# 2021

## Disclosures regarding capital adequacy of mBank S.A. Group as at 31 March 2021

Warsaw, 28 April 2021

## Contents

## 1. Introduction

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

Entities included in prudential consolidation according to the rules of the CRR Regulation were taken into account in the process of calculation of consolidated own funds and consolidated own funds requirements as at 31 March 2021. 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 the own funds observed over the first quarter of 2021 in relation to the amount of own funds as at 31 December 2020 resulted mainly from the inclusion the remaining part of the net profit for the year 2020 in the Common Equity Tier 1 capital with the simultaneous exclusion from the calculation of the net impairment losses and fair value change on loans and advances for the second half of the year 2020.

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

| OWN FUNDS | 31.03.2021 | 31.12.2020 |
|---|---|---|
| Common Equity Tier 1 capital before regulatory adjustments | 16 429 767 | 16 621 042 |
| Total regulatory adjustments to Common Equity Tier 1 capital | (1 096 834) | (1 574 130) |
| **Common Equity Tier 1 capital (CET1)** | **15 332 933** | **15 046 912** |
| Additional Tier 1 capital before regulatory adjustments | 0 | 0 |
| Total regulatory adjustments to Additional Tier 1 capital | 0 | 0 |
| Additional Tier 1 capital (AT1) | 0 | 0 |
| **Tier 1 capital (CET1 + AT1)** | **15 332 933** | **15 046 912** |
| Tier 2 capital before regulatory adjustments | 2 372 762 | 2 541 100 |
| Total regulatory adjustments to Tier 2 capital | 0 | 0 |
| Tier 2 capital | 2 372 762 | 2 541 100 |
| **Total capital (Tier 1 capital + Tier 2 capital)** | **17 705 695** | **17 588 012** |

## 3. Capital requirements

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

On 4 July 2012 Polish Financial Supervision Authority (PFSA) and Bundesanstalt fur Finanzdienstleistungsaufsicht (BaFin) granted consent to the application of the advanced internal rating based approach (AIRB approach) by mBank to the calculation of the capital requirement for credit risk for the corporate portfolio and the retail mortgage loan portfolio.

Additionally, on 27 August 2012 BaFin in cooperation with PFSA granted consent to the application of internal rating based approach concerning the risk weighting for specialized lending exposures (IRB slotting approach) by mBank Hipoteczny SA to the calculation of the capital requirement for credit risk.

On 6 May 2015 mBank received conditional consent of PFSA to use AIRB approach for retail mortgage loan portfolio (micro companies) and for the portfolio of commercial banks.

On 25 July 2016 mLeasing Sp. z o.o. (hereinafter referred to as the mLeasing) obtained approval from European Central Bank (ECB) and PFSA to the application of the AIRB approach to the calculation of capital requirement for credit risk.

On 22 September 2016 mBank 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 31 January 2018 mBank obtained approval from European Central Bank and PSFA to the application of material change in PD model for subsidiary mLeasing.

In the calculation of the total capital ratio of mBank Group as of 31 March 2021, 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 first quarter of 2021 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 an algorithm based on the Standardised Measurement Approach (SMA) described in Basel III: Finalising post-crisis reforms. mBank also calculated capital to cover hard to quantify risks. When calculating the total economic capital, mBank did not take into account the diversification effect between different types of risk.

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 31 March 2021 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 31 March 2021 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.

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. As at the end of March 2021 this ratio amounted to 0.04%.

Exposures of foreign branches in Czech Republic and in Slovakia, where countercyclical buffer rates as of 31 March 2021 amounted to 0.5%, and 1.0% in each, had an impact on the mBank Group specific countercyclical capital buffer.

**The amount of mBank Group specific countercyclical capital buffer**

| | 31.03.2021 |
|---|---|
| Total risk exposure amount | 92 262 994 |
| Institution specific countercyclical buffer rate (%) | 0.043791% |
| Institution specific countercyclical buffer requirement* | 40 403 |

**Calculated as a specific for mBank Group countercyclical buffer rate applied to the total risk exposure amount*

In 2016 Bank received an administrative decision of PFSA, 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 PFSA administrative decision of October 29th, 2020 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. This amount of buffer was in force as at 31 March 2021.

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 exceptional socio-economic situation that arose after the outbreak of the global COVID-19 pandemic, this requirement was lifted by repealing the Regulation of the Minister of Finance, which was in force since 19 March 2020.

Consequently, the combined buffer requirement set for the mBank Group as of the end of March 2021 amounted to 3.04% of the total risk exposure amount.

Additionally, as a result of the annual risk assessment carried out in 2020 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 received an individual recommendation to maintain own funds on the consolidated level to cover additional capital requirement of 2.82% in order to mitigate the risk and 2.11% for Tier 1 capital (on individual basis: 3.24% and 2.43% 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 SREP score quantifying the risk of foreign exchange retail mortgage loans portfolio, taking into account the specific nature of the mBank 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 mBank on FX portfolio of mortgage loans for households,
- sensitivity of total capital ratio to exchange rate and interest rate changes,
- mBank's readiness to absorb losses of a potential portfolio currency conversion.

Capital ratios on individual and consolidated basis in the first quarter of 2021 were above the required values.

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

| mBank Group | 31 March 2021 | | 31 December 2020 | |
|---|---|---|---|---|
| Capital ratio | Required level | Reported level | Required level | Reported level |
| **Total capital ratio (TCR)** | **13.86%** | **19.19%** | **13.86%** | **19.86%** |
| including FX ADD ON | 2.82% | | 2.82% | |
| Including combined buffer | 3.04% | | 3.04% | |
| **Tier 1 ratio*** | **11.15%** | **16.62%** | **11.15%** | **16.99%** |
| including FX ADD ON | 2.11% | | 2.11% | |
| Including combined buffer | 3.04% | | 3.04% | |

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

### 3.4. Quantitative data regarding capital adequacy

Capital ratios for mBank Group 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 the 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 | | Minimum capital requirements |
|---|---|---|---|---|---|
| | | | 31.03.2021 | 31.12.2020 | 31.03.2021 |
| | 1 | **Credit risk (excluding CCR)** | **77 318 165** | **74 557 564** | **6 185 453** |
| art. 438 c) and d) | 2 | Of which the standardised approach | 19 395 152 | 18 698 872 | 1 551 612 |
| art. 438 c) and d) | 3 | Of which the foundation IRB (FIRB) approach | | | 0 |
| art. 438 c) and d) | 4 | Of which the advanced IRB (AIRB) approach | 57 923 013 | 55 858 692 | 4 633 841 |
| art. 438 d) | 5 | Of which equity IRB under the simple risk-weighted approach or the IMA | 0 | 0 | 0 |
| art. 107 art. 438 c) and d) | 6 | **CCR** | **1 961 867** | **1 977 144** | **156 950** |
| art. 438 c) and d) | 7 | Of which mark to market | 1 652 429 | 1 562 787 | 132 194 |
| art. 438 lit. c) and 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 c) and d) | 11 | Of which risk exposure amount for contributions to the default fund of a CCP | 15 483 | 8 116 | 1 239 |
| art. 438 c) and d) | 12 | Of which CVA | 293 955 | 406 241 | 23 517 |
| art. 438 e) | 13 | **Settlement risk** | **0** | **0** | **0** |
| art. 449 o) and 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 e) | 19 | **Market risk** | **1 026 239** | **886 913** | **82 099** |
| | 20 | Of which the standardised approach | 1 026 239 | 886 913 | 82 099 |
| | 21 | Of which IMA | 0 | 0 | 0 |
| art. 438 e) | 22 | **Large exposures** | **0** | 0 | 0 |
| art. 438 f) | 23 | **Operational risk** | **9 502 227** | **8 834 765** | **760 178** |
| | 24 | Of which basic indicator approach | 0 | 0 | 0 |
| | 25 | Of which standardised approach | 9 502 227 | 8 834 765 | 760 178 |
| | 26 | Of which advanced measurement approach | 0 | 0 | 0 |
| art. 437 2), art. 48 and art. 60 | 27 | **Amounts below the thresholds for deduction (subject to 250% risk weight)** | **2 454 496** | **2 283 546** | **196 360** |
| art. 500 | 28 | **Floor adjustment** | **0** | **0** | **0** |
| | 29 | **Total** | **92 262 994** | **88 539 932** | **7 381 040** |

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

| | *mBank Group*<br>*in PLN million* | Risk weighted exposure amount for credit and counterparty credit risk, including supervisory floors | Capital requirements |
|---|---|---|---|
| 1 | Risk weighted exposure amount as of 31 December 2020 | 78 412 | 6 273 |
| 2 | Asset size | 2 540 | 203 |
| 3 | Asset quality | (653) | (52) |
| 4 | AIRB model updates | 2 175 | 174 |
| 5 | Methodology and policy | (1 213) | (97) |
| 6 | Acquisitions and disposals | 0 | 0 |
| 7 | Foreign exchange movements | 180 | 14 |
| 8 | Risk weighted exposure amount as of 31March 2021 | 81 441 | 6 515 |

## 4. Leverage ratio

Since 2014 mBank and mBank Group calculate 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 National Bank of Poland. 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 the CRR Regulation.

For the leverage ratio of mBank Group in the first quarter of 2021, the following factors had an impact:

- inclusion of the remaining part of the net profit for the year 2020 in the Common Equity Tier 1 capital,
- exclusion from the Common Equity Tier 1 capital of the net impairment losses and fair value change on loans and advances for the second half of the year 2020,
- changes in foreign exchange rates.

| | 31.03.2021 | 31.12.2020 |
|---|---|---|
| **Leverage ratio total exposure measure** | **207 338 598** | **191 703 614** |
| Capital and regulatory adjustments | | |
| Tier 1 capital | 15 332 933 | 15 046 912 |
| including regulatory adjustments – Tier I capital | (1 096 834) | (1 574 130) |
| Leverage ratio | | |
| Leverage ratio | 7.40% | 7.85% |

## 5. Liquidity risk

As of 31 March 2021 the LCR ratio for mBank Group reached level of 245% (230% as 12-month average) and in the first quarter of 2021 remained on safe level, significantly exceeding 100%. The high-quality liquid assets (HQLA) used to calculate the LCR ratio consist only of level 1 assets, including primarily Treasury bonds in PLN.

In the below table quantitative data regarding LCR are presented (in PLN million).

| Quantitative information of LCR | | | | | |
|---|---|---|---|---|---|
| Total weighted value (average) | | | | | |
| Quarter ending on: | | 31.03.2021 | 31.12.2020 | 30.09.2020 | 30.06.2020 |
| Number of data points used in the calculation of averages | | 12 | 12 | 12 | 12 |
| **EU-21** | **Liquidity buffer** | **55 457** | **48 610** | **42 471** | **35 868** |
| **22** | **Total net cash outflows** | **24 067** | **20 883** | **18 273** | **15 851** |
| **23** | **Liquidity coverage ratio** | **230%** | **233%** | **232%** | **226%** |

## 6. Transitional arrangements regarding IFRS 9

mBank decided, for the purpose of capital adequacy calculation, including calculation of own funds, based on Article 1 paragraph 9 of the Regulation (EU) 2017/2395 of the European Parliament and of the Council of 12 December 2017 amending the CRR 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.

| First and last name | Position | Signature |
|---|---|---|
| Cezary Stypułkowski | President of the Management Board, Chief Executive Officer | (signed electronically) |
| Andreas Böger | Vice-President of the Management Board, Chief Financial Officer | (signed electronically) |
| Krzysztof Dąbrowski | Vice-President of the Management Board, Head of Operations and IT | (signed electronically) |
| Cezary Kocik | Vice-President of the Management Board, Head of Retail Banking | (signed electronically) |
| Marek Lusztyn | Vice-President of the Management Board, Chief Risk Officer | (signed electronically) |
| Adam Pers | Vice President of the Management Board, Head of Corporate & Investment Banking | (signed electronically) |