



2018

**Disclosures regarding
capital adequacy
of mBank S.A. Group
as at 30 September 2018**

Warsaw, 29 October 2018

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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 2018. The scope of entities included in prudential consolidation is different from the scope of entities included in accounting consolidation based on International Financial Reporting Standards (hereinafter referred to as the IFRS).

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

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

OWN FUNDS	30.09.2018	30.06.2018
Common Equity Tier 1 capital before regulatory adjustments	14 165 704	13 819 908
Total regulatory adjustments to Common Equity Tier 1 capital	-1 014 858	-1 135 040
Common Equity Tier 1 capital	13 150 846	12 684 868
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)	13 150 846	12 684 868
Tier 2 capital before regulatory adjustments	2 190 950	2 192 550
Total regulatory adjustments to Tier 2 capital	0	0
Tier 2 capital	2 190 950	2 192 550
Total capital (Tier 1 capital + Tier 2 capital)	15 341 796	14 877 418

The difference in the amount of own funds observed in the third quarter of 2018 resulted primarily from including the part of the consolidated net profit for the first half of the year 2018 in calculation of the Common Equity Tier 1 capital.

3. Capital requirements

3.1. Assessment of adequacy of internal capital – description of the approach

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 calculation of the total capital ratio of mBank Group as of 30 September 2018, when calculating the total capital charge, the mBank Group applies the AIRB approach pursuant to the provisions of the CRR Regulation to calculate a capital charge for credit and counterparty credit risk and pursuant to obtained AIRB approvals.

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

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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 2018 mBank calculated the economic capital at the 99,91% confidence level over a one-year time horizon, for all risk types. 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 Macroprudential 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 2018 mBank Group was obliged to ensure adequate own funds to meet conservation capital buffer of 1,88% of total risk exposure amount, as defined in the Act.

As of the end of September 2018 the countercyclical capital buffer rate set for relevant exposures in Poland according with the article 83 of the Act amounted to 0%. The ratio shall be effective until it is changed by way of an ordinance of the Minister of Finance.

mBank Group calculates the bank-specific countercyclical capital buffer in accordance with the provisions of the Act as the weighted average of the countercyclical buffer rates that apply in the countries where the relevant credit exposures of the Group are located. Exposures of foreign branches in Czech Republic and in Slovakia, where countercyclical buffer rates as of 30 September 2018 amounted to 1% and 1,25% respectively, had an impact on the mBank Group specific countercyclical capital buffer.

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 September 30, 2018.

Starting from January 1st, 2018 the Regulation of the Minister of Development and Finance with regard to systemic risk buffer entered into force. The Regulation introduced systemic risk buffer of 3% of the total risk exposure amount applied to all exposures located in Poland. Due to the fact that not all exposures are located in Poland, due to mBank two foreign branches in Czech Republic and in Slovakia, the systemic risk buffer rate applicable to mBank Group amounted to 2,77% in September 2018.

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Consequently, the combined buffer requirement set for the mBank Group as of the end of September 2018 amounted to 5,17% of the total risk exposure amount.

Additionally, as a result of risk assessment carried out in 2017 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 3,53% in order to mitigate the risk and 2,65% for Tier 1 capital (on individual basis: 4,10% and 3,07% respectively). Additional capital requirement in Pillar II set by KNF in 2017 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 additional capital requirement was applicable as of September 30, 2018.

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. 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.

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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 5,17%,
- the additional capital charge in Pillar II on consolidated basis associated with the portfolio of FX housing loans: 3,53% at the level of total capital ratio and 2,65% at the level of Tier 1 capital (on individual basis: 4,10% and 3,07% respectively).

Capital ratios in the third quarter of 2018 were above the required values. With a considerable surplus of own funds mBank Group comfortably meets the additional own funds requirement related to Pillar II and the combined buffer requirement.

mBank Group	30.09.2018		30.06.2018	
	Required level	Reported level	Required level	Reported level
Capital ratio				
Total capital ratio (TCR)	16,70%	20,21	16,98%	20,06%
Tier 1 ratio	13,82%	17,32	14,10%	17,10%

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, dilution risk and free deliveries calculated under AIRB approach as regards the large part of the credit exposures portfolio,
- risk exposure amount for market risk, including position risk, foreign exchange risk and commodities risk calculated under standardised approaches,
- risk exposure amounts for operational risk calculated under standardised approach,
- risk exposure amount for credit valuation adjustments, calculated under standardised approach,
- other risk exposure amounts including supervisory floor.

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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 (in PLN thousand)		Minimal capital requirements (in PLN thousand)
		30.09.2018	30.06.2018	30.09.2018
	1	Credit risk (excluding CCR)		
Article 438(c)(d)	2	66 790 053	64 901 124	5 343 204
		14 888 554	14 905 378	1 191 084
Article 438(c)(d)	3	0	0	0
		51 901 499	49 995 746	4 152 120
Article 438(c)(d)	4			
		0	0	0
Article 438(d)	5			
art. 107 art. 438 lit. c) i d)	6	893 569	1 069 764	71 486
		669 775	826 488	53 582
art. 438 lit. c) i d)	7	0	0	0
art. 438 lit. c) i d)	8	0	0	0
	9	0	0	0
	10	0	0	0
		1 107	1 623	89
art. 438 lit. c) i d)	11	222 687	241 653	17 815
art. 438 lit. c) i d)	12			
art. 438 lit. e)	13	0	0	0
		0	0	0
art. 449 lit. o) i i)	14	0	0	0
	15	0	0	0
	16	0	0	0
	17	0	0	0
	18	0	0	0
art. 438 lit. e)	19	964 207	914 737	77 137
	20	964 207	914 737	77 137
	21	0	0	0
art. 438 lit. e)	22	0	0	0
art. 438 lit. f)	23	7 245 932	7 245 932	579 675
	24	0	0	0
	25	7 245 932	7 245 932	579 675
	26	0	0	0
art. 437 ust. 2), art. 48 i art. 60	27	19 575	33 983	1 566
art. 500	28	0	0	0
	29	75 913 336	74 165 540	6 073 068

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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 2018	65 763	5 261
2	Asset size	2 516	201
3	Asset quality	13	1
4	AIRB model updates	-473	-38
5	Methodology and policy	0	0
6	Acquisitions and disposals	0	0
7	Foreign exchange movements	-338	-27
8	Risk weighted exposure amount as of 30 September 2018	67 481	5 398

Asset size

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

Asset quality

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

Model updates

In light of AIRB approach applied to calculation of risk-weighted exposure amount for credit and counterparty credit risk, model updates and model recalibrations had an impact on RWA movement in the third quarter of 2018.

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Methodology and policy

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

Foreign exchange movements

Due to the significant share of foreign currency credit portfolio in mBank Group portfolio foreign exchange movements had an influence on the level of risk-weighted exposure amount in the third quarter of 2018.

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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 1 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.

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		30.09.2018
20	Tier 1 capital	13 150 846
21	Leverage ratio total exposure measure	157 115 103
Leverage ratio		
22	Leverage ratio	8,37%
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.

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