred trench due to subsequent evaluation of work of a member of the Management Board in a term longer than 1 financial year (i.e. for a period of at least 3 years) which takes into account the business cycle of the Bank as well as risk associated with conducting activity by the Bank, but only when actions or omissions of a member of the Management Board had direct or negative impact on financial result and market position of the Bank in the period of assessment. The aforementioned assessment of the performance of member of the Management Board (over a longer period of time) will be made annually and communicated internally at the Bank, together with the assessment of the performance of the member of the Management Board for a given period.

The Supervisory Board may decide to suspend in whole or to reduce the amount of bonus for a given financial year, also in terms of deferred trench that has not been paid yet, in a situation referred to in Art. 142 (1) of the Banking Law Act. Suspending in whole or reduction of a bonus, as well as any deferred trench, may also relate to a bonus and/or deferred trench not paid to a member of the Management Board after expiration or termination of the management agreement.

*Employees who are not members of the Management Board:*

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

The Management Board of the Bank may decide to suspend in whole or reduce the amount of deferred trench:

- if it finds that in a longer-term (period of at least 3 years) an employee through its actions or omissions directly and negatively impacted financial result and market position of the Bank in the assessment period. In the assessment of actions or omissions of an employee the Management Board of the Bank takes into account e.g. results of the MBO assessment of the employee,
- in case of termination of an employment contract with the exclusion of reasons specified in the employment contract/internal regulations of the Bank.

The Supervisory Board may decide to suspend in whole or to reduce the amount of discretionary bonus for a given financial year, as well as in terms of deferred trench that has not been paid yet, in case of a balance sheet loss or threat of its occurrence or a risk of insolvency or losing of liquidity by the Bank.

***Main parameters and rules for determining of remunerations of persons holding managerial positions in mBank Hipoteczny S.A., including the manner of linking of the amount of remuneration with results in case of remunerations depending on the results***

*Members of the Management Board*

The decision on granting of a discretionary bonus and its amount is the exclusive competence of the Supervisory Board which according to its own assessment and decision confirms achieving of MBO, taking into account situation on financial markets in the last/previous financial periods. The Manager, until the end of March of a financial year following the financial year for which the so called discretionary bonus is determined, will submit to the Supervisory Board a written report on implementation of MBO for a financial year for which a discretionary bonus is determined. MBO will be determined by the Supervisory Board in consultation with the Manager for subsequent financial year until 31 December of the year preceding the financial year.

*Employees who are not members of the Management Board:*

Variable remuneration for employees who are not members of the Board shall be granted by the Bank's Management Board, which on the basis of the results achieved under the annual/long-term business-development objective - Management By Objectives ("MBO" defined according to the aforementioned description), after taking into account the value of the total remuneration of an employee (i. a. comparison of the employee's remuneration to the market benchmark provided by an external company specializing in the development of such data), determines the amount of the so-called discretionary bonus. Bonus is not automatically calculated and its awarding and amount depend on a joint decision of the Management Board of the Bank.

This document presents the Policy for remuneration of persons having significant influence on the risk profile of the Bank that was approved in April 2016. Remuneration programmes that were in force in previous years which were not settled yet are described in the Bank's financial statements in Note 42.

***Aggregated quantitative information on remuneration broken down into senior management and employees whose actions have significant influence on the Bank's risk profile:***

Aggregated quantitative information regarding remuneration broken down into areas of activity (in PLN):

<b>Total remuneration in 2016 (fixed + variable)</b>	
Management Board members	3 450 175
Other employees	3 081 781
<b>Total</b>	<b>6 531 956</b>

**mBank Hipoteczny S.A.**  
**Disclosure on Capital Adequacy of mBank Hipoteczny S.A.**  
**as at 31 December 2016**

Collective qualitative information about the remuneration of persons in managerial positions at mBank Hipoteczny S.A.

No	Information regarding	Value	Comments
1.	Number of employees	14	4 Management Board Members 10 Risk Takers
2.	Base salary paid in 2016	PLN 5 208 006	
3.	2016 variable remuneration subject to PFSA 258/2011 Resolution, granted in 2017	*	
<b>4.</b>	<b>Calculated for 2016 non-deferred component of the variable remuneration subject to PFSA 258/2011 Resolution, including:</b>		
4.1.	Cash	*	
4.2.	Financial instrument – number of shares, amount of the component	*	
<b>5.</b>	<b>Calculated for 2016, not yet granted deferred component of the variable remuneration subject to PFSA 258/2011 Resolution, including</b>		
5.1.	Cash	*	
5.2.	Financial instrument – number of shares, amount of the component	*	
<b>6.</b>	<b>Deferred component of variable remuneration prior 2016, payment possible in 2016, including:</b>		
6.1.	Cash	PLN 60 000	I deferred tranche of 2014
6.2.	Financial instrument – number of shares, amount of the component	PLN 175 829	Value of the deferred compensation component settled in mBank Hipoteczny S.A. phantom shares, granted within: 1/ III tranche of 2012 compensation 2/ II tranche of 2013 compensation 3/ I tranche of 2014 compensation
		672,0004 shares	The conversion of non-cash bonus at the average price of mBank Hipoteczny S.A. phantom shares value for 1 year preceding the granting date of the bonus
<b>7.</b>	<b>Deferred component of variable remuneration prior 2016, payment not yet possible in 2016, including:</b>		
7.1.	Cash	PLN 510 000	
7.2.	Financial instrument – number of shares, amount of the component	PLN 578 121	Value of the deferred bonus component settled in mBank Hipoteczny S.A. shares, granted within 2013, 2014 and 2015 bonus
		2 366,4994 shares	The conversion of non-cash bonus at the average price of mBank Hipoteczny S.A. phantom shares value for 1 year preceding the granting date of the bonus
8.	Value of deferred remuneration granted in the given accounting year, paid and reduced due to an adjustment related to results	-	
9.	Payments related to commencement and termination of employment relationship	-	
9.1.	Number of employees who receive such payments	-	
9.2.	The highest payment	-	
10.	Number of employees who received total remuneration in the amount exceeding EUR 1 mln	-	

*\*The fields were not filled in due to the fact that as at 3 March 2017, i.e. as at the date of publication of this report, the variable remuneration for 2016 for the employees listed in the above table had not yet been accepted by the relevant authorities of the Bank. This document will be adjusted for the payments of the variable remuneration for 2016, awarded in 2017, after the acceptance of the financial statements for 2016 by the General Shareholders' Meeting.*

**13. Remuneration policy in respect of persons having significant influence on the risk profile of the Bank - update of the information after the approval of the variable part of remuneration, regarding 2016 year, by the competent authorities of mBank Hipoteczny S.A.**

Collective qualitative information about the remuneration of persons in managerial positions at mBank Hipoteczny S.A.

No	Information regarding	Value	Comments
1.	Number of employees	14	4 Management Board Members 10 Risk Takers
2.	Base salary paid in 2016	PLN 5 208 006	
3.	2016 variable remuneration subject to PFSA 258/2011 Resolution, granted in 2017	PLN 2 190 000	
<b>4.</b>	<b>Calculated for 2016 non-deferred component of the variable remuneration subject to PFSA 258/2011 Resolution, including:</b>		
4.1.	Cash	PLN 657 000	
4.2.	Financial instrument – number of shares, amount of the component	PLN 657 000 2 257,3441 shares	
<b>5.</b>	<b>Calculated for 2016, not yet granted deferred component of the variable remuneration subject to PFSA 258/2011 Resolution, including</b>		
5.1.	Cash	PLN 438 000	
5.2.	Financial instrument – number of shares, amount of the component	PLN 438 000 1 504,8961 shares	
<b>6.</b>	<b>Deferred component of variable remuneration prior 2016, payment possible in 2016, including:</b>		
6.1.	Cash	PLN 60 000	I deferred tranche of 2014
6.2.	Financial instrument – number of shares, amount of the component	PLN 175 829 672,0004 shares	Value of the deferred compensation component settled in mBank Hipoteczny S.A. phantom shares, granted within: 1/ III tranche of 2012 compensation 2/ II tranche of 2013 compensation 3/ I tranche of 2014 compensation  The conversion of non-cash bonus at the average price of mBank Hipoteczny S.A. phantom shares value for 1 year preceding the granting date of the bonus
<b>7.</b>	<b>Deferred component of variable remuneration prior 2016, payment not yet possible in 2016, including:</b>		
7.1.	Cash	PLN 510 000	
7.2.	Financial instrument – number of shares, amount of the component	PLN 578 121 2 366,4994 shares	Value of the deferred bonus component settled in mBank Hipoteczny S.A. shares, granted within 2013, 2014 and 2015 bonus  The conversion of non-cash bonus at the average price of mBank Hipoteczny S.A. phantom shares value for 1 year preceding the granting date of the bonus
8.	Value of deferred remuneration granted in the given accounting year, paid and reduced due to an adjustment related to results	-	
9.	Payments related to commencement and termination of employment relationship	-	
9.1.	Number of employees who receive such payments	-	
9.2.	The highest payment	-	
10.	Number of employees who received total remuneration in the amount exceeding EUR 1 mln	-	