2020

Disclosures regarding capital adequacy of mBank S.A. Group as at 30 September 2020

Warsaw, 10 November 2020

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 30 September 2020. 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 over the third quarter of 2020 compared to the amount of own funds as at 30 June 2020 resulted mainly from the inclusion a part of the net profit for the first half of the year 2020 in the Common Equity Tier 1 capital with the simultaneous exclusion from the Common Equity Tier 1 capital the net impairment losses and fair value change on loans and advances for the first half of the year 2020.

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

OWN FUNDS	30.09.2020	30.06.2020
Common Equity Tier 1 capital before regulatory adjustments	16 777 976	16 732 813
Total regulatory adjustments to Common Equity Tier 1 capital	(1 838 903)	(2 334 802)
Common Equity Tier 1 capital (CET1)	14 939 073	14 398 011
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)	14 939 073	14 398 011
Tier 2 capital before regulatory adjustments	2 490 351	2 477 716
Total regulatory adjustments to Tier 2 capital	0	0
Tier 2 capital	2 490 351	2 477 716
Total capital (Tier 1 capital + Tier 2 capital)	17 429 424	16 875 727

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 (hereinafter referred to as the PFSA) and Bundesanstalt fur Finanzdienstleistungsaufsicht (hereinafter referred to as the BaFin) granted consent to the application of the advanced internal rating based approach (hereinafter referred to as the 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 (hereinafter referred to as the 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 obtained final approval from European Central Bank (hereinafter referred to as the 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 Sp. z o.o. (hereinafter referred to as the mLeasing) obtained final 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 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 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 received conditional consent of PFSA to use AIRB approach for retail mortgage loan portfolio (microenterprises) and for the portfolio of commercial banks.

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

In the first half of 2018 mBank submitted application for material change in LGD model for retail portfolio as of 30 September 2020 application was in the process of verification by regulatory bodies - ECB and PFSA.

In the calculation of the consolidated total capital ratio of mBank Group as of 30 September 2020, 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 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 (hereinafter referred to as the 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 of 2020 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 set out in Basel IV (SMA - Standardized Method Approach). mBank calculated capital to cover hard to quantify risks. Diversification between different risks was not included while calculating total economic capital.

The ICAAP 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 (hereinafter referred to as the RCP), i.e. economic own funds. Having estimated internal capital as well as RCP both under normal and under stressed conditions mBank determines risk absorbance capacity. On this basis and taking into account the forecast values limits for economic capital for particular risks are determined.

RCP in mBank Group stays well above internal capital.

The ICAAP is accepted by the Supervisory Board of mBank. The whole ICAAP is reviewed annually. The Management Board of mBank is responsible for the ICAAP in mBank Group.

3.3. Supervisory requirements regarding capital ratios

According to the provisions of the CRR Regulation mBank and mBank 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 (hereinafter referred to as the 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 2020 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.

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 mBank Group are located. As of the end of September 2020 this buffer amounted to 0.03%.

Exposures of foreign branches in Czech Republic and in Slovakia, where countercyclical buffer rates as of 30 September 2020 amounted to 0.5% and 1.0% respectively, had an impact on the mBank Group specific countercyclical capital buffer.

As of the end of the third quarter 2020 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.

The amount of mBank Group specific countercyclical capital buffer

	30.09.2020
Total risk exposure amount	89 236 367
Institution specific countercyclical buffer rate (%)	0.030580%
Institution specific countercyclical buffer requirement*	27 306

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

In 2016 mBank received an administrative decision of the 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 14 October 2019 amounted to 0.75% of the total risk exposure amount, calculated in accordance with article 92(3) of CRR Regulation, to be maintained on individual and consolidated levels. The required capital buffer was applicable as of 30 September 2020. In accordance with the decision of the PFSA of October 29, 2020, the buffer of other systemically important institutions was updated to 0.50% of the total risk exposure amount calculated in accordance with Art. 92 sec. 3 of the CRR Regulation, both on an individual and consolidated level.

Starting from 1 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 appeared after the occurrence of the global pandemic COVID-19, this requirement was abolished by repealing the Regulation of the Minister of Finance, which has been in force since 19 March 2020.

Consequently, the combined buffer requirement set for the mBank Group as of the end of September 2020 amounted to 3.28% of the total risk exposure amount.

Additionally, as a result of the annual risk assessment carried out in 2019 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 for households, mBank Group received an individual recommendation to maintain own funds on the consolidated level to cover additional capital requirement of 3.11% for total capital ratio and 2.33% for Tier 1 capital (on individual basis: 3.62% and 2.71% respectively). Additional capital requirement encompasses also additional risk factors related to the foreign exchange retail mortgage loans for households such as operational risk, market risk or risk of collective default of borrowers.

The high level of additional capital requirement 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 foreign exchange retail mortgage loans for households for each and every bank uses the risk weight under the standardized 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 standardized 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 realized in the mBank on FX lending portfolio of retail 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 third quarter of 2020 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	30 September 2020		30 June 2020	
Capital ratio	Required level	Reported level	Required level	Reported level
Total capital ratio (TCR)	**14.39%**	**19.53%**	**14.42%**	**19.26%**
including FX ADD ON	3.11%		3.11%	
Including combined buffer	3.28%		3.31%	
Tier 1 ratio*	**11.61%**	**16.74%**	**11.63%**	**16.43%**
including FX ADD ON	2.33%		2.33%	
Including combined buffer	3.28%		3.31%	

**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
			30.09.2020	30.06.2020	30.09.2020
	1	**Credit risk (excluding CCR)**	**75 487 408**	**74 093 633**	**6 038 993**
art. 438 c) and d)	2	Of which the standardised approach	18 161 478	17 638 998	1 452 918
art. 438 c) and d)	3	Of which the foundation IRB (FIRB) approach	0	0	0
art. 438 c) and d)	4	Of which the advanced IRB (AIRB) approach	57 325 930	56 454 635	4 586 075
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**	**1 859 980**	**1 692 203**	**148 798**
art. 438 c) and d)	7	Of which mark to market	1 469 582	1 373 138	117 567
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	4 519	2 596	361
art. 438 c) and d)	12	Of which CVA	385 879	316 469	30 870
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**	**787 900**	**854 669**	**63 032**
	20	Of which the standardised approach	787 900	854 669	63 032
	21	Of which IMA	0	0	0
art. 438 e)	22	**Large exposures**	**0**	0	**0**
art. 438 f)	23	**Operational risk**	**8 834 765**	**8 834 765**	**706 781**
	24	Of which basic indicator approach	0	0	0
	25	Of which standardised approach	8 834 765	8 834 765	706 781
	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)**	**2 266 314**	**2 144 452**	**181 305**
art. 500	28	**Floor adjustment**	**0**	**0**	**0**
	29	**Total**	**89 236 367**	**87 619 722**	**7 138 909**

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

	mBank Group *in PLN million*	Risk weighted exposure amount for credit and counterparty credit risk, including supervisory floors	Capital requirements
1	Risk weighted exposure amount as of 30 June 2020	**77 614**	**6 209**
2	Asset size	823	66
3	Asset quality	253	20
4	AIRB model updates	300	24
5	Methodology and policy	0	0
6	Acquisitions and disposals	0	0
7	Foreign exchange movements	238	19
8	Risk weighted exposure amount as of 30 September 2020	**79 228**	**6 338**

Asset size

The category covers structural changes of the credit portfolio capturing among others new and matured credit exposures. In the third quarter of 2020 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 2020 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 income producing real estate-related specialized lending exposures (IRB slotting approach),
- mBank retail non-mortgage exposures (conditional consent),
- mBank retail microenterprises mortgage loan portfolio (conditional consent),
- commercial bank exposures (conditional consent),
- credit exposures of mLeasing subsidiary,
- specialized lending - income producing real estate exposures of mBH subsidiary (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 2020 had an 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 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.

The table below presents total exposure measure applied to calculation of the leverage ratio, information on Tier 1 capital and leverage ratio.

For the leverage ratio of mBank Group in the third quarter of 2020, the following factors had an impact:

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

	30.09.2020	30.06.2020
Leverage ratio total exposure measure	**194 239 742**	**192 748 891**
Capital and regulatory adjustments		
Tier 1 capital	14 939 073	14 398 011
including regulatory adjustments – Tier I capital	(1 838 903)	(2 334 802)
Leverage ratio		
Leverage ratio	7.69%	7.47%

5. Liquidity risk

As of 30 September 2020 the LCR ratio for mBank Group reached level of 236% (232% as 12-month average) and in the third quarter of 2020 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:		30.09.2020	30.06.2020	31.03.2020	31.12.2019
Number of data points used in the calculation of averages		12	12	12	12
EU-21	**Liquidity buffer**	**42 471**	**35 868**	**31 203**	**31 124**
22	**Total net cash outflows**	**18 273**	**15 851**	**14 670**	**14 852**
23	**Liquidity coverage ratio**	**232%**	**226%**	**213%**	**210%**

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.

Name	Position	Signature
Cezary Stypułkowski	President of the Management Board, Chief Executive Officer	(signed electronically)
Frank Bock	Vice-President of the Management Board, Head of Financial Markets	(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)