



2019

**Disclosures regarding capital adequacy
of mBank S.A. Group as at 30 September 2019**

Warsaw, 12 November 2019

Contents:

1.	Introduction	3
2.	Own funds	3
3.	Capital requirements	4
3.1	Description of the internal rating based approach applied to calculation of capital charges.....	4
3.2	Results of the internal capital adequacy assessment	5
3.3	Supervisory requirements regarding capital ratios	6
3.4	Quantitative data regarding capital adequacy	8
4.	Leverage ratio	12
5.	Transitional arrangements concerning IFRS 9	13

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 30 September 2019. The scope of entities included in prudential consolidation is different from the scope of entities included in accounting consolidation based on International Financial Reporting Standards (hereinafter referred to as the IFRS).

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

2. Own funds

The consolidated own funds consist of Common Equity Tier 1 capital, Additional Tier 1 capital and Tier 2 capital. Items that could be treated as Additional Tier 1 capital are not identified in mBank Group, therefore the own funds of mBank Group constitute the sum of consolidated Common Equity

Tier 1 capital and Tier 2 capital. The difference in the amount of own funds observed in the III quarter of 2019 in relation to the amount of own funds as at 30 June 2019 resulted mainly from the inclusion in the Common Equity Tier 1 capital a part of the net profit for the I half of 2019.

The structure of consolidated own funds of mBank Group is presented below.

OWN FUNDS	30.09.2019	30.06.2019
Common Equity Tier 1 capital before regulatory adjustments	15 486 857	15 183 495
Total regulatory adjustments to Common Equity Tier 1 capital	-1 317 317	-1 404 617
Common Equity Tier 1 capital	14 169 540	13 778 878
Additional Tier 1 capital before regulatory adjustments	0	0
Total regulatory adjustments to Additional Tier 1 capital	0	0
Additional Tier 1 capital	0	0
Tier 1 capital (CET1 + AT1)	14 169 540	13 778 878
Tier 2 capital before regulatory adjustments	2 506 950	2 458 050
Total regulatory adjustments to Tier 2 capital	0	0
Tier 2 capital	2 506 950	2 458 050
Total capital (Tier 1 capital + Tier 2 capital)	16 676 490	16 236 928

3. Capital requirements

3.1 Description of the internal rating based approach applied to calculation of capital charges

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

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

On 4 November 2014 mBank SA received conditional consent of PFSA to use AIRB approach to the calculation of capital requirement for credit risk with respect to non-mortgage retail exposures.

On 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.

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 30 September 2019, 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.

3.2 Results of the internal capital adequacy assessment

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

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

In the third quarter 2019 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.

3.3 Supervisory requirements regarding capital ratios

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

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

As of 30 September 2019 mBank Group was obliged to ensure adequate own funds to meet conservation capital buffer of 2,5% of total risk exposure amount, as defined in the Act.

As of the end of September 2019 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 the end of the third quarter 2019 amounted to 1,5% and 1,5% respectively, had an impact on the mBank Group specific countercyclical capital buffer.

Kwota specyficznego dla Grupy mBanku bufora antycyklicznego
(w tys. zł).

	30.09.2019
Total risk exposure amount	84 259 238
Institution specific countercyclical buffer rate (%)	0,054984
Institution specific countercyclical buffer requirement*	4 632 910

*wyliczony jako specyficzny dla Grupy mBanku wskaźnik bufora antycyklicznego zastosowany do łącznej kwoty ekspozycji na ryzyko

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. The required capital buffer was applicable as of 30 September 2019.

Starting from 1st January 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 2,81% in September 2019.

Consequently, the combined buffer requirement set for the mBank Group as of the end of the third quarter 2019 amounted to 5,86% 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 5,86%,
- 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 the third quarter 2019 were above the required values both on consolidated and individual basis.

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	30.09.2019		30.06.2019	
	Required level	Reported level	Required level	Reported level
Capital ratio				
Total capital ratio (TCR)	17,51%	19,79%	17,51%	19,66%
Tier 1 ratio*	14,60%	16,82%	14,60%	16,68%

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

3.4 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, settlement and free deliveries risk 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 (thousand PLN)		Minimum capital requirements (thousand PLN)	
		30.09.2019	30.06.2019	30.09.2019	
	1	Credit risk (excluding CCR)	71 543 264	70 144 654	5 723 461
art. 438 lit. c) i d)	2	Of which the standardised approach	16 760 439	16 503 540	1 340 835
art. 438 lit. c) i d)	3	Of which the foundation IRB (FIRB) approach		0	0
art. 438 lit. c) i d)	4	Of which the advanced IRB (AIRB) approach	54 782 825	53 641 114	4 382 626
art. 438 lit. d)	5	Of which equity IRB under the simple risk-weighted approach or the IMA	0	0	0
art. 107 art. 438 lit. c) i d)	6	CCR	1 486 941	1 260 489	118 955
art. 438 lit. c) i d)	7	Of which mark to market	1 260 378	1 004 380	100 830
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	2 495	1 772	199,634
art. 438 lit. c) i d)	12	Of which CVA	224 067	254 337	17 925
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	920 925	903 578	73 674
	20	Of which the standardised approach	920 882	903 578	73 671
	21	Of which IMA	0	0	0
art. 438 lit. e)	22	Large exposures	0	0	0
art. 438 lit. f)	23	Operational risk	7 993 942	7 993 942	639 515
	24	Of which basic indicator approach	0	0	0
	25	Of which standardised approach	7 993 942	7 993 942	639 515
	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)	2 314 166	2 299 831	185 133
art. 500	28	Floor adjustment	0	0	0
	29	Total	84 259 238	82 602 495	6 740 739

mBank S.A. Group
Disclosures regarding capital adequacy as at 30 September 2019

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

<i>mBank Group in PLN m</i>		Risk weighted exposure amount for credit and counterparty credit risk, including supervisory floors	Capital requirements
1	Risk weighted exposure amount as of 30 June 2019	73 451	5 876
2	Asset size	1 663	133,0
3	Asset quality	-617	-49,4
4	AIRB model updates	0	0,0
5	Methodology and policy	0	0,0
6	Acquisitions and disposals	0	0,0
7	Foreign exchange movements	623	49,9
8	Risk weighted exposure amount as of 30 September 2019	75 120	6 010

Asset size

The category covers structural changes of the credit portfolio capturing among others new and matured credit exposures. In the third quarter of 2019 a significant increase in corporate and retail lending was recorded.

Asset quality

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

Model updates

As of the end of the third quarter 2019 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.

Foreign exchange movements

Changes in exchange rates in the third quarter of 2019 had a significant impact on the value of risk-weighted exposures of mBank Group due to a significant part of the credit portfolio of exposures in foreign currencies.

4. 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 total exposure measure applied to calculation of the leverage ratio, information on Tier 1 capital and leverage ratio.

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

Capital and total exposure measure		30.09.2019
20	Tier 1 capital	14 169 540
21	Leverage ratio total exposure measure	169 911 067
Leverage ratio		
22	Leverage ratio	8,34%
Choice on transitional arrangements and amount of derecognised fiduciary items		
EU-23	Choice on transitional arrangements for the definition of the capital measure	transitional

5. 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.

