mBank S.A.

IFRS Financial Statements 2020

This document is a translation from the original Polish version. In case of any discrepancies between the Polish and English versions, the Polish version shall prevail.

Selected financial data

The selected financial data are supplementary information to these financial statements of mBank S.A. for 2020.

		in PLN '000		in EUR '000	
		Year ended 31.12.2020	Year ended 31.12.2019 - restated	Year ended 31.12.2020	Year ended 31.12.2019 - restated
I.	Interest income	4 109 239	4 454 856	918 430	1 035 580
II.	Fee and commission income	2 095 250	1 859 935	468 296	432 362
III.	Net trading income	183 724	136 775	41 063	31 795
IV.	Operating profit	1 043 144	2 089 910	233 146	485 822
V.	Profit before income tax	572 996	1 484 465	128 067	345 080
VI.	Net profit	93 047	980 980	20 796	228 039
VII.	Net cash flows from operating activities	(2 736 186)	(723 618)	(611 548)	(168 213)
VIII.	Net cash flows from investing activities	(278 830)	(114 728)	(62 320)	(26 670)
IX.	Net cash flows from financing activities	(1 014 965)	(797 392)	(226 848)	(185 362)
X.	Total net increase / decrease in cash and cash equivalents	(4 029 981)	(1 635 738)	(900 715)	(380 245)
XI.	Basic earnings per share (in PLN/EUR)	2.20	23.17	0.49	5.39
XII.	Diluted earnings per share (in PLN/EUR)	2.20	23.16	0.49	5.38
XIII.	Declared or paid dividend per share (in PLN/EUR)	-	-	-	-

		in PLN '000		in EUR '000	
		31.12.2020	31.12.2019	31.12.2020	31.12.2019
I.	Total assets	172 009 684	149 228 273	37 273 486	35 042 450
II.	Amounts due to other banks	2 624 286	1 180 782	568 667	277 277
III.	Amounts due to customers	137 778 034	121 936 987	29 855 689	28 633 788
IV.	Equity	16 467 692	16 115 007	3 568 452	3 784 198
V.	Share capital	169 468	169 401	36 723	39 779
VI.	Number of shares	42 367 040	42 350 367	42 367 040	42 350 367
VII.	Book value per share (in PLN/EUR)	388.69	380.52	84.23	89.36
VIII.	Total capital ratio	22.95	22.84	22.95	22.84

The following exchange rates were used in translating selected financial data into euro:

- for items of the statement of financial position – exchange rate announced by the National Bank of Poland as at 31 December 2020: EUR 1 = PLN 4.6148 and 31 December 2019: EUR 1 = PLN 4.2585.
- for items of the income statement – exchange rate calculated as the arithmetic mean of exchange rates announced by the National Bank of Poland as at the end of each month of 2020 and 2019: EUR 1 = PLN 4.4742 and EUR 1 = PLN 4.3018 respectively.

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Income statement

	Note	Year ended 31 December	
		2020	**2019 - restated**
Interest income, including:	5	4 109 239	4 454 856
Interest income accounted for using the effective interest method		*3 647 495*	*3 946 091*
Income similar to interest on financial assets at fair value through profit or loss		*461 744*	*508 765*
Interest expenses	5	(568 077)	(910 160)
Net interest income		**3 541 162**	**3 544 696**
Fee and commission income	6	2 095 250	1 859 935
Fee and commission expenses	6	(636 291)	(642 257)
Net fee and commission income		**1 458 959**	**1 217 678**
Dividend income	7	31 271	320 295
Net trading income	8	183 724	136 775
Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss	9	17 740	72 103
Gains less losses from derecognition of assets and liabilities not measured at fair value through profit or loss	10	95 114	18 387
Other operating income	11	45 343	52 015
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss	14	(1 031 276)	(633 130)
Result on provisions for legal risk related to foreign currency loans	30	(1 021 714)	(387 786)
Overhead costs	12	(1 774 844)	(1 747 369)
Depreciation	25, 26	(376 363)	(329 546)
Other operating expenses	13	(125 972)	(174 208)
Operating profit		**1 043 144**	**2 089 910**
Tax on the Bank's balance sheet items		(500 030)	(426 432)
Share in profits (losses) of entities under the equity method	23	29 882	(179 013)
Profit before income tax		**572 996**	**1 484 465**
Income tax expense	15	(479 949)	(503 485)
Net profit		**93 047**	**980 980**
Net profit attributable to Owners of mBank S.A.		**93 047**	**980 980**
Weighted average number of ordinary shares	**16**	**42 355 695**	**42 340 263**
Earnings per share (in PLN)	**16**	**2.20**	**23.17**
Weighted average number of ordinary shares for diluted earnings	**16**	**42 379 726**	**42 358 529**
Diluted earnings per share (in PLN)	**16**	**2.20**	**23.16**

Notes presented on pages 10–157 constitute an integral part of these Financial Statements.

IFRS Financial Statements 2020 PLN (000's)

Statement of comprehensive income

	Note	Year ended 31 December	
		2020	2019
Net profit		**93 047**	**980 980**
Other comprehensive income net of tax, including:	**17**	**249 412**	**(6 143)**
Items that may be reclassified subsequently to the income statement			
Exchange differences on translation of foreign operations (net)		2 854	9
Cash flows hedges (net)	19	283 530	38 507
Share of other comprehensive income of entities under the equity method		9 898	3 250
Change in valuation of debt instruments at fair value through other comprehensive income (net)		(40 635)	(45 929)
Items that will not be reclassified to the income statement			
Actuarial gains and losses relating to post-employment benefits (net)		(6 235)	(1 980)
Total comprehensive income (net)		**342 459**	**974 837**

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Statement of financial position

ASSETS	Note	31.12.2020	31.12.2019
Cash and balances with the Central Bank	18	3 939 298	7 861 776
Financial assets held for trading and hedging derivatives	19	2 493 535	2 921 749
Non-trading financial assets mandatorily at fair value through profit or loss, including:	20	1 585 029	2 035 189
Equity instruments		*136 480*	*87 597*
Debt securities		*76 068*	*133 774*
Loans and advances to customers		*1 372 481*	*1 813 818*
Financial assets at fair value through other comprehensive income	21	47 731 612	30 298 647
Financial assets at amortised cost, including:	22	110 792 043	101 310 293
Debt securities		*15 952 501*	*11 234 873*
Loans and advances to credit institutions		*10 845 844*	*7 337 703*
Loans and advances to customers		*83 993 698*	*82 737 717*
Investements in subsidiaries	23	2 204 922	2 164 112
Non-current assets and disposal groups classified as held for sale	24	-	91 605
Intangible assets	25	1 013 746	823 109
Tangible assets	26	1 246 496	945 606
Current income tax assets		22 826	11 878
Deferred income tax assets	31	206 924	273 257
Other assets	27	773 253	491 052
TOTAL ASSETS		**172 009 684**	**149 228 273**
LIABILITIES AND EQUITY	**Note**		
LIABILITIES			
Financial liabilities held for trading and hedging derivatives	19	1 414 374	987 933
Financial liabilities measured at amortised cost, including:	28	149 315 812	128 979 983
Amounts due to banks		*2 624 286*	*1 180 782*
Amounts due to customers		*137 778 034*	*121 936 987*
Debt securities issued		*6 335 165*	*3 361 997*
Subordinated liabilities		*2 578 327*	*2 500 217*
Fair value changes of the hedged items in portfolio hedge of interest rate risk		59 624	136
Provisions	30	1 779 888	737 167
Current income tax liabilities		225 029	150 859
Deferred income tax liabilities	31	89	82
Other liabilities	29	2 747 176	2 257 106
TOTAL LIABILITIES		**155 541 992**	**133 113 266**
EQUITY			
Share capital:		**3 587 035**	**3 579 818**
Registered share capital	35	169 468	169 401
Share premium	36	3 417 567	3 410 417
Retained earnings:	**37**	**12 460 606**	**12 364 550**
Profit from the previous years		12 367 559	11 383 570
Profit for the current year		93 047	980 980
Other components of equity	**38**	**420 051**	**170 639**
TOTAL EQUITY		**16 467 692**	**16 115 007**
TOTAL LIABILITIES AND EQUITY		**172 009 684**	**149 228 273**

Total capital ratio	**44**	**22.95**	**22.84**
Common Equity Tier 1 capital ratio	**44**	**19.59**	**19.42**
Book value		**16 467 692**	**16 115 007**
Number of shares		**42 367 040**	**42 350 367**
Book value per share (in PLN)		**388.69**	**380.52**

Notes presented on pages 10–157 constitute an integral part of these Financial Statements.

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Statement of changes in equity

Changes from 1 January to 31 December 2020

	Share capital		Retained earnings					Other components of equity					Total
	Registered share capital	Share premium	Other supplementary capital	Other reserve capital	General banking risk reserve	Profit from the previous years	Profit for the current year	Exchange differences on translation of foreign operation	Valuation of financial assets at fair value through other comprehensive income	Cash flow hedges	Share in profits (losses) of entities under the equity method	Actuarial gains and losses relating to post-employment benefits	
Equity as at 1 January 2020	**169 401**	**3 410 417**	**9 216 652**	**27 320**	**1 115 143**	**2 005 435**	**-**	**(5 151)**	**58 363**	**122 150**	**6 370**	**(11 093)**	**16 115 007**
Total comprehensive income	**-**	**-**	**-**	**-**	**-**	**-**	**93 047**	**2 854**	**(40 635)**	**283 530**	**9 898**	**(6 235)**	**342 459**
Issuance of ordinary shares	67	-	-	-	-	-	-	-	-	-	-	-	67
Stock option program for employees	**-**	**7 150**	**-**	**3 009**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**10 159**
- value of services provided by the employees	-	-	-	*10 159*	-	-	-	-	-	-	-	-	*10 159*
- settlement of exercised options	-	*7 150*	-	*(7 150)*	-	-	-	-	-	-	-	-	-
Equity as at 31 December 2020	**169 468**	**3 417 567**	**9 216 652**	**30 329**	**1 115 143**	**2 005 435**	**93 047**	**(2 297)**	**17 728**	**405 680**	**16 268**	**(17 328)**	**16 467 692**

Changes from 1 January to 31 December 2019

	Share capital		Retained earnings					Other components of equity					Total
	Registered share capital	Share premium	Other supplementary capital	Other reserve capital	General banking risk reserve	Profit from the previous years	Profit for the current year	Exchange differences on translation of foreign operation	Valuation of financial assets at fair value through other comprehensive income	Cash flow hedges	Share in profits (losses) of entities under the equity method	Actuarial gains and losses relating to post-employment benefits	
Equity as at 1 January 2019	**169 348**	**3 405 338**	**9 216 652**	**22 452**	**1 115 143**	**1 024 455**	**-**	**(5 160)**	**104 292**	**83 643**	**3 120**	**(9 113)**	**15 130 170**
Total comprehensive income	**-**	**-**	**-**	**-**	**-**	**-**	**980 980**	**9**	**(45 929)**	**38 507**	**3 250**	**(1 980)**	**974 837**
Issuance of ordinary shares	53	-	-	-	-	-	-	-	-	-	-	-	53
Stock option program for employees	**-**	**5 079**	**-**	**4 868**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**9 947**
- value of services provided by the employees	-	-	-	*9 947*	-	-	-	-	-	-	-	-	*9 947*
- settlement of exercised options	-	*5 079*	-	*(5 079)*	-	-	-	-	-	-	-	-	-
Equity as at 31 December 2019	**169 401**	**3 410 417**	**9 216 652**	**27 320**	**1 115 143**	**1 024 455**	**980 980**	**(5 151)**	**58 363**	**122 150**	**6 370**	**(11 093)**	**16 115 007**

Notes presented on pages 10–157 constitute an integral part of these Financial Statements.

IFRS Financial Statements 2020 PLN (000's)

Statement of cash flows

	Note	Year ended 31 December	
		2020	2019
Profit before income tax		**572 996**	**1 484 465**
Adjustments:		***(3 309 182)***	***(2 208 083)***
Income taxes paid		(413 446)	(568 734)
Depreciation	25, 26	388 271	329 546
Foreign exchange (gains) losses related to financial activities		627 795	69 969
(Gains) losses on investing activities		(122 416)	137 920
Change of valuation of investment in subsidiaries not measured at equity method	23	1 643	1 247
Dividends received	7	(31 271)	(320 295)
Interest income (income statement)	5	(4 109 239)	(4 454 856)
Interest expense (income statement)	5	568 077	910 160
Interest received		4 869 710	4 793 999
Interest paid		(672 734)	(986 693)
Changes in loans and advances to banks		(3 584 761)	(1 752 313)
Changes in financial assets and liabilities held for trading and hedging derivatives		1 325 997	(664 587)
Changes in loans and advances to customers		(5 149 823)	(9 834 916)
Changes in debt securities at fair value through other comprehensive income		(13 932 407)	1 382 375
Changes in securities at amortised cost		(4 717 628)	(2 234 333)
Changes in non-trading equity securities mandatorily at fair value through profit and loss		8 823	(151 015)
Changes in other assets		(370 206)	146 745
Changes in amounts due to banks		1 651 006	(1 410 583)
Changes in amounts due to customers		16 056 654	12 342 908
Changes in issued debt securities		2 772 464	10 337
Changes in provisions		1 042 721	481 285
Changes in other liabilities		481 588	(436 249)
A. Cash flows from operating activities		**(2 736 186)**	**(723 618)**
Disposal of shares in subsidiaries		92 047	26 264
Disposal of intangible assets and tangible fixed assets		1 886	5 681
Dividends received	7	31 271	320 295
Aquisition of shares in subsidiaries	23	-	(161 055)
Purchase of intangible assets and tangible fixed assets		(404 034)	(305 913)
B. Cash flows from investing activities		**(278 830)**	**(114 728)**
Proceeds from other loans and advances		-	544 735
Issue of debt secutities	28	35 000	476 036
Issue of ordinary shares		67	53
Repayments of loans advances from banks		(196 140)	(560 027)
Repayments of other loans and advances		-	(1 058 369)
Redemption of debt securities		(178 042)	-
Payments due to other financial liabilities		(479 271)	-
Payments due to lease agreements		(111 846)	(109 846)
Interest paid from loans and advances received from banks and subordinated liabilities		(84 733)	(89 974)
C. Cash flows from financing activities		**(1 014 965)**	**(797 392)**
Net increase / decrease in cash and cash equivalents (A+B+C)		**(4 029 981)**	**(1 635 738)**
Effect of exchange rate changes in cash and cash equivalents		30 883	(9 408)
Cash and cash equivalents at the beginning of the reporting period		8 204 230	9 849 376
Cash and cash equivalents at the end of the reporting period	**40**	**4 205 132**	**8 204 230**

Notes presented on pages 10–157 constitute an integral part of these Financial Statements.

Explanatory notes to the financial statements

1. Information regarding mBank S.A.

mBank S.A. ("Bank", "mBank") was established under the name of Bank Rozwoju Eksportu SA by Resolution of the Council of Ministers N° 99 of 20 June 1986. The Bank was registered pursuant to the legally valid decision of the District Court for the Capital City of Warsaw, 16th Economic Registration Division, on 23 December 1986 in the Business Register under the number RHB 14036. The 9th Extraordinary Meeting of Shareholders held on 4 March 1999 adopted the resolution changing the Bank's name to BRE Bank SA. The new name of the Bank was entered in the Business Register on 23 March 1999. On 11 July 2001, the District Court in Warsaw issued the decision on the entry of the Bank in the National Court Register (KRS) under number KRS 0000025237.

On 22 November 2013, the District Court for the Capital City of Warsaw, 12th Commercial Division of the National Court Register, registered the amendments to the Bank's by-laws arising from Resolutions N°26 and Resolutions N°27 of the 26th Annual General Meeting of mBank S.A., which was held on 11 April 2013. With the registration of changes in by-laws, the name of the Bank has changed from BRE Bank Spółka Akcyjna to mBank Spółka Akcyjna (abbreviated mBank S.A.).

According to the Polish Classification of Business Activities, the business of the Bank was classified as "Other monetary intermediation" under number 6419Z. According to the Stock Exchange Quotation, the Bank is classified as "Banks" sector as part of the "Finance" macro-sector.

According to the by-laws of the Bank, the scope of its business consists of providing banking services and consulting and advisory services in financial matters, as well as of conducting business activities within the scope described in its by-laws. The Bank operates within the scope of corporate, institutional and retail banking (including private banking) throughout the whole country and operates trade and investment activities as well as brokerage activities.

The Bank provides services to Polish and international corporations and individuals, both in the local currency (Polish Zloty, PLN) and in foreign currencies.

The Bank may open and maintain accounts in Polish and foreign banks, and can possess foreign exchange assets and trade in them.

The head office of the Bank is located at 18 Prosta St. in Warsaw. Until 19 November 2020 the head office of the Bank was located at 18 Senatorska St. in Warsaw.

The Bank conducts retail banking business in Czech Republic and Slovakia through its foreign mBank branches in these countries.

As at 31 December 2020, the headcount of mBank S.A. amounted to 6 034 FTEs (Full Time Equivalents) (31 December 2019: 6 072 FTEs).

As at 31 December 2020, the headcount of mBank S.A. amounted to 7 065 persons (31 December 2019: 7 106 persons).

The Management Board of mBank S.A. approved these financial statements for issue on 24 February 2021

2. Description of relevant accounting policies

The most important accounting policies applied to the drafting of these consolidated financial statements are presented below. These principles were applied consistently over all presented periods, except for the accounting principles applied since the beginning of 2020, which changes the recogition of FX margin on spot transactions, as well as the accounting priciples applied since the end of 2020, which changes the classification of financial assets as cash equivalents. Aforementioned changes are described in Note 2.28.

2.1. Accounting basis

These Financial Statements of mBank S.A. have been prepared for the 12-month period ended 31 December 2020. Comparative data presented in these financial statements relate to the period of 12 months ended on 31 December 2019.

The Financial Statements of mBank S.A. have been prepared on a historical cost basis in compliance with the International Financial Reporting Standards (IFRS) as adopted for use in the European Union, except for derivative financial instruments, other financial assets and liabilities held for trading, financial assets failing SPPI test and financial assets and liabilities designated at fair value through profit or loss (FVTPL), debt and equity instruments at fair value through other comprehensive income (FVOCI) and liabilities related to cash-settled share-based payment transactions, all of which have been measured at fair value. Non-current assets held for sale or group of these assets classified as held for sale are stated at the lower of the carrying value and fair value less costs to sell.

The data for the year 2019 presented in these mBank S.A. condensed financial statements was audited by the auditor.

The preparation of the financial statements in compliance with IFRS requires the application of specific accounting estimates. It also requires the Management Board to use its own judgment when applying the accounting policies adopted by the Bank. The issues in relation to which a significant professional judgement is required, more complex issues, or such issues where estimates or judgments are material to the financial statements are disclosed in Note 4.

Financial statements are prepared in compliance with materiality principle. Material omissions or misstatements of positions of financial statements are material if they could, individually or collectively, influence the economic decisions that users make on the basis of Bank's financial statements. Materiality depends on the size and nature of the omission or misstatement of the position of financial statements or a combination of both. The Bank presents separately each material class of similar positions. The Bank presents separately positions of dissimilar nature or function unless they are immaterial.

These financial statements were prepared under the assumption that the Bank continues as a going concern in the foreseeable future, i.e. in the period of at least 12 months following the reporting date. As of the date of approving these statements, the Bank Management Board has not identified any events that could indicate that the continuation of the operations by the Bank is endangered within the next 12 months following the reporting date.

The Bank also prepares consolidated financial statements in accordance with IFRS. mBank S.A. Group Consolidated Financial Statements for the year 2020 were approved on 24 February 2021.

2.2. Interest income and expenses

All interest income on financial instruments carried at amortised cost using the effective interest rate method, as well as interest income from financial assets measured at fair value through profit or loss and measured at fair value through other comprehensive income, are recognised in the income statement.

The effective interest rate method is a method of calculation of the amortised initial value of financial assets or financial liabilities and allocation of interest income or interest expense to the proper periods. The effective interest rate is the interest rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial assets or financial liability to the gross carrying amount of a financial asset or to the amortized cost of a financial liability. When calculating the effective interest rate, the Bank estimates the expected cash flows taking into account all the contractual terms of the financial instrument, but without taking into account the expected credit losses. This calculation takes into account all the fees paid or received between the parties to the contract, which constitute an integral component of the effective interest rate, as well as transaction expenses and any other premiums or discounts.

The Bank calculates interest income using the effective interest rate to the gross carrying amount of the financial asset except for the financial assets which subsequently have become credit-impaired. In case of reclassification of a financial asset or a group of similar financial assets to the Stage 3, the interest income is calculated on the amortised cost (i.e. the gross carrying amount adjusted for the loss allowance) and recognized using the interest rate at which the future cash flows were discounted for the purpose of valuation of impairment.

Interest income includes interest and commissions received or due on account of loans, inter-bank deposits or investment securities recognized in the calculation of the effective interest rate.

Interest income, including interest on loans, is recognized in the income statement and on the other side in the statement of financial position as part of receivables from banks or from other customers.

The calculation of the effective interest rate takes into account the cash flows resulting from the hybrid contract as the whole containing a host that is an asset within the scope of IFRS 9.

Income and expenses related to the interest component of the result on interest rate derivatives and resulting from current calculation of swap points on currency derivatives classified into banking book are presented in the interest results in the position Interest income/expense on derivatives classified into banking book. The banking book includes transactions, which are not concluded for trading purposes i.e. not aimed at generating a profit in a short-term period (up to 6 months) and those that do not constitute hedging a risk arising from the operations assigned into trading book.

Interest income and interest expenses related to the interest measurement component of derivatives concluded as hedging instruments under fair value hedge are presented in the interest result in the position Interest income/expense on derivatives under the fair value hedge accounting.

Interest income related to the interest measurement component of derivatives concluded as hedging instruments under cash flow hedge are presented in the interest result in the position Interest income on derivatives under the cash flow hedge accounting.

2.3. Fee and commission income

Fee and commission income is recognised in accordance with IFRS 15 using a 5-step model for revenue recognition, which consists of:

Step 1: Identifying the contract's with a customer

The Bank accounts for a contract with a customer that is within the scope of this Standard only when all of the following criteria are met:

1. the parties to the contract have approved the contract (in writing, orally or in accordance with business practices) and are committed to perform their respective obligations;
2. the Bank can identify each party's rights regarding the goods or services to be transferred;
3. the Bank can identify the payment terms for the goods or services to be transferred;
4. the contract has commercial substance (i.e. the risk, timing or amount of the entity's future cash flows is expected to change as a result of the contract); and
5. it is probable that the Bank will collect the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer. In evaluating whether collectability of an amount of consideration is probable, the Bank considers only the customer's ability and intention to pay that amount of consideration when it is due. The amount of consideration to which the entity will be entitled may be less than the price stated in the contract if the consideration is variable because the Bank may offer the customer a price discount.

Step 2: Identifying performance obligations in the contract

The performance obligation is a promise (presumed or specified) to provide the client with goods or services that are identified at the time of entering into the contract on the basis of contractual terms as well as the Bank's business practice.

At contract inception, the Bank assesses the goods or services promised in a contract with a customer and identifies as a performance obligation each promise to transfer to the customer either:

1. a good or service (or a bundle of goods or services) that is distinct; or
2. a series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer.

A good or service that is promised to a customer is distinct if both of the following criteria are met:

1. the customer can benefit from the good or service either on its own or together with other resources that are readily available to the customer (i.e. the good or service is capable of being distinct); and
2. the Bank's promise to transfer the good or service to the customer is separately identifiable from other promises in the contract (i.e. the good or service is distinct within the context of the contract)

The Bank identifies options for purchasing additional goods or services for the customer (loyalty points) as separate obligations to provide benefits, if they give the customer relevant rights (material law, which the client would not have obtained if he did not conclude the contract).

If a third party is involved in the process of providing selected services for the client, the Bank assesses whether it acts as an agent or principal, taking into account in particular the possibility of controlling the given service before it is passed on to the client (control principle).

Step 3: Determining the transaction price

The transaction price reflects the amount of consideration that the Bank expects to be entitled to in exchange for distinct good or service transferred as provided by the terms of the contract and the Bank's business practice.

The transaction price is the amount of remuneration which, in line with the Group's expectations, will be due in exchange for transfer of promised goods or services to the client, excluding amounts collected on behalf of third parties.

Determining the transaction price can become complex where a contract includes any of the following: variable consideration, a significant financing component, non-cash consideration, consideration payable to a customer. In terms of variable remuneration (e.g. rebates from payment organizations), the Bank estimates the amount of remuneration to which it will be entitled in exchange for the transfer of promised services.

Step 4: Allocating the transaction price to the preformance obligations

The transaction price is allocated to each separate performance obligation, or distinct good or service, so that revenue is recorded at an amount that depicts the amount of consideration that the Bank expects to be entitled to in exchange for transferring the promised goods or services. The transaction price is allocated to each performance obligation based on the relative fair value model.

Step 5: Recognition of revenue when (or as) the Bank satisfies a performance obligation

The Bank recognises revenue when (or as) it satisfies a performing obligation by transferring a promised good or service to a customer (which is when the customer obtains control of that good or service). The Bank recognizes at a point in time the fees charged at a point in time not related directly to origination of loans and advances. Fees for services delivered over time longer than 3 months are recognised by the Bank over time. As the fee and commission income, the Bank treats also fees and commissions recognised over time on a straight line basis, related to loans and advances with not established timing of cash flows, for which effective interest rate is not possible to be determined. Straight line method for those services presents fairly the timing of transfer of services, because they are delivered evenly over time.

Accounting principles related to recognition of fee income from sale of assurance products bundled with loans and advances are described under Note 2.4.

Fees charged for the granting of loans which are likely to be drawn down are deferred (together with the related direct costs) and included in the calculation of the effective interest rate charge on the loan. Fees on account of syndicated loans are recognised as income at the time of closing of the process of organisation of the respective syndicate, if the Bank has not retained any part of the credit risk on its own account or has retained a part of the risk of a similar level as other participants. Commissions and fees on account of negotiation or participation in the negotiation of a transaction on behalf of a third party, such as the acquisition of shares or other securities, or the acquisition or disposal of an enterprise, are recognised at the time of realisation of the transaction. Portfolio management fees and other fees for management, advisory and other services are recognized on the basis of service contracts, usually in proportion to the passage of time.The same principle is applied in the case of management of client assets, financial planning and custody services, which are continuously provided over an extended period of time.

Fee and commissions collected by the Bank on account of issuance, renewal and change in the limit of credit and payment cards, guarantees granted as well as opening, extension and increase of letters of credit are accounted for on a straight-line basis.

Fee and commissions collected by the Bank on account of cash management operations, keeping of customer accounts, money transfers and brokerage business activities are recognised directly in the income statement as one-off.

In addition, revenue from fee and commission include income from a fee on installment payment for premium on insurance products sold through the Internet platform. The fee on installment payment is settled in time in accordance with the duration of the policy.

The Bank's fee and commission income comprises also income from offering insurance products of third parties. In case of selling insurance products that are not bundled with loans, the revenues are recognized as upfront income or in majority of cases settled on a monthly basis.

2.4. Revenue and expenses from sale of insurance products bundled with loans

The Bank treats insurance products as bundled with loans, in particular when insurance product is offered to the customer only with the loan, i.e. it is not possible to purchase from the Group the insurance product which is identical in a legal form, content and economic conditions without purchasing the loan.

Revenue and expenses from sale of insurance products bundled with loans are split into interest income and fee and commission income based on the relative fair value analysis of each of these products.

The remuneration included in interest income is recognised over time as part of effective interest rate calculation for the bundled loan. The remuneration included in fee and commission income is recognised partly as upfront income and partly including deferring over time based on the analysis of the stage of completion of the service, in accordance with 5-step model described above.

Expenses directly linked to the sale of insurance products are recognised using the same pattern as in case of income observing the matching concept. A part of expenses is treated as an element adjusting the calculation of effective interest rate for interest income and the remaining part of expenses is recognised in fee and commission expenses as upfront cost or as cost accrued over time.

The Bank estimates also the part of remuneration which in the future will be returned due to early termination of insurance contract and appropriately decreases interest income or fee and commission income to be recognised.

In connection with entry into force of Recommendation U concerning best practices in the area of bancassurance, starting from 31 March 2015 the Bank does not receive remuneration from the sale of insurance products which would have been treated as bundled with loans.

2.5. Financial assets

The Bank classifies its financial assets to the following categories: financial assets valued at fair value through profit or loss, financial assets valued at fair value through other comprehensive income for which gains or losses may be reclassified subsequently to the income statement at derecognition, financial assets valued at fair value through other comprehensive income for which gains or losses will not be reclassified subsequently to the income statement at derecognition and financial assets valued at amortized cost. Classification of the debt financial asset to the one of the above categories takes place at its initial recognition based on business model for managing financial assets and contractual cash flow characteristics. An equity instrument is classified as a financial asset at fair value through profit or loss unless at the time of initial recognition the group made an irrevocable election of specific equity investments to present subsequent fair value changes in other comprehensive income.

Standardised purchases and sales of financial assets at fair value through profit or loss and measured at fair value through other comprehensive income are recognized on the settlement date – the date on which the Bank delivers or receives the asset. Changes in fair value in the period between trade and settlement date with respect to assets carried at fair value is recognized in profit or loss or in other components of equity. Loans are recognized when the funds are disbursed or made available to the borrower's account. Derivative financial instruments are recognized beginning from the date of transaction.

Derecognition of financial asset is when and only when the contractual rights to the cash flows from the financial assets expire, when the Bank transfers the financial asset and the transfer qualifies for derecognition or in case of a substantial modification of financial asset.

Financial assets measured at fair value through profit or loss

A financial asset shall be measured at fair value through profit or loss unless it is measured at amortized cost or at fair value through other comprehensive income.

Disposals of debt and equity securities held for trading are accounted according to the weighted average method.

The Bank may, at the initial recognition, irrevocably designate a financial asset at fair value through profit or loss when doing so results in more relevant information, because it eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as "an accounting mismatch") that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases.

As presented in this financial statements reporting periods, the Bank did not designate any financial instrument on initial recognition as financial assets at fair value through profit or loss to reduce an accounting mismatch.

Financial assets classified to this category are valued at fair value upon initial recognition.

After initial recognition, financial assets classified in this category are measured at the end of the reporting period at fair value.

Gains and losses arising from changes in the fair value of financial assets at fair value through profit or loss are recognized in the income statement in the period in which they arise.

Interest income on financial assets measured at fair value through profit or loss (Note 2.2), except for derivatives the recognition of which is discussed in Note 2.11, is recognized in net interest income. The valuation and result on disposal of financial assets measured at fair value through profit or loss is recognized in trading income for finacial assets held for trading or in gains or losses on non-trading financial assets mandatorily at fair value through profit or loss.

Financial assets measured at at amortized cost

Financial assets measured at amortized cost are assets that meet both of the following conditions, unless the Bank designated them to fair value through profit or loss: the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flow characteristics and contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding Financial assets at amortized cost are entered into books on the transaction date.

At initial recognition financial assets classified to this category are valued at fair value plus transaction costs that are directly attributable to the acquisition of the financial asset. After initial recognition, these assets are measured at amortized cost using the effective interest rate.

Financial assets measured at fair value through other comprehensive income

Financial assets measured at fair value through other comprehensive income are assets that meet both of the following conditions, unless the Bank designated them to fair value through profit or loss: the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Interest income and expense from financial assets measured at fair value through other comprehensive income are presented in net interest income. Gains and losses from sale of financial assets measured at fair value through other comprehensive income are presented in gains less losses from derecognition of financial assets and liabilities not measured at fair value through profit or loss.

Financial assets measured at fair value through other comprehensive income and financial assets measured at fair value through profit or loss are valued at the end of the reporting period according to their fair value.

Gains and losses arising from changes in the fair value of debt financial assets measured at fair value through other comprehensive income are recognized in other comprehensive income until the derecognition of the respective financial asset in the statement of financial position: at such time the aggregate net gain or loss previously recognized in other comprehensive income is now recognized in the income statement. However, interest calculated using the effective interest rate is recognized in the income statement.

The fair value of quoted investments in active markets is based on current market prices. If the market for a given financial asset is not an active one, the Bank determines the fair value by applying valuation techniques. These comprise recently conducted transactions concluded according to normal market principles, reference to other instruments, discounted cash flow analysis, as well as valuation models for options and other valuation methods generally applied by market participants.

Equity instruments

Investments in equity instruments are measured at fair value through profit or loss. Upon initial recognition, the Bank may make an irrevocable election to present in other comprehensive income subsequent changes in the fair value (the option of measurement at fair value through other comprehensive income) of an investment in an equity instrument that is not held for trading and does not constitute a contingent payment recognized by the Bank as part of a business combination in accordance with IFRS 3.

In case of the financial instruments for which the option of measurement at fair value through other comprehensive income was used all gains and losses related to change in fair value, including foreign exchange differences, are recognized in other comprehensive income. There is no possibility to reclassify them to profit and loss even if the instrument is derecognized. Only dividends received related to these instruments are recognized in profit and loss when the entity's right to receive payment is established.

Modification of contractual terms for financial assets

The Bank settles previously recognized financial assets and re-recognizes the financial assets in accordance with the requirements for initial recognition in case of substantial modification of contractual terms of financial assets. As substantial modification the Bank defines such a modification that meets one of the following criteria:

- substantial increase of the credit amount of more than 10%
- substantial prolongation of the contractual maturity of more than 12 months
- change of currency not provided for in the terms of the contract. Change of the currency provided for in the terms of the agreement is such a change that defines both the FX rate at which it would have place and the interest rate of the loan after the change of the currency.
- change of the borrower – only if the current borrower is exempted from the debt
- change of the cash flow criterion from 'SPPI compliance' of a financial assets to 'SPPI non-compliance' and vice versa
- change of the financed asset in case of object finance or project finance.

In the event of substantial modification the deferred income and expense related to this asset is recognised in the income statement and the provision is released. At the same time there is re-recognition of financial assets in accordance with the requirements for initial recognition. Any other modifications of contractual terms that do not cause derecognition of financial assets are treated as not substantial modifications and the gain or loss on modification is recognized. The effect of all identified not substantial modifications of cash flows are treated as not related to credit risk and are recognised in net interest income. The result on modification is the difference between present value of the modified cash flows discounted using the old effective interest rate and the effective loan exposure. Commissions received related to minor modification are settled over time using effective interest rate. All identified substantial modifications of cash flows are treated as related to credit risk. In case of substantial modification in stage 2, for which as a consequence, the exposure was moved to stage 1, the adjustment to fair value of the exposure at the initial recognition, adjusts the interest result in the subsequent periods.

Purchased or originated credit impaired financial assets (POCI assets)

POCI are financial assets measured at amortized cost that at initial recognition are credit impaired. POCI are also financial assets that are credit impaired at the moment of substantial modification. At the initial recognition POCI assets are recognized at fair value. The fair value of POCI assets at the initial recognition is calculated as present value of estimated future cash flows including credit risk discounted for the risk free rate. After the initial recognition POCI assets are measured at amortized cost. With respect to these financial assets the Bank uses credit adjusted effective interest rate in order to determine the amortized cost of financial asset and the interest income generated by these assets – CEIR. In case of POCI exposures the change of the expected credit losses relative to the estimated credit losses at the date of their initial recognition is recognized as an impairment loss. Its value can both reduce the gross value of POCI exposure and increase it in the event of a decrease of expected losses relative to its value at the date of initial recognition.

Reclassification of financial assets

Debt financial assets are reclassified when, and only when, the Bank changes its business model for managing financial assets. In such a case the assets affected by the change of business model are subject to reclassification.

Finnacial liabilities are not subject to reclassification by the Bank.

2.6. Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously. The conditions mentioned above are not satisfied and offsetting is inappropriate when: different financial instruments are used to emulate the features of a single financial instrument, financial assets and liabilities arise from financial instruments having the same risk exposure but involve different counterparties, financial or other assets are pledged as collaterals for non-recourse financial liabilities, financial assets are set aside in trust by a debtor for the purpose of discharging an obligation without those assets having been accepted by the creditor in the settlement of the obligation, or obligations incurred as a result of events giving rise to losses are expected to be recovered from a third party by virtue of a claim made under an insurance contract.

2.7. Impairment of financial assets

Financial instruments subject to estimation of expected credit losses are: financial assets measured at amortized cost, financial assets measured at fair value through other comprehensive income, loan commitments if not measured at fair value through profit or loss, financial guarantee contracts if not measured at fair value through profit or loss, leases under IFRS 16, contract assets under IFRS 15.

A detailed description of issues regarding the principles of estimation of expected credit losses is presented in Note 3.3.6.

How exposures are classified to stages

The transfer logic is an algorithm used to classify exposures to one of the four Stages: 1, 2, 3, POCI.

Stage 1 includes exposures for which expected credit losses are calculated on a 12-month basis.

Stage 2 contains exposures for which, as at the reporting date, a significant deterioration in credit quality was identified compared to the date of their initial recognition – expected credit losses are calculated over a lifetime period.

Stage 3 contains exposures identified as credit-impaired.

Stage POCI contains assets identified as credit-impaired at initial recognition.

A detailed description of issues regarding the principles of classification of exposures to stages is presented in Note 3.3.6.1.

Significant deterioration in credit quality

A significant deterioration in credit quality is recognised for the asset concerned on the basis of quantitative and qualitative criteria, with the asset being transferred to Stage 2 once at least one of such qualitative or quantitative criteria is met.

Rebuttable presumption:

The Bank's approach that involves rejection of the presumption that a significant deterioration in credit quality occurs where DPD>= 31 days (rebuttable presumption) involves introducing a threshold of materiality (threshold of activation) for any outstanding amount payable to the Bank. The DPD >=31 days criterion (one of the qualitative criteria of the Transfer Logic) is not taken into account in the following cases:

1. for retail exposures - in the case of credit exposures, the sum of payable and non-payable capital does not exceed PLN 500 or an off-balance-sheet commitment of the exposure does not exceed PLN 500 (or CZK 3 000 or EUR 120 for the Bank's branches in the Czech Republic and Slovakia, respectively),
2. for corporate exposures - the sum of payable and non-payable capital at the reporting date does not exceed PLN 3 000 or an off-balance-sheet commitment of the exposure does not exceed PLN 3 000.

A detailed description of issues regarding the significant deterioration in credit quality is presented in Note 3.3.6.1.1.

<u>Low credit risk</u>

According to the IFRS 9, the Bank distinguishes a category of assets with low credit risk (ang. Low Credit Risk, LCR). Assets marked as LCR are not subject to the process of identifying indications of significant deterioration of credit quality (if they are not in the default status, they are in Stage 1).

A detailed description of issues regarding the low credit risk criteria is presented in Note 3.3.6.1.2.

<u>Impairment</u>

The Bank applies a common default definition in all areas of credit risk management, including for the purpose of calculating expected credit losses and capital requirement. The basis for the adopted definition of default is the definition of default in the CRR Regulation.

The customer is reclassified to the default category in case of loss event occurrence. Reclassification of at least one customer credit liability to the default category reclassifies all credit and non-credit liabilities of the customer to the default category.

A detailed description of issues regarding loss events is presented in Note 3.3.6.1.3 (corporate) and 3.3.6.1.4 (retail).

<u>Estimating expected credit losses (ECL)</u>

An expected loss is measured for non-zero exposures that are active at the reporting date (balance sheet and off-balance sheet). An expected credit loss is estimated separately for on and off-balance-sheet exposures. The calculation of expected credit losses uses:

- portfolio approach: concerning exposures for which no loss event was identified at the reporting date and exposures from the retail portfolio with identified loss event (excluding exposures for which an individual approach is used),
- individual approach: concerning all corporate exposures and all Private Banking customer exposures registered in corporate systems for which a loss event was identified, as well as in specific cases of retail microfirms exposures for which a loss event was identified.

A detailed description of issues regarding expected credit losses estimation is presented in Note 3.3.6.2.

<u>Loan receivable write-off</u>

Loan receivable write-off can be partial or total. In case of retail banking, writing off receivables can be done in the case of:

1. Debt recovery is not possible e.g.:
    a. the claim limitation,
    b. fraud – inability to identify the debtor,
    c. limitation of inheritors' liability,
    d. the claim was questioned by the debtor in court.
2. Lack of recovery e.g.:
    a. the enforcement proceedings have been completed and the whole debt was not recovered - then the unrecovered portion is written off,
    b. bankruptcy proceeding has been rejected or has been completed due to debtors lack of liquidation assets to cover the costs of the proceedings,
    c. the conclusion is that a claim is as a bad debt.

Due to the periodically executed debt sale of NPL, only fraud cases are systematically written off. Other cases are included to the debt sale portfolio.

In case of corporate portfolio, writing off receivables is carried out when all recovery options are exhausted. This happens when:

1. all options to recover the debt have been exercised:

    a. bankruptcy proceedings ended, the debtor was removed from the National Court Register and the debt was not recovered in whole,
    b. bankruptcy proceedings were discontinued on account of the debtor having no assets to cover the costs of the proceedings or having only enough assets to cover these costs,
    c. petition for bankruptcy was dismissed on account of the debtor having insufficient assets to cover the costs of the proceedings,
    d. during judicial restructuring proceedings the terms and conditions of an arrangement assuming partial cancellation of the debt were approved,
    e. enforcement proceedings were considered ineffective and discontinued on account of the debtor having no assets,
    f. the debt was considered irrecoverable as the costs of recovering it exceed the potential proceeds;

2. when it is impossible to pursue the debt, e.g.

    a. the debtor challenges the debt in court. The debt was cancelled by a court decision.

2.8. Financial guarantee contracts

The financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

When a financial guarantee contract is recognised initially, it is measured at the fair value. After initial recognition, an issuer of such a contract subsequently measures it at the higher of:

- the amount of the loss allowance determined in accordance with IFRS 9,
- the amount initially recognised less when appropriate, the cumulative amount of income recognised in accordance with the principles of IFRS 15.

2.9. Cash and cash equivalents

Cash and cash equivalents comprise items with maturities of up to three months from the date of their acquisition, including: cash in hand and cash held at the Central Bank with unlimited availability for disposal, treasury bills and other eligible bills, amounts due from other banks.

2.10. Sell and repurchase agreements

Repo and reverse-repo transactions are defined as selling and purchasing securities for which a commitment has been made to repurchase or resell them at a contractual date and for a specified contractual price and are recognised when the money is transferred.

Securities sold with a repurchase clause (repos or sell/buy back) are reclassified in the financial statements as pledged assets if the entity receiving them has the contractual or customary right to sell or pledge them as collateral security. The liability towards the counterparty is recognised as amounts due to other banks, deposits from other banks, other deposits or amounts due to customers, depending on its nature. Securities purchased together with a resale clause (reverse repos or buy/sell back) are recognised as loans and advances to other banks or other customers, depending on their nature.

When concluding a repo or sell/buy back or reverse repo or buy/sell back transaction, mBank sells or buys securities with a repurchase or resale clause specifying a contractual date and price. Such transactions are presented in the statement of financial position as financial assets measured at fair value through profit or loss or at fair value through other comprehensive income, and also as liabilities in the case of repo or sell/buy back transactions and as receivables in the case of reverse repo or buy/sell back transactions measured at amortised cost.

Securities borrowed by the Bank under buy/sell back transactions are not recognised in the financial statements, unless they are sold to third parties. In such case the purchase and sale transactions are recorded in the financial statements with a gain or a loss included in trading income. The obligation to return them is recorded at fair value as amounts due to customers. Securities borrowed under buy/sell back transactions and then lent under sell/buy back transactions are not recognised as financial assets.

As a result of repo or sell/buy back transactions concluded on securities held by the Bank, financial assets are transferred in such way that they do not qualify for derecognition. Thus, the Bank retains substantially all risks and rewards of ownership of the financial assets.

2.11. Derivative financial instruments and hedge accounting

Derivative financial instruments are recognised at fair value from the date of transaction. Fair value is determined based on prices of instruments listed on active markets, including recent market transactions, and on the basis of valuation techniques, including models based on discounted cash flows and options pricing models, depending on which method is appropriate in the particular case. All derivative instruments with a positive fair value are recognised in the statement of financial position as assets, those with a negative value as liabilities.

The best fair value indicator for a derivative instrument at the time of its initial recognition is the price of the transaction (i.e., the fair value of the paid or received consideration). If the fair value of the particular instrument may be determined by comparison with other current market transactions concerning the same instrument (not modified) or relying on valuation techniques based exclusively on market data that are available for observation, then the Bank recognises the respective gains or losses from the first day in accordance with the principles described under Note 2.12.

Derivative instrument embedded in the hybrid contract, the host of which is a financial asset within the scope of IFRS 9, is not separated and the hybrid contract is recognised in accordance with the requirements for classification of the financial assets.

Derivative instrument embedded in the hybrid contract, the host of which is not a financial asset within the scope of IFRS 9, is assessed for the need to separate it.

Derivative instruments, which are designated and constitute effective hedging instruments, are not classified under any of the categories specified above and are subject to the principles of hedge accounting.

In accordance with IFRS 9: (i) there is no need to separate the prepayment option from the host debt instrument for the needs of financial statements, if the option's exercise price is approximately equal on each exercise date to the amortised cost of the host debt instrument. If the prepayment option does not meet the contractual cash flow characteristic test, then the financial asset as the whole shall be classified as a financial asset measured at fair value through profit or loss; (ii) exercise price of a prepayment option reimburses the lender for an amount up to the approximate present value of lost interest for the remaining term of the host contract. Lost interest is the product of the principal amount prepaid multiplied by the interest rate differential. The interest rate differential is the excess of the effective interest rate of the host contract over the effective interest rate the entity would receive at the prepayment date if it reinvested the principal amount prepaid in a similar contract for the remaining term of the host contract.

The assessment of whether the call or put option is closely related to the host debt contract is made before separating the equity element of a host debt instrument in accordance with IAS 32.

The method of recognising the resulting fair value gain or loss depends on whether the given derivative instrument is designated as a hedging instrument, and if it is, it also depends on the nature of the hedged item. The Bank designates some derivative instruments either as (1) fair value hedges against a recognised asset or liability or against a binding contractual obligation (fair value hedge), or as (2) hedges against highly probable future cash flows attributable to a recognised asset or liability, or a forecasted transaction (cash flow hedge).

The Bank decided that it would continue to apply the hedge accounting requirements in accordance with IAS 39, instead of the requirements set forth in IFRS 9.

Derivative instruments designated as hedges against positions maintained by the Bank are recorded by means of hedge accounting, subject to the fulfilment of the criteria specified in IAS 39:

- at the inception of the hedge there is formal designation and documentation of the hedging relationship and the entity's risk management objective and strategy for undertaking the hedge. That documentation shall include identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instruments effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk;
- the hedge is expected to be highly effective in offsetting changes in fair value or cash flows attributable to the hedged risk, consistently with the originally documented risk management strategy for that particular hedging relationship;
- for cash flow hedges, a forecast transaction that is the subject of the hedge must be highly probable and must present an exposure to variations in cash flows that could ultimately affect profit or loss;
- the effectiveness of the hedge can be reliably measured, i.e. the fair value or cash flows of the hedged item that are attributable to the hedged risk and the fair value of the hedging instrument can be reliably measured;

- the hedge is assessed on an ongoing basis and determined actually to have been highly effective throughout the financial reporting periods for which the hedge was designated.

The Bank documents the objectives of risk management and the strategy of concluding hedging transactions, as well as at the time of concluding the respective transactions, the relationship between the hedging instrument and the hedged item. The Bank also documents its own assessment of the effectiveness of fair value hedging and cash flow hedging transactions, measured both prospectively and retrospectively from the time of their designation and throughout the period of duration of the hedging relationship between the hedging instrument and the hedged item.

Due to the split of derivatives classified into banking book and into trading book, the Bank applies a different approach to the presentation of interest income/expense for each of these groups of derivatives that is described in Note 2.2. The remaining result from fair value measurement of derivatives is recognised in "Net trading income".

Fair value hedges

Changes in the fair value of derivative instruments designated and qualifying as fair value hedges are recognised in the income statement together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. Hedging gain or loss on the hedged item adjusts the carrying amount of the hedged item.

In case a hedge has ceased to fulfil the criteria of hedge accounting, the adjustment to the carrying value of the hedged item for which the effective interest method is used is amortised to the income statement over the period to maturity. The adjustment to the carrying amount of the hedged equity security remains in other comprehensive income until the disposal of the equity security.

Cash flow hedges

The effective part of the fair value changes of derivative instruments designated and qualifying as cash flow hedges is recognised in other comprehensive income. The gain or loss concerning the ineffective part is recognised in the income statement of the current period.

The amounts recognised in other comprehensive income are transferred to the income statement and recognised as income or cost of the same period in which the hedged item will affect the income statement (e.g., at the time when the forecast sale that is hedged takes place).

In case the hedging instrument has expired or has been sold, or the hedge has ceased to fulfil the criteria of hedge accounting, any aggregate gains or losses recognised at such time in other comprehensive income remain in other comprehensive income until the time of recognition in the income statement of the forecast transaction. When a forecast transaction is no longer expected to occur, the aggregate gains or losses recorded in other comprehensive income are immediately transferred to the income statement.

Derivative instruments not designated to the hedge accounting

Changes of the fair value of derivative instruments that are not designated to hedge accounting are recognised in the income statement of the current period.

The Bank holds the following derivative instruments in its portfolio:

Market risk instruments:

- Futures contracts for bonds, index futures
- Options for securities and for stock-market indices
- Options for futures contracts
- Forward transactions for securities
- Commodity swaps

Interest rate risk instruments:

- Forward Rate Agreement (FRA)
- Interest Rate Swap (IRS), Overnight Index Swap (OIS)
- Interest Rate Options

Foreign exchange risk instruments:

- Currency forwards, fx swap, fx forward
- Cross Currency Interest Rate Swap (CIRS)
- Currency options.

2.12. Gains and losses on initial recognition

The best evidence of fair value of a financial instrument at initial recognition is the transaction price (i.e., the fair value of the payment given or received), unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets.

The transaction for which the fair value determined using a valuation model (where inputs are both observable and non-observable data) and the transaction price differ, the initial recognition is at the transaction price. The Bank assumes that the transaction price is the best indicator of fair value, although the value obtained from the valuation model may differ. The difference between the transaction price and the model value, commonly referred to as "day one profit and loss", is amortised over the period of time.

The timing of recognition of deferred day one profit and loss is determined individually. It is either amortised over the life of the transaction, deferred until the instrument's fair value can be determined using market observable data, or realised through settlement. The financial instrument is subsequently measured at fair value, adjusted for the deferred day one profit and loss. Subsequent changes in fair value are recognised immediately in the income statement without reversal of deferred day one profits and losses.

2.13. Financial liabilities measured at amortised cost

Financial liabilities measured at amortised cost include borrowings, deposits taken, debt securities issued and subordinated liabilities. These liabilities are initially recognized at fair value reduced by the incurred transaction costs. After the initial recognition, these liabilities are recorded at adjusted cost of acquisition (amortised cost using the effective interest method). Any differences between the amount received (reduced by transaction costs) and the redemption value are recognized in the income statement over the period of duration of the respective agreements according to the effective interest rate method.

2.14. Intangible assets

The Bank measures intangible assets initially at cost. After initaial recognition, intangible assets are recognised at their cost of acquisition adjusted by the costs of improvement (rearrangement, development, reconstruction or modernisation) less any accumulated amortization and any accumulated impairment losses. Amortization is accrued by the straight line method taking into account the expected period of economic useful life of the respective intangible assets.

Computer software

Purchased computer software licences are capitalised in the amount of costs incurred for the purchase and adaptation for use of specific computer software. These costs are amortised on the basis of the expected useful life of the software (1.5-26 years). Expenses attached to the maintenance of computer software are expensed when incurred. Expenses directly linked to the development of identifiable and unique proprietary computer programmes controlled by the Bank, which are likely to generate economic benefits in excess of such costs expected to be gained over a period exceeding one year, are recognised as intangible assets. Direct costs comprise personnel expenses directly related to the software.

Capitalised costs attached to the development of software are amortised over the period of their estimated useful life (1.5-30 years).

Computer software directly connected with the functioning of specific information technology hardware is recognised as "Tangible fixed assets".

Development costs

The Bank identifies development costs as intangible asset as the asset will generate probable future economic benefits and fulfil the following requirements described in IAS 38, i.e., the Bank has the intention and technical feasibility to complete and to use the intangible asset, the availability of adequate technical, financial and other resources to complete and to use the intangible asset and the ability to measure reliably the expenditure attributable to the intangible asset during its development.

"Development costs" useful lives are finite and the amortization period does not exceed 3 years. Amortization rates are adjusted to the period of economic utilisation. The Bank shows separately additions from internal development and separately those acquired through business combinations.

Development expenditure comprises all expenditure that is directly attributable to research and development activities.

Intangible assets are tested in terms of possible impairment always after the occurrence of events or change of circumstances indicating that their carrying value in the statement of financial position might not be possible to be recovered.

2.15. Tangible fixed assets

Tangible fixed assets are carried at historical cost reduced by accumulated depreciation and accumulated impairment losses. Historical cost takes into account the expenses directly attached to the acquisition of the respective assets.

Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only where it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. Any other expenses incurred on repairs and maintenance are expensed to the income statement in the reporting period in which they were incurred.

Land is not depreciated. Depreciation of other fixed assets is accounted for according to the straight line method in order to spread their initial value reduced by the residual value over the period of their useful life which is estimated as follows for the particular categories of fixed assets:

Buildings and structures	20-40 years,
Equipment	2-15 years,
Vehicles	4-5 years,
Information technology hardware	2-10 years,
Investments in third party fixed assets	5-20 years, no longer than the period of the lease contract,
Office equipment, furniture	2-10 years.

Land and buildings consist mainly of branch outlets and offices. Residual values, estimated useful life periods and depreciation method are verified at the end of the reporting period and adjusted prospectively in accordance with the arrising need.

Bank assesses at the end of each reporting period whether there is any indication that tangible asset may be impaired. If any such indication exists, the Bank estimates the recoverable amount of the asset. Depreciable fixed assets are tested for impairment always whenever events or changes in circumstances indicate that the carrying value may not be recoverable. The value of a fixed asset carried in the statement of financial position is reduced to the level of its recoverable value if the carrying value in the statement of financial position exceeds the estimated recoverable amount. The recoverable value is the higher of two amounts: the fair value of the fixed asset reduced by its selling costs and the value in use.

If it is not possible to estimate the recoverable amount of the individual asset, the Bank shall determine the recoverable amount of the cash-generating unit to which the asset belongs (cash-generating unit of the asset).

The carrying amount of tangible fixed assets is derecognised on disposal or when no future economic benefits are expected from its use or disposal. The gain or loss arising from from the derecognition of tangible fixed assets are included in profit or loss when the item is derecognised.

Gains and losses on account of the disposal of fixed assets are determined by comparing the proceeds from their sale against their carrying value in the statement of financial position and they are recognised in the income statement.

2.16. Non-current assets held for sale and discontinued operations

The Bank classifies a non-current asset (or disposal group) as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. For this to be the case, the asset (or group) must be available for immediate sale in its present condition subject only to terms that are usual and customary for sale of such assets and its sale must be highly probable, i.e., the appropriate level of management must be committed to a plan to sell the asset, and an active programme to locate a buyer and complete the plan must have been initiated. Further, the asset must be actively marketed for sale at a price that is reasonable in relation to its current fair value. In addition, the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets held for sale are priced at the lower of: carrying value and fair value less costs to sell. Assets classified in this category are not depreciated.

When criteria for classification to non-current assets held for sale are not met, the Bank ceases to classify the assets as held for sale and reclassifies them into appropriate category of assets. The Bank measures a non-current asset that ceases to be classified as held for sale (or ceases to be included in a disposal group classified as held for sale) at the lower of:

- its carrying amount at a date before the asset (or disposal group) was classified as held for sale, adjusted for any depreciation, amortization or revaluations that would have been recognised had the asset (or disposal group) not been classified as held for sale, and

- its recoverable amount at the date of the subsequent decision not to sell.

Discontinued operations are a component of the Bank that either has been disposed of or is classified as held for sale and represents a separate major line of business or geographical area of operation or is a subsidiary acquired exclusively with a view to resale.

The classification to this category takes places at the moment of sale or when the operation meets criteria of the operation classified as held for sale, if this moment took place previously. Disposal group which is to be taken out of usage may also be classified as discontinued operation.

2.17. Deferred income tax

The Bank creates a deferred income tax on the temporary difference arising between the carrying amount of an asset or liability in the statement of financial position and its tax base. A taxable net difference is recognised in liabilities as "Provisions for deferred income tax". A deductible net difference is recognised under "Deferred income tax assets". Any change in the balance of the deferred tax assets and liabilities in relation to the previous accounting period is recorded under the item "Income Tax".

Liabilities or assets for deferred income tax are recognised in their full amount according to the balance sheet method in connection with the existence of temporary differences between the tax value of assets and liabilities and their carrying value. Such liabilities or assets are determined by application of the tax rates in force by virtue of law or of actual obligations at the end of the reporting period. According to expectations such tax rates applied will be in force at the time of realisation of the assets or settlement of the liabilities for deferred income tax.

The main temporary differences arise on account of impairment write-offs recognised in relation to the loss of value of credits and granted guarantees of repayment of loans, amortisation of fixed assets and intangible assets, leases, revaluation of certain financial assets and liabilities, including contracts concerning derivative instruments and forward transactions, provisions for retirement benefits and other benefits following the period of employment, and also deductible tax losses.

The Bank reviews the carrying amount of a deferred tax assets at the end of each reporting period. The Bank reduces the carrying amount of a deferred tax asset to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of that deferred tax asset to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available.

Deferred income tax assets are recognised to the extent it is probable that there will be sufficient taxable profits to allow them to recover. If the forecast amount of income determined for tax purposes does not allow the realisation of the asset for deferred income tax in full or in part, such an asset is recognised to the respective amount, accordingly. The above described principle also applies to tax losses recorded as part of the deferred tax asset.

The Bank presents the deferred income tax assets and liabilities netted in the statement of financial position separately for each subsidiary undergoing consolidation. Such assets and provisions may be netted against each other if the Bank possesses the legal rights allowing it to simultaneously account for them when calculating the amount of the tax liability.

In the case of the Bank, the deferred income tax assets and provisions are netted against each other separately for each country where the Bank conducts its business and is obliged to settle corporate income tax.

The Bank discloses separately the amount of negative temporary differences (mainly on account of unused tax losses or unutilised tax allowances) in connection with which the deferred income tax asset was not recognised in the statement of financial position, and also the amount of temporary differences attached to investments in subsidiaries and associates for which no deferred income tax provision has been formed.

Deferred income tax for the Bank is provided on assets or liabilities due to temporary differences arising from investments in subsidiaries and associates, except where, on the basis of any probable evidence, the timing of the reversal of the temporary difference is controlled by the Bank and it is possible that the difference will not reverse in the foreseeable future.

Deferred income tax on account of revaluation of financial instruments measured through other comprehensive income and of revaluation of cash flow hedging transactions is accounted for in the same way as any revaluation, directly in other comprehensive income, and it is subsequently transferred to the income statement when the respective investment or hedged item affects the income statement.

2.18. Assets repossessed for debt

Assets repossessed for debt represents financial and non-financial assets acquired by the Bank in settlement of overdue loans. The assets are initially recognised at fair value when acquired and included in premises and equipment, financial assets or other assets depending on their nature and the Bank's intention in respect of recovery of these assets. In case the fair value of repossessed collateral exceeds the receivable from the debtor, the difference constitutes a liability toward the debtor.

Repossessed assets are subsequently measured and accounted for in accordance with the accounting policies relevant for these categories of assets.

2.19. Prepayments, accruals and deferred income

Prepayments are recorded if the respective expenses concern the months succeeding the month in which they were incurred. Prepayments are presented in the statement of financial position under "Other assets".

Accruals include costs of supplies delivered to the Bank but not yet resulting in its payable liabilities. Deferred income includes received amounts of future benefits. Accruals and deferred income are presented in the statement of financial position under the item "Other liabilities".

2.20. Leasing

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Bank shall reassess whether a contract is, or contains, a lease if the terms and conditions of the contract are changed.

Transfer of the right-of-use occurs when it concerns an identified asset, for which the lessee possesses the right to obtain substantially all of the economic benefits and it controls the use of the asset throughout the period of use.

<u>mBank S.A. Bank as a lessee</u>

If lease definition is fullfilled, the Bank recognizes the right to use of the leased asset and a financial liability representing its obligation to make future lease payments in the amount of discounted future cash flows throughout the lease period.

The Bank as a lessee applies simplified approach and it does not apply the requirements in terms of recognition, measurement and presentation for short-term lease contracts lasting no longer than 12 months for each class of underlying asset as well as for lease contracts for which the underlying asset is of low value, i.e. less than PLN 20 000 for separate leases. Lease payments are recognized as costs using straight-line method throughout the lease period for lease contracts for which the Bank applies simplified approach.

Perpetual usufruct right is classified as a lease according to IFRS 16 due to the occurrence of future fees for the use of this right. The Bank assumed that the lease period for this type of contracts is the remaining period of the right granted since the transition to IFRS 16.

The Bank shall determine the lease term as the non-cancellable period of a lease, together with both:

- periods covered by an option to extend the lease if the Bank as a lessee is reasonable certain to exercise that option, and
- periods covered by an option to terminate the lease if the Bank as a lessee is reasonable certain not to exercise that option,

The Bank shall reassess whether it is reasonably certain to exercise an option to extend a lease, or not to exercise an option to terminate a lease. The Bank shall consider all relevant facts and circumstances that create an economic incentive for the lessee to exercise an option to extend a lease, or not to exercise an option to terminate a lease. The Bank shall reassess whether it is reasonably certain to exercise an extension option, or not to exercise a termination option, upon the occurrence of either a significant event or a significant change in circumstances that is within the control of the Bank as a lessee, and that affects whether the lessee is reasonably certain to exercise an option not previously included in its determination of the lease term, or not to exercise an option previously included in its determination of the lease term. The Bank shall revise the lease term if there is a change in the non-cancellable period of a lease.

At the commencement date, the Bank as a lessee shall measure the right-of-use asset at cost. The cost of right-of-use assets includes:

- the amount of the initial measurement of the lease liability,
- any lease payments made at or before the commencement date, less any lease incentives received,
- initial direct costs incurred by the Bank as a lessee in connection with the conclusion of the leasing contract and
- an estimate of the costs to be incurred by the Bank as a lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories.

After the commencement date, the Bank as a lessee shall measure the right-of-use asset at cost:

- less any accumulated depreciation and any accumulated impairment losses and,
- adjusted for any remeasurement of the lease liability,

The Bank applies the depreciation requirements in IAS 16 Property, Plant and Equipment in depreciating the right-of-use asset and requirements in IAS 36 Impairment of Assets to determine whether the right-of-use asset is impaired.

At the commencement date, the Bank shall measure the lease liability at the present value of the lease payments that are not paid at that date. At the commencement date, the lease payments included in the measurement of the lease liability comprise the following payments:

- fixed lease payments less any lease incentives,
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date,
- amounts expected to be payable by the lessee under residual value guarantees,
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option and,
- payment of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

Variable lease payments that depend on an index or a rate include, for example, payments linked to a customer price index, payments linked to a benchmark interest rate (such as LIBOR) or payments that vary to reflect changes in market rental rates.

After the commencement date, the Bank shall measure the lease liability by:

- increasing the carrying amount to reflect interest on the lease liability,
- reducing the carrying amount to reflect the lease payments made and,
- remeasuring the carrying amount to reflect any reassessment or lease modifications or to reflect revised in-substance fixed lease payments.

Bank discounts lease payments using the interest rate of lease if this rate can be easily determined. Otherwise, the Bank applies the marginal interest rate of lessee. As the lessee the Bank estimates the discount rate taking into account the duration and the currency of the contract.

The discount rates calculated by the Group were:

- for contracts in PLN: 1.95%,
- for contracts in EUR: 0.02%,
- for contracts in USD: 2.93%,
- for contracts in CZK: 2.19%.

All right-of-use assets are classified in tangible fixed assets (Note 26).

Cash payments of lease liabilities are classified in statement of cash flows within financial activities. Short term lease payments, payments for leases of low-value assets and variable lease payments not included in the measurement of the lease liability are classified in statement of cash flows within operating activites.

<u>mBank S.A. Bank as a lessor</u>

Bank recognizes the lease payments from operating leases as income on a straight-line basis or in another systematic manner. Bank recognizes costs, including depreciation, incurred in order to obtain benefits from leasing. Bank adds the initial direct costs incurred in order to obtain operating leasing to the carrying value of the underlying asset and it recognizes these costs as expenses incurred throughout the lease period on the same basis as lease revenues. The method of depreciation of leased out depreciable assets should be the same as that foreseen by the normal depreciation rules adopted by the Bank with regard to similar assets, and the depreciation charges should be calculated in accordance with IAS 16 and IAS 38. In order to determine whether there has been any impairment of the object of the lease, the Bank applies IAS 36.

2.21. Provisions

Loan committments and financial guarantee contracts are subject to loan loss provisions requirements according to IFRS 9 Financial Instruments.

According to IAS 37, provisions are recognised when Bank has a present legal or constructive obligation as a result of past events, it is more likely that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated.

2.22. Post-employment employee benefits and other employee benefits

Post-employment employee benefits

The Bank forms provisions against future liabilities on account of post-employment benefits determined on the basis of an estimation of liabilities of that type, using an actuarial model. The Bank uses a principle of recognition of actuarial gains or losses from the measurement of post-employment benefits related to changes in actuarial assumptions in other comprehensive income that will not be reclassified to the income statement. The Bank recognizes service cost and net interest on the net defined benefit liability in the "Overhead cost" and in other interest expenses, respectively.

Equity-settled share-based payment transactions

The Bank runs programmes of remuneration based on and settled in own shares. Equity-settled share-based payment transactions are accounted for in compliance with IFRS 2 *Share-based Payment*. In case of the part of the programme settled in shares, the fair value of the service rendered by employees in return for options and shares granted increases the costs of the respective period corresponding to own equity. The total amount which needs to be expensed over the period when the outstanding rights of the employees for their options and shares to become exercisable are vested is determined on the basis of the fair value of the granted options and shares. There are no market vesting conditions that shall be taken into account when estimating the fair value of share options and shares at the measurement date. Non-market vesting conditions are not taken into account when estimating the fair value of share options and shares but they are taken into account through adjustment on the number of equity instruments. At the end of each reporting period, the Bank revises its estimates of the number of options and shares that are expected to become exercised. In accordance with IFRS 2 it is not necessary to recognise the change in fair value of the share-based payment over the term of the programmes.

2.23. Equity

Equity consists of capital and own funds created in compliance with the respective provisions of the law, i.e., the appropriate legislative acts, the Bank by-laws.

Registered share capital

Share capital is presented at its nominal value, in accordance with the by-laws and with the entry in the business register.

- Own shares

In the case of acquisition of shares in the Bank by the Bank the amount paid reduces the value of equity as own shares until the time when they are cancelled. In the case of sale or reallocation of such shares, the payment received in return is recognised in equity.

Share premium

Share premium is formed from the share premium obtained from the issue of shares reduced by the attached direct costs incurred with that issue.

Costs directly connected with the issue of new shares and options reduce the proceeds from the issue recognized in equity.

Moreover, share premium takes into account the settlements related to incentive programs based on Bank's shares.

Retained earnings

Retained earnings include:

- other supplementary capital,
- other reserve capital,
- general risk reserve,
- undistributed profit for the previous years,
- net profit (loss) for the current year.

Other supplementary capital, other reserve capital and general risk reserve are formed from allocations of profit and they are assigned to purposes specified in the by-laws or other regulations of the law.

Moreover, other reserve capital comprises valuation of incentive programs based on Bank's shares.

Dividends for a given year, which have been approved by the General Meeting but not distributed at the end of the reporting period, are shown under the liabilities due to dividends payable under "Other liabilities".

Other components of equity

Other components of equity result from:

- valuation of financial assets at fair value through other comprehensive income,
- exchange differences on translation of foreign operations,
- actuarial gains and losses relating to post-employment benefits,
- valuation of derivative financial instruments held for cash flow hedging in relation to the effective portion of the hedge,
- the Bank's shares of other comprehensive income of entities under the equity method.

2.24. Valuation of items denominated in foreign currencies

Functional currency and presentation currency

The items contained in financial reports of particular entities of the Bank, including foreign branches of the Bank, are valued in the currency of the basic economic environment in which the given entity conducts its business activities ("functional currency"). The financial statements are presented in the Polish zloty, which is the presentation currency of the Bank.

Transactions and balances

Transactions denominated in foreign currencies are converted to the functional currency at the exchange rate in force at the transaction date. Foreign exchange gains and losses on such transactions as well as balance sheet revaluation of monetary assets and liabilities denominated in foreign currency are recognised in the income statement.

Foreign exchange differences arising on account of such monetary items as financial assets measured at fair value through profit or loss are recognised under gains or losses arising in connection with changes of fair value. Foreign exchange differences arising on account of such monetary items as equity instruments measured at fair value through other comprehensive income are recognised in other comprehensive income.

At the end of each reporting period non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction, and non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured.

When a gain or loss on a non-monetary item is recognised in other comprehensive income, any exchange differences component of that gain or loss is recognised in other comprehensive income. Conversely, when a gain or loss on a non-monetary item is recognised in profit or loss, any exchange differences component of that gain or loss is recognised in profit or loss.

Changes in fair value of monetary items valued through other comprehensive income cover foreign exchange differences arising from valuation at amortised cost, which are recognised in the income statement.

Items of the statement of financial position of foreign branches are converted from functional currency to the presentation currency with the application of the average exchange rate as at the end of the reporting period. Income statement items of these entities are converted to presentation currency with the application of the arithmetical mean of average exchange rates quoted by the National Bank of Poland on the last day of each month of the reporting period. Foreign exchange differences so arisen are recognised in other comprehensive income.

2.25. Trust and fiduciary activities

mBank S.A. operates trust and fiduciary activities including domestic and foreign securities and services provided to investment and pension funds.

The Bank provides custody, trustee, corporate administration, investment management and advisory services to third parties. Fee and commission income from trust and fiduciary activities is recognised in accordance with IFRS 15 using a 5-step model for revenue recognition, described in the Note 2.3. In connection with these, the Bank makes decisions concerning the allocation, purchase and sale of a wide variety of financial instruments. Assets held in a fiduciary capacity are not included in these financial statements because as they do not belong to the Bank.

2.26. New standards, interpretations and amendments to published standards

These financial statements include the requirements of all the International Accounting Standards and the International Financial Reporting Standards endorsed by the European Union, and the related with them interpretations which have been endorsed and binding for annual periods starting on 1 January 2020.

Standards and interpretations endorsed by the European Union

Published Standards and Interpretations which have been issued but are not yet binding or have not been adopted early

- Amendments to IFRS 16 COVID-19-Related Rent Concessions, published by International Accounting Standards Board on 28 May 2020, approved by the European Union on 10 October 2020, binding for annuals periods starting on or after 1 June 2020.

  Amendments to IFRS 16 provides practical expedient that permits lessees not to assess whether rent concessions that occur as a direct consequence of the COVID-19 pandemic and meet specified conditions are lease modifications and, instead, to account for those rent concessions as if they were not lease modifications.

  The Bank is of the opinion that the application of the changes to the standard will have no significant impact on the financial statements in the period of their initial application.

- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 Interest Rate Benchmark Reform – Phase 2, published by International Accounting Standards Board on 27 August 2020, approved by the European Union on 13 January 2021, binding for annuals periods starting on or after 1 January 2021.

  Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 Interest Rate Benchmark Reform – Phase 2 relate to the modification of financial assets, financial liabilities and lease liabilities, specific hedge accounting requirements, and disclosure requirements applying IFRS 7 to accompany the amendments regarding modifications and hedge accounting.

  Regarding modification of financial assets, financial liabilities and lease liabilities a practical expedient for modifications required by the reform (modifications required as a direct consequence of the IBOR reform and made on an economically equivalent basis) has been introduced. These modifications are accounted for by updating the effective interest rate. All other modifications are accounted for using the current IFRS requirements. A similar practical expedient is proposed for lessee accounting applying IFRS 16.

  Regarding hedge accounting amendments, hedge accounting is not discontinued solely because of the IBOR reform. Hedging relationships (and related documentation) must be amended to reflect modifications to the hedged item, hedging instrument and hedged risk. Amended hedging relationships should meet all qualifying criteria to apply hedge accounting, including effectiveness requirements.

  Specific disclosures are also required in order to allow users to understand the nature and extent of risks arising from the IBOR reform to which the entity is exposed to and how the entity manages those risks as well as the entity's progress in transitioning from IBORs to alternative benchmark rates, and how the entity is managing this transition.

  IFRS 4 was also amended to require insurers that apply the temporary exemption from IFRS 9 to apply the amendments in accounting for modifications directly required by IBOR reform.

  Bank analysed the impact of applying the amendments to the standards on the financial statements in the period of their initial application. The detailed information regarding this analysis are presendted in the further part of this Note.

- Amendments to IFRS 4 Extension of the Temporary Exemption from Applying IFRS 9, published by International Accounting Standards Board on 25 June 2020, approved by the European Union on 15 December 2020, binding for annuals periods starting on or after 1 June 2023.

  Amendments to IFRS 4 provides a temporary exemption that permits the insurer to apply IAS 39 rather than IFRS 9 Financial Instruments. The extension maintains the alignment between the expiry date of the temporary exemption and the effective date of IFRS 17, which replaces IFRS 4.

  The Bank is of the opinion that the application of the changes to the standard will have no significant impact on the financial statements in the period of their initial application.

Standards and interpretations not yet endorsed by the European Union

These financial statements do not include standards and interpretations listed below which await endorsement of the European Union.

- Amendment to IAS 8, Definition of Accounting Estimates, published by International Accounting Standards Board on 12 February 2021, binding for annuals periods starting on or after 1 January 2023.

  In amendment to IAS 8 Definition of Accounting Estimates, the definition of a change in accounting estimates was replaced with a definition of accounting estimates. Under the new definition, accounting estimates are monetary amounts in financial statements that are subject to measurement uncertainty. The IASB also clarified a new definition through additional guidance and examples, how accounting policies and accounting estimates relate to each other and how a change in valuation technique is a change in accounting estimates. The introduction of a definition of accounting estimates and other amendments to IAS 8 was aimed to help entities distinguish changes in accounting policies from changes in accounting estimates.

  The Bank is of the opinion that the application of the changes to standards will have no significant impact on the financial statements in the period of their initial application.

- Amendments to IAS 1 and IFRS Practice Statement 2 Disclosure of Accounting Policies, published by International Accounting Standards Board on 12 February 2021, binding for annuals periods starting on or after 1 January 2023.

  Amendments to IAS 1 and IFRS Practice Statement 2 are intended to help preparers in deciding which accounting policies to disclose in their financial statements. The amendments introduce the requirement to disclose material accounting policy information instead of significant accounting policies. Some clarifications and examples were added how an entity can identify material accounting policy information. The amendments clarify that accounting policy information may be material because of its nature, even if the related amounts are immaterial and if users of financial statements would need it to understand other material information in the financial statements.

  The Bank is of the opinion that the application of the changes to standards will have no significant impact on the financial statements in the period of their initial application.

- IFRS 17, *Insurance contracts*, published by the International Accounting Standards Board ("IASB") on 18 May 2017, binding for annual periods starting on or after 1 January 2023.

  IFRS 17 defines a new approach to the recognition, valuation, presentation and disclosure of insurance contracts. The main purpose of IFRS 17 is to guarantee the transparency and comparability of insurers' financial statements. In order to meet this requirement the entity will disclose a lot of quantitative and qualitative information enabling the users of financial statements to assess the effect that insurance contracts within the scope of IFRS 17 have on the financial position, financial performance and cash flows of the entity. IFRS 17 introduces a number of significant changes in relation to the existing requirements of IFRS 4. They concern, among others: aggregation levels at which the calculations are made, methods for the valuation of insurance liabilities, recognition a profit or loss over the period the entity provides insurance coverage, reassurance recognition, separation of the investment component and presentation of particular items of the balance sheet and profit and loss account of reporting units including the separate presentation of insurance revenues, insurance service expenses and insurance finance income or expenses.

  The Bank is of the opinion that the application of the standard will have no significant impact on the financial statements in the period of their initial application.

- Amendments to IFRS 17, published by International Accounting Standards Board on 25 June 2020, binding for annuals periods starting on or after 1 June 2023.

  Amendments to IFRS 17 include a two-year deferral of the effective date and the fixed expiry date of the temporary exemption from applying IFRS 9 granted to insurers meeting certain criteria. Preparers of financial statements are no longer required to apply IFRS 17 to certain credit cards and similar arrangements, and loans that provide insurance coverage. The profit recognition pattern for insurance contracts under IFRS 17 has been amended to reflect insurance coverage and any investment services provided. Insurance contracts are now required to be presented on the balance sheet at the portfolio level. The amendment addresses also accounting mismatches that arise when an entity reinsures onerous contracts and recognizes losses on the underlying contracts on initial recognition.

  The Bank is of the opinion that the application of the changes to the standard will have no significant impact on the financial statements in the period of their initial application.

- Amendments to IAS 1, Classification of liabilities as current or non-current, published by IASB on 23 January 2020. On 15 July 2020 the IASB published an amendment that provides entities with operating relief by postponing the effective date of the amendments to the Standard by one year for annual reporting periods beginning on or after 1 January 2023.

  Amendments to IAS 1 affect the requirements for the presentation of liabilities in the financial statements. In particular, they explain one of the criteria for classifying liabilities as non-current.

  The Bank is of the opinion that the application of the amended standard will have no significant impact on the financial statements in the period of their initial application.

- Annual Improvements to IFRS Standards 2018-2020, published by International Accounting Standards Board on 14 May 2020, binding for annuals periods starting on or after 1 January 2022.

  Annual Improvements include changes to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, Illustrative Examples accompanying IFRS 16 Leases and IAS 41 Agriculture.

  The amendment to IFRS 1 permits a subsidiary that applies paragraph D16(a) of IFRS 1 to measure cumulative translation differences using the amounts reported by its parent, based on the parent's date of transition to IFRSs.

  The amendment to IFRS 9 clarifies which fees the entity includes when it applies the '10 per cent test' in assessing whether to derecognize a financial liability. An entity includes only the fees paid or received between the entity (the borrower) and the lender, including fees paid or received by either the entity or lender on the other's behalf.

  The amendment to IFRS 16 removes the illustration of payments from the lessor relating to leasehold improvements in order to resolve any potential confusion regarding the treatment of lease incentives.

  The amendment to IAS 41 removes the requirement to exclude cash flows for taxation when measuring fair value of a biological asset using a parent value technique. This will ensure consistency with the requirements in IFRS 13 Fair Value Measurement.

  The Bank is of the opinion that the application of the changes to standards will have no significant impact on the financial statements in the period of their initial application.

- Amendments to IAS 16 Property, Plant and Equipment: Proceeds before Intended Use, published by International Accounting Standards Board on 14 May 2020, binding for annuals periods starting on or after 1 January 2022.

  Amendments to IAS 16 prohibit a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use. Instead, a company will recognize such sales proceeds and related cost in profit or loss.

  The Bank is of the opinion that the application of the changes to the standard will have no significant impact on the financial statements in the period of their initial application.

- Amendments to IAS 37 Onerous contracts – Cost of Fulfilling the Contract, published by International Accounting Standards Board on 14 May 2020, binding for annuals periods starting on or after 1 January 2022.

  Amendments to IAS 37 specifies which costs to include in estimating the cost of fulfilling a contract for the purpose of assessing whether the contract is onerous.

  The Bank is of the opinion that the application of the changes to the standard will have no significant impact on the financial statements in the period of their initial application.

- Amendments to IFRS 3 Reference to the Conceptual Framework, published by International Accounting Standards Board on 14 May 2020, binding for annuals periods starting on or after 1 January 2022.

  Amendments to IFRS 3 replaced references to the Framework with references to the 2018 Conceptual Framework. They also added a requirement that, for transactions and other events within the scope of IAS 37 or IFRIC 21, an acquirer applies IAS 37 or IFRIC 21 (instead of conceptual framework) to identify the liabilities it has assumed in business combination. Moreover, the standard added an explicit statement that an acquirer does not recognize contingent asset acquired in a business combination.

  The Bank is of the opinion that the application of the changes to the standard will have no significant impact on the financial statements in the period of their initial application.

- Amendments to IFRS 10 and IAS 28 Sale or Contribution of Assets Between an Investor and its Associate or Joint Venture (issued on 11 September 2014) - the endorsement process of these Amendments has been postponed by EU - the effective date was deferred indefinitely by IASB.

The interest rate benchmark reform

Bank, as an entity providing services in the area of both transactions in financial instruments and loan origination, is exposed to risks posed by the evolution of rates and the market's transition to rates that are in line with BMR. The interest rate benchmark reform (IBOR reform) has the biggest impact on financial instruments, in particular loans, which are based on LIBOR because this benchmark will be discontinued from 2022. The Bank has a large portfolio of CHF mortgages based on CHF LIBOR (accounting for 34.5% of the gross value of its portfolio of mortgages for individuals and micro-enterprises as at the end of 2020). At the same time, the share of loans based on EUR LIBOR, EURIBOR and USD LIBOR in the value of the credit portfolio stands at 4%, 12% and 1%, respectively. In addition, Bank raised LIBOR-based subordinated funding and took out EURIBOR-based loans. Most of the other financial exposures are in principal based on WIBOR rate.

From mBank's point of view, the IBOR reform will have the greatest impact on LIBOR-based contracts as in the Bank's opinion, these are the rates for which there is a significant risk of no quotation after 31 December 2021. In mBank's opinion, the risk posed by the discontinuation of rates is lower for transactions in financial instruments as such transactions have shorter tenors and, in the majority of cases, are concluded with professional market participants.

Changes made to BMR are considered a risk mitigant by the Bank. The changes were passed by the European Parliament on 19 January 2021. One of the key changes to the Regulation is that a substitute benchmark will by law replace all references to a discontinued benchmark in all contracts and financial instruments that lack contingency clauses or contain contingency clauses not providing for any solutions to be applied when a benchmark is permanently discontinued. The right to set a substitute benchmark has been granted to the European Commission. At the moment it is impossible to predict whether the EC will designate a substitute benchmark for CHF LIBOR. If this risk materialises, the Bank will use the last quotation of market rates as a benchmark. The Bank has prepared fall back clauses, which it successively implements in the regulations and annexes to the contracts with clients. The clauses are universal for all types of rates. By the end of 2021, the Bank will implement the clauses for all new and existing transactions within the scope of the IBOR project.

The Bank does not identify material risks for instruments based on the Polish zloty. This is attributable to the fact that in a decision issued on 16 December 2020 the Polish Financial Supervision Authority (KNF) authorised GPW Benchmark S.A. to act as the administrator of interest rate benchmarks, including the key benchmark WIBOR, the quotation method of which has been adjusted to BMR. This decision has removed the material regulatory risk related to this benchmark.

As part of improving their relationships with clients, the Bank is continuously enhancing the relevant contractual provisions in response to the changing market knowledge and constant evolution of rates.

The risk faced by the Bank and its clients is considerably reduced by the fact that the Bank signs new contracts only based on rates that are in line with BMR.

Moreover, the Bank has reliable written plans in case of a major change or discontinuation of a benchmark.

Since the transition to new alternative benchmarks poses a challenge to all business lines, the Bank set up a dedicated project to gear up for it. The project team is analysing the new rates and changes needed to launch products based on them. The largest amount of work will be required by products based on benchmarks that will replace LIBOR for individual currencies. The Bank expects a major challenge to come from the different term structure of new rates and shift from long-term to overnight rates.

The Bank has a register of banking products and systems that will have to be changed due to the transition. The Bank is in the process of developing a concept of new products based on the new rates for foreign currencies. The Bank does not expect any significant changes regarding contracts based on the Polish zloty in the context of benchmark adjustment.

At the same time, the Bank has made a significant effort to minimise the risk posed by potential discontinuation of LIBOR. The Bank has actively participated in the working group at the Polish Bank Association tasked with developing consistent solutions for the Polish market.

Importantly, in mBank's opinion, the existing product range does not significantly increase exposure to benchmarks that may potentially be discontinued. The Bank currently does not offer any products based on benchmarks that are not in line with BMR.

The table below presents the Bank's exposure to material types of interest rates affected by the IBOR reform that have not been replaced by new benchmarks yet as at 31 December 2020.

31.12.2020 (PLN million)	The contractual amont of non-derivative financial asset	The contractual amont of non-derivative financial liabilities	Nominal amount of derivatives as a net amount of receivables and liabilities for derivative transactions
PLN WIBOR	69 350	(2 405)	(17 495)
EUR EURIBOR	9 805	(936)	(28)
EUR LIBOR	3 239	(16)	-
USD LIBOR	885	(5)	(45)
CHF LIBOR	12 320	(1 706)	(10 228)
GBP LIBOR	79	-	-
JPY LIBOR	6	-	-
CZK PRIBOR	462	-	567
Other	2	(859)	(213)

2.27. Business segments

Data concerning business segments was presented in the Consolidated Financial Statements of mBank S.A. Group for the year 2020, prepared in compliance with the International Financial Reporting Standards and published on 24 February 2021.

2.28. Comparative data

- The recognition of FX margin on spot transactions

Since the end of 2020, the Bank adjusted the classification of financial assets into cash equivalents. Previously, under cash equivalents, the Bank incorrectly disclosed debt securities issued by the State Treasury held for trading with maturity over 3 months at acquisition date. Since the end of 2020, the Bank has also changed the accounting principles governing the classification of financial assets into cash equivalents and any debt securities issued by the State Treasury held for trading are not presented as cash equivalents. The change was caused by adjusting the presentation of cash equivalents to the prevailing market practice.

The comparative data for the period from 1 January to 31 December 2019 has been restated accordingly.

IFRS Financial Statements 2020 PLN (000's)

Restatement of income statement of mBank S.A. for 2019

	Period from 01.01.2019 to 31.12.2019 before restatement	Restatement	Period from 01.01.2019 to 31.12.2019 after restatement
Interest income, including:	4 454 856	-	4 454 856
Interest income accounted for using the effective interest method	*3 946 091*	-	*3 946 091*
Income similar to interest on financial assets at fair value through profit or loss	*508 765*	-	*508 765*
Interest expenses	(910 160)	-	(910 160)
Net interest income	**3 544 696**	**-**	**3 544 696**
Fee and commission income	1 553 921	306 014	1 859 935
Fee and commission expenses	(642 257)	-	(642 257)
Net fee and commission income	**911 664**	**306 014**	**1 217 678**
Dividend income	320 295	-	320 295
Net trading income	442 789	(306 014)	136 775
Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss	72 103	-	72 103
Gains less losses from financial assets and liabilities not measured at fair value through profit or loss	18 387	-	18 387
Other operating income	52 015	-	52 015
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss	(633 130)	-	(633 130)
Result on provisions for legal risk related to foreign currency loans	(387 786)	-	(387 786)
Overhead costs	(1 747 369)	-	(1 747 369)
Depreciation	(329 546)	-	(329 546)
Other operating expenses	(174 208)	-	(174 208)
Operating profit	**2 089 910**	**-**	**2 089 910**
Tax on the Bank's balance sheet items	(426 432)	-	(426 432)
Share in profits (losses) of entities under the equity method	(179 013)	-	(179 013)
Profit before income tax	**1 484 465**	**-**	**1 484 465**
Income tax expense	(503 485)	-	(503 485)
Net profit	**980 980**	**-**	**980 980**
Earnings per share (in PLN)	**23.17**		**23.17**
Diluted earnings per share (in PLN)	**23.16**		**23.16**

In 2020, the detailed items composing the result on Net trading income and Gains or losses from the derecognition of financial assets and liabilities not measured at fair value through profit or loss were no longer presented. The comparative data for the period from 1 January to 31 December 2019 have been restated accordingly.

- Cash equivalents

Since the end of 2020, the Bank adjusted the classification of financial assets into cash equivalents. Previously, under cash equivalents, the Bank incorrectly disclosed debt securities issued by the State Treasury held for trading with maturity over 3 months at acquisition date. Since the end of 2020, the Bank has also changed the accounting policy governing the classification of financial assets into cash equivalents and any debt securities issued by the State Treasury held for trading are not presented as cash equivalents. The change was caused by adjusting the presentation of cash equivalents to the prevailing market practice. The Bank did not divide the adjustment into the part resulting from the incorrect presentation of securities and the part resulting from the change in accounting principles due to too much work in relation to the information value of such division. The comparative data for the period from 1 January to 31 December 2019 has been restated accordingly.

IFRS Financial Statements 2020 PLN (000's)

Restatement of cash flow statement of mBank S.A. for 2019

	Period from 01.01.2019 to 31.12.2019 before restatement	Restatement	Period from 01.01.2019 to 31.12.2019 after restatement
Profit before tax	**1 484 465**	**-**	**1 484 465**
Adjustments:	***(1 625 836)***	**(582 247)**	***(2 208 083)***
Changes in financial assets and liabilities held for trading and hedging derivatives	(82 340)	(582 247)	(664 587)
Other adjustments	(1 543 496)	-	(1 543 496)
A. Cash flows from operating activities	**(141 371)**	**(582 247)**	**(723 618)**
B. Cash flows from investing activities	**(114 728)**	**-**	**(114 728)**
C. Cash flows from financing activities	**(797 392)**	**-**	**(797 392)**
Net increase / decrease in cash and cash equivalents (A+B+C)	**(1 053 491)**	**(582 247)**	**(1 635 738)**
Effect of exchange rate changes in cash and cash equivalents	(9 408)	-	(9 408)
Cash and cash equivalents at the beginning of the reporting period	10 597 670	(748 294)	9 849 376
Cash and cash equivalents at the end of the reporting period	**9 534 771**	**(1 330 541)**	**8 204 230**

The aforementioned changes in the comparative data, as presented above, were provided for in these financial statements in all the notes to which they referred.

3. Risk Management

mBank S.A. manages risks on the basis of regulatory requirements and best market practice, by developing risk management strategies, policies and guidelines. The risk management functions and roles are released on all of the levels of the organizational structure, starting at the level of the Supervisory Board down to each business unit of the Bank. Risk management is streamlined in unified process run by specialized organizational units, and analyses are carried out at the level of mBank.

3.1. mBank risk management in 2020 – external environment

The Bank is in the process of introducing changes resulting from the Delegated Commission Regulation (EU) 2018/1620 of 13 July 2018 with regard to liquidity coverage requirement for credit institutions and their impact on the method used to calculate the LCR. The Bank applies the LCR as a key ratio for measuring liquidity risk in the context of the recovery plan.

Currently, in light of the publication of Regulation (EU) 2019/876 of the European Parliament and of the Council of 20 May 2019 and Directive (EU) 2019/878 of the European Parliament and of the Council of 20 May 2019 amending the CRR/CRD IV regulatory package (Capital Requirements Regulation & Capital Requirements Directive), the mBank Group is working on the analysis of the new regulatory requirements and their implementation. Most of the amendments to the CRR Regulation will be applicable 2 years after the effective date of the regulation.

The proposed amendments include new methods of calculating capital requirements for counterparty credit risk and market risk, which shall replace the methods used so far. A change in the approach to the treatment of exposure to a central counterparty and the extension of capital "incentives" for banks financing small and medium-sized enterprises were also proposed. The binding 3% minimum value of the leverage ratio was introduced as the prudential measure. The Bank analyses changes with regard to the calculation of the net stable funding ratio (NSFR) which was introduced as the prudential measure at the minimum binding level of 100%, applicable form 28 June 2021.

In 2019 an amendment to the CRR Regulation was published, aiming at reducing the risk posed by high volumes of non-performing loans. It introduces the minimum level required to cover losses due to non-performing loans. In the event that this requirement is not met by the bank, it introduces a penalty in the form of a subsequent reduction of Tier 1 capital by the difference between the level of actual coverage and the level of the required minimum coverage. The minimum required level of coverage of losses is introduced progressively, so the effects of the new regulation will be visible few years after the entry into force.

The amendments to the CRD IV, published in 2019, include more detailed guidelines on restrictions on profit-sharing. The provisions on the use of supervisory tools for micro and macro prudential purposes have been clarified and changes in the calibration of capital buffers have been proposed. Supervisory expectations have been addressed as to the need for a standardized methodology of interest rate risk management in the banking portfolio in order to identify, assess, manage and mitigate risk.

In light of the publication of Directive (EU) 2019/879 of the European Parliament and of the Council of 20 May 2019 amending BRRD (Bank Recovery and Resolution Directive), the requirements regarding recovery and resolution also changed. New provisions require transposition into the national law. The

Directive proposed changes to the design of the MREL ratio to make it consistent with TLAC ratio (total loss absorbing capacity).

The risk management rules in mBank may be also affected by the regulatory changes planned by the European Banking Authority (EBA):

- Between 2016-2020 the EBA published, as part of a broader regulatory initiative concerning revision of the Internal Ratings Based Approach (AIRB), documents which include:
  a. guidelines for the application of a consistent default definition, including determining materiality thresholds for credit exposures in default;
  b. draft of methodology of assessment by the supervisory authorities if banks meet regulatory requirements for the use of the Internal Ratings Based Approach (AIRB);
  c. guidelines for estimating PD and LGD parameters and dealing with defaulted exposures;
  d. guidelines for estimating the LGD parameter, appropriate to the economic downturn and a technical standard for the estimation and identification of the economic downturn in IRB modeling.

  Due to potentially wide range of changes that will be necessary in order to implement regulations by banks, they will be implemented within the timeframe envisaged by the EBA.
- Beginning from 30 June 2019 the EBA guidelines on management of non-performing and forborne exposures entered into force; they are accompanied by changes in reporting and disclosures regarding non-performing and forborne exposures which are applicable from 2020.
- In February 2019 the EBA published revised Guidelines on outsourcing arrangements, which are consistent with the requirements on outsourcing under the Payments Services Directive (PSD2) and the Markets in Financial Instruments Directive (MiFID II) and aim at ensuring that banks can apply a single framework on outsourcing for all their banking, investment and payment activities. At the Bank, the EBA guidelines were implemented in 2020.
- In May 2020 the EBA published guidelines on loan origination and monitoring. These apply from 30 June 2021. They refer to the governance arrangements, procedures and processes for granting and monitoring credit exposures throughout their life cycle. The guidelines are intended to ensure that banks have sound and prudent standards for credit risk taking, management and monitoring, and that the newly issued loans are of high credit quality.

  The guidelines also touch on areas such as:
  - pricing policy,
  - risk culture,
  - prevention of money laundering and terrorist financing,
  - technological innovation,
  - risks of environmental, social and governance (ESG) factors.

  The guidelines also aim to ensure that banks' practices comply with consumer protection legislation and respect the fair treatment of consumers.
- In November 2019 the EBA published Guidelines on ICT and security risk management, which apply from 30 June 2020. The guidelines establish requirements for information security (including cyber-security) and information and communication technology (ICT) risk mitigation and management in relation to the provision of payment services. The bank is adjusted to the new requirements with the accuracy of completing some individual activities planned for 2020-2021.

In order to update the good practices of banks in their operations, also in the context of new recommendations and requirements defined by the European supervisors, including regulatory solutions and practices in other countries, the Polish Financial Supervisory Authority (PFSA) has just accomplished or has been working on:

- update of Recommendation S on good practices in the management of credit exposures secured by mortgages, in the scope of taking into account the rules on mortgage loans with a fixed interest rate,
- new Recommendation Z on the rules of internal governance in banks, which would apply by 1 January 2022,
- update of Recommendation R on the rules for credit risk management and recognizing expected credit losses,
- update of Recommendation G on interest rate risk management.

The Bank also monitors regulatory changes resulting from the work of the Basel Committee on Banking Supervision, in particular those related to the review and revision of the methodologies for calculating capital requirements (the so-called Basel IV). As new legislative proposals appear that implement the provisions of the Basel standards into the European Union regulations, the Bank analyses the proposed regulatory changes and assesses their impact.

3.2. Principles of risk management

In 2020, in connection with the COVID-19 pandemic and its impact on the economic situation, the Bank constantly monitored their development and adjusted risk management policies and processes on an ongoing basis. This especially refers to the credit risk.

Bank, in the corporate banking area, on regular basis, adapted credit risk policy and the credit risk management process to the economic situation caused by the coronavirus pandemic. In the field of credit policy, the bank:

- tightened criteria of granting new financing
- modified rules of financing clients operating in industries exposed – according to bank's opinion - on negative effects of pandemic
- prepared dedicated regulations that implemented solutions presented in banks' approach in scope of unified rules of offering support for the clients of the banking system.

With regard to credit risk management, during the meetings of Corporate and Investment Banking Risk Committee reports and analytical materials concerning impact of pandemic on the quality of credit portfolio, as well as regulations that adjust credit policy to the changes of market environment are presented. The frequency of the Committee meetings was increased and adjusted to current needs of credit risk management during the pandemic.

In retail area bank adapted its current credit policy for ML and NML segment to expected economic downturn caused by COVID-19 pandemic. Changes in credit policy address most probable risks:

- lower income of customers,
- decrease in account turnover,
- increased unemployment rate,
- permanent or temporary deterioration of financial standing in particular sectors particularly exposed, in opinion of the Bank, to the negative effect of the pandemic

Bank increased the frequency of Retail Banking Risk Committee meetings. As part of these meetings, current situation of customers, sales volumes and approval rates are analysed. According to those analysis credit policy is subject to rapid revision.

In 2020 additional reporting was introduced to enable faster response to emerging threats.

Due to the transition to remote work by the majority of employees, Bank constantly monitored - through operational risk tools - the processes functioning during the pandemic and defined corrective action plans aimed at improving the methods of working in that mode.

3.2.1. Risk culture

The foundations of the risk management culture implemented in the Bank and the mBank Group have been specified in the Risk Management Strategy of mBank Group and strategies for managing individual types of risk (concentration risk, retail and corporate portfolio credit risk, market risk, liquidity risk, operational risk, reputational risk) approved by the Management Board and the Supervisory Board of mBank.

Risk management roles and responsibilities in the Group are organised around the three lines of defence scheme:

- The first line of defence consists of Business (business lines) whose task is to take risk and capital aspects into consideration when making all business decisions within the risk appetite set for the Group.
- The second line of defence, mainly the risk management area, Security and Compliance function, is responsible for determining framework and guidelines concerning managing individual risks, supporting Business in their implementation as well as supervising the control functions and risk exposure. To ensure that the Business is supported and supervised in an objective manner, the second line functions act independently of the Business.
- The third line of defence is Internal Audit, ensuring independent assessment of activities connected with risk management performed by the first and the second line of defence.

3.2.2 Division of responsibilities in the risk management process

Supervisory Board exercises constant supervision over the Bank's operations in the risk taking area, which includes approving the Risk Management Strategy of the Group and supervising its implementation.

Risk Committee of the Supervisory Board exercises constant supervision over the risk, in particular issues recommendations regarding approval of risk management strategies, including the Risk Management Strategy of mBank Group, by the Supervisory Board.

Management Board of the Bank accepts the Risk Management Strategy of the Group and is responsible for defining and implementing the principles of managing individual risk types and for their consistency with the Strategy. The Management Board defines the organisational structure of the Bank, ensuring the appropriate distribution of key roles from the point of view of the risk management, and allocates the tasks and responsibilities to individual organizational units. The Management Board is responsible for developing, implementing, effectiveness and updating written strategies and procedures for: internal control system, risk management system, internal capital adequacy assessment process, capital management and capital planning.

Chief Risk Officer is responsible for integrated risk and capital management of the Bank and the Group in the scope of: defining strategies and policies, measuring, controlling and independent reporting on all risk types (in particular credit risk, market risk, liquidity risk, non-financial risk including operational risk), approving limits (in accordance with internal regulations), and for processes of managing the risk of the retail credit portfolio and corporate portfolio.

Committees:

- **The Committees of the Business and Risk Forum of mBank Group** (Retail Banking Risk Committee – KRD, Corporate and Investment Banking Risk Committee – KRK, Financial Markets Risk Committee – KRF) are a platform for making decisions and dialogue for organizational units in particular business lines and the risk management area in mBank as well as between the Bank and the Group subsidiaries. In particular, the Committees take decisions and make recommendations concerning risk management principles, risk policies, risk appetite, risk limits' definitions and values for given business line.
- **Model Risk Committee** is responsible for supervising the model risk management process, performing the following functions: information, discussion, decision and legislative.
- **The Balance Sheet Management Committee (BSM)** is responsible for the systematic monitoring of the Bank's balance sheet structure and the allocation of funds within acceptable risks in order to optimize the financial result. In particular, the Committee introduces the principles of managing the Bank's balance sheet, implements activities ensuring an adequate level of financing in the Bank, recommends the Bank's Management Board changes in the strategic approach to the balance sheet management.
- **Assets and Liabilities Committee of mBank Group (ALCO)** is an expert committee responsible for monitoring the structure of assets and liabilities and recommending their optimization to the BSM. ALCO is also responsible for preparing materials for discussion at the BSM Committee.
- **Capital Management Committee** is responsible, in particular, for managing capital. Based on the decisions made, the Committee issues recommendations for the Management Board of the Bank on measures in respect of capital management as well as capital level and structure, increasing the effectiveness of capital utilization, internal procedures related to capital management and capital planning.
- **Credit Committee of the mBank Group** is responsible, in particular, for the supervision of concentration risk and large exposures at the Group level by taken decisions and made recommendations. The Committee shall also take credit decisions as well as decisions on debt conversion into shares, stocks, and on taking over properties in return for debts (applies to the Bank).
- **Investment Banking Committee** is responsible, in particular, for the control and management of risks (including market, credit, reputational and operational) of the Brokerage House transactions and making decisions regarding the execution of these transactions.
- **Foreign Branch Supervision Committee of mBank S.A.** is responsible, among others, for issuing recommendations on approval of the operational strategy and the rules for stable and prudent management of a particular foreign branch of the Bank, especially with reference to credit risk.

The function of management at the strategic level and the function of control of credit, market, liquidity and operational risks and risk of models used to quantify the aforesaid risk types are performed in the risk management area supervised by the Vice-President of the Management Board, Chief Risk Officer.

3.2.3. Internal capital and liquidity adequacy assessment process (ICAAP/ILAAP)

The mBank Group applies the internal capital adequacy assessment process (ICAAP) aimed at maintaining own funds at the level adequate to the profile and the level of risk in its operations. The ICAAP includes:

- risk inventory in the mBank Group,
- calculation of internal capital and own funds requirements for coverage of risk,
- capital aggregation,
- stress tests,
- setting limits on the utilization of capital resources,
- capital planning and allocation,
- monitoring consisting in a permanent identification of risk involved in mBank Group operations and analysis of the level of capital for risk coverage.

The liquidity adequacy assessment process (ILAAP) implemented in mBank Group plays a key role in maintaining the Bank's and the Group's business continuity by ensuring an appropriate liquidity and financial position. ILAAP comprises of:

- Group's liquidity and funding risk inventory,
- calculation of liquidity measures, including modelling of selected banking products,
- balance sheet planning and setting limits in line with the risk appetite,
- management, taking into account the stress tests, risk measures, contingency plan, early warning indicators (EWI), recovery indicators (RI) and limits monitoring,
- process review and assessment,
- Funds Transfer Pricing (FTP) system,
- model validation.

The ICAAP and ILAAP are reviewed by the Bank's Management Board on a regular basis. Reviews of these processes are supervised by the Supervisory Board of the Bank.

Material risks in mBank Group's operations

The Management Board is taking activities for ensuring that the Bank manages all material risks arising from the implementation of adopted business strategy. Therefore, the mBank Group carries out an annual process of identifying and assessing risk materiality. All material types of risk are included in the Risk Management Strategy of mBank Group, in particular in the process of risk bearing capacity management.

The following risks were recognized as material for the Group as at 31 December 2019: credit risk market risk, operational risk, business risk (including strategic risk), liquidity risk, reputational risk, model risk, capital risk (including risk of excessive leverage), tax risk and FX loans portfolio risk.

3.3.4 Risk appetite

Risk appetite is defined within the mBank Group as the maximum risk, in terms of both amount and structure, which the Bank is willing and able to incur in pursuing its business objectives under going concern scenario.

Capital and liquidity buffers

Risk appetite is determined below the available resources determined by the minimum supervisory requirements on capital adequacy and liquidity, set in the European and Polish regulations, in order to ensure that the Group is functioning in an uninterrupted manner in the case of negative changes in the Group or in its environment, thereby providing the ability to assure risk bearing capacity. Funding sources and capital position of the Group, both in the regulatory and economic perspective, are taken into consideration while defining the risk capacity and risk appetite. The Bank maintains capital and liquid assets on the levels ensuring to meet regulatory requirements under normal and realistic stress conditions. To determine the appropriate volume of the liquidity buffer, a minimum level of LCR above the regulatory requirement has been established.

mBank Group's risk appetite covers all significant risks and key risk concentrations embedded in its business strategy by setting appropriate capital buffers necessary in case of materialization of selected risk factors related to existing portfolios and planned business, and addressing new regulatory requirements and potential negative macroeconomic changes.

As a result of internal discussion on risk appetite, the target capital ratios and internal liquidity buffers for the mBank Group are determined.

Risk Bearing Capacity

Risk bearing capacity is expressed in terms of capital and funding resources available for allocation so as to ensure safety in normal scenario and risk scenario. The maximum risk that mBank Group is willing and able to incur, while accepting threats resulting from mBank Group business strategy, is subject to the following conditions:

- adequate risk bearing capacity must be ensured (limits must be ensured in normal conditions) in accordance with ICAAP principles,
- internal targets set for regulatory capital ratios must be observed,
- financial liquidity and adequate structural liquidity of the Group must be ensured at all times in accordance with ILAAP principles.

The approach of mBank Group to the assessment and control of mBank Group risk bearing capacity covers internal and regulatory requirements.

Risk limit system

The mBank applies a risk limit system in order to ensure effective allocation of risk appetite. The structure of limits translates the risk appetite into specific constraints on risks occurring in the Bank's activity. In addition to the limits, monitoring action triggers and early warning indicators are also used to ensure the safe operation of the Bank.

3.2.5 Stress tests within ICAAP and ILAAP

Stress tests are used in the management and capital and liquidity planning of the Bank. Stress tests allow an assessment of the Bank's resistance in the context of adverse, yet plausible scenarios of external and internal events.

The stress tests are conducted assuming scenario of unfavourable economic conditions that may adversely affect the Bank's financial and liquidity position.

As part of ICAAP, the Bank carries out stress tests using various scenarios, including historical scenarios, macroeconomic scenarios for economic downturn, scenarios that take into account idiosyncratic events, in the context of specific risk concentrations in the Bank. Such analyses take into account different levels of severity of the scenarios, which are characterised by different probability levels regarding their realisation.

The ILAAP scenarios include negative idiosyncratic events, events concerning the entire market and combined scenarios. These scenarios are supplemented by an reverse scenario that identifies risk factors. In addition, an integrated scenario is carried out, which also takes into account the impact of factors derived from other types of risk.

The analysed macroeconomic scenarios allow for a comprehensive analysis of: all significant risk types and scenarios' impact on the capital adequacy and liquidity of the Bank.

Bank carries out so called reverse stress tests, the goal of which is to identify events potentially leading to unviability of the Bank. Reverse stress tests are used for making strategic decisions concerning the acceptable risk profile of the Bank.

3.2.6. Financial results of mBank and mBank Group in the context of regulatory requirements

Bank monitors the recovery plan indicators in the areas of liquidity, capital, profitability and assets quality in accordance with the governance stipulated in the Recovery Plan for mBank Group.

In line with the guidelines of European Banking Authority (EBA/GL/2015/02) on the minimum list of qualitative and quantitative recovery plan indicators, profitability indicators should capture any institution's income-related aspect that could lead to a rapid deterioration in the institution's financial position through lowered retained earnings (or losses) impacting on the own funds of the institution.

The profitability of core business model of the Bank remained high and stable in 2020. The results for 2020 were influenced by extraordinary events, i.e. additional costs related to increase in the provision for legal risk related to the currency loan portfolio in the amount of PLN 1 021 714 thousand and increase in impairment losses related to the COVID-19 pandemic.

Taking into account the Bank's net result in 2020 in the amount of PLN 93 047 thousand and net result of mBank Group in the amount of PLN 103 757 thousand, it should be emphasized that the conditions relating to the balance sheet loss referred to in Art. 142 sec. 2 of the Banking Law have not been met.

Recovery plan indicators in the areas of liquidity, capital and assets quality demonstrate the stable situation of the Bank and the Group.

3.3. Credit risk

3.3.1 Organization of risk management

The mBank Group actively manages credit risk in order to optimise the level of profit in terms of return on risk. Analysis of the risk in the Group operations is continuous. For the purpose of identification and monitoring of credit risk, uniform credit risk management rules are applied across the Bank's structure and its subsidiaries; they are based, among others, on separation of the credit risk assessment function and the sales function at all levels up to the Management Board. A similar approach is applied to administration of credit risk exposures as this function is performed in the risk area and the operating area and is independent from sales functions. The model of Group-wide risk management assumes participation in the process of the Bank's risk management area organizational units as well as the Credit Committee of the mBank Group (KKG).

Decision-making for credit exposures in the corporate area. Credit decisions are consistent with the accepted rules set in the Corporate Risk Policy. Levels of decision-making competences are determined by a decision-making matrix. The determination of level of decision-making authority for credit decision is based on EL-rating and total exposure on client/group of affiliated entities. The total exposure includes also exposures on the client/group of affiliated entities in the mBank Group subsidiaries.

Decision-making for credit exposures in the retail banking area. Due to a profile of retail banking clients, the accepted amount of exposure per client and standardisation of products offered to those clients, the credit decision-making process differs from that applied to corporate clients. The decision-making process is automated to a large extent, both in terms of acquiring data on the borrower from internal and external data sources, and in terms of risk assessment by means of scoring techniques and standardised decision-making criteria. The tasks, which are not automated concern mainly the verification of credit documentation and potential derogations when a decision is made with the escalation to the decision-making level in accordance with the applicable rules. In addition, in case of mortgage loans, the value of the collateral is established (standard applications evaluated internally, other with the use of external appraisal report which is additionally evaluated internally).

3.3.2 Credit Policy

Bank manages credit risk based on supervisory requirements, market best practices, bank's own experiences and expertise. Credit policies, established separately for retail banking and corporate banking, play the key role in the credit risk management process. Credit policies include e.g.:

- target customer groups,
- acceptable ratings' levels defined by the expected loss value,
- criteria for acceptance of financed subjects and collaterals,
- rules for mitigating concentration risk,
- rules for selected industries and customers segments.

3.3.3 Collateral accepted

Collateral accepted in the process of granting credit products. The collateral is an important part of the credit policy. The primary role of collateral is to reduce the credit risk of the transaction and provide the Bank with a realistic opportunity to repay receivables. In making a decision about granting a credit risk bearing product, the Bank strives to obtain collateral adequate to the accepted risk. The Bank accepts collateral only upon its assessment and provided it meets the condition of no significant correlation between the credibility of the debtor and the collateral value. Specific types of collateral that are required depend on the risk bearing product, the tenor of the transaction and the risk of the client. The most common collateral accepted are:

- mortgage on real estate,
- registered pledge,
- cession of receivables (cession of rights),
- monetary deposit,
- guarantees and warranties,
- guarantee deposit or cash blocked,
- transfer of ownership to vehicle.

The value of fixed assets taken as collateral (other than vehicles) is determined on the basis of a valuation prepared by a licensed expert. Valuations submitted to the Bank is verified by a team of specialists located in the risk management area, that verifies the correctness of the market value assumptions and assesses the liquidity of the collateral. Each collateral is monitored.

In the corporate banking area, in the case of collateral on fixed assets or financial assets, the final value of collateral is brought to a most realistic value (MRV) using Empirical Coverage Factor (ECF), which reflects the pessimistic variant of debt recovery from the collateral through forced sale. Personal collateral is assesed taking into account the finacial standing of provider. The Bank assigns the risk parameter PSW (which is an equivalent of Most Realistic Value for fixed assets collateral). In cases when PD parameter of the collateral provider is equal or worse than PD parameter of the debtor, then PSW parameter is zero.

The Bank has a dedicated collateral policy in the area of corporate banking. The most important elements of this policy are:

- indication of collateral preferred and unrecommended,
- recommendations regarding the requirements of collateral in specific situations,
- frequency of collateral monitoring,
- Bank's approach to collateral with MRV parameter equal to zero.

Collateral accepted for transactions in derivative instruments. The Bank manages the risk of derivative instruments. Credit exposures arising from concluded derivative transactions are managed as a part of clients' general credit limits, taking into account potential impact of changes in market parameters on the value of the exposure. Existing master agreements with contractors obligate the Bank to monitor the value of exposure to the client on a daily basis and provide for additional collateral against the exposure to be contributed by the client or mBank in accordance with signed agreements. At the same time, the master agreements provide for early settlement of the transaction with the client in the event of breach of contract. mBank applies an Early Warning Process in order to monitor the usage of limits on derivatives and the Bank's ability to respond to the client when the exposure due to open derivative transactions nears the maximum limit. Moreover, taking into consideration credit risk related to a derivative limit granted to a specific client, the Bank may apply additional collaterals from standard catalogue of collaterals of credit risk-bearing products.

3.3.4 Rating system

The rating system is a key element of the credit risk management process in the **corporate banking area**. It consists of two main elements:

- customer rating (PD-rating) – describing the probability of default (PD);
- Loss Given Default (LGD) model for non-default portfolio (for default portfolio individual method of estimating recoveries is used). Model consists of components: recoveries from unsecured part of the credit (based on contractual and customer factors, information from financial statement), recoveries from secured part of exposure (based on collateral factors);
- Exposure at Default (EAD) model, which includes Credit Conversion Factor (CCF) model and Limit Utilization (LU) model. The components are based on contract and customer characteristics;
- credit rating (EL-rating) – describing expected loss (EL) and taking into consideration both customer risk (PD) and transaction risk (LGD, Loss Given Default – loss resulting from default). EL can be described as PD*LGD. EL indicator is used mainly at the credit decision-making stage.

The rating produces relative credit risk measures, both as percentages (PD%, EL%) and on a conventional scale from 1.0 to 6.5 (PD-rating, EL-rating) for corporations (sales over PLN 50 million) and SMEs (sales up to and including PLN 50 million). PD rating calculation is a strictly defined process, which comprises seven steps including: financial analysis of annual reports, financial analysis of interim figures, assessment of timeliness of presenting financial statements, analysis of qualitative risks, warning indicators, level of integration of the debtor's group, and additional discretionary criteria. Credit rating based on expected loss (EL) is created by combining customer risk rating and transaction risk rating, which results from the value of exposure (EAD, Exposure at Default) and the character and coverage with collateral for transactions concluded with the client (LGD). LGD, described as % of EAD, is a function of possibly executed value of tangible and financial collateral and depends on the type and the value of the collateral, the type of transaction and the ratio of recovery from sources other than collateral.

The rating system generates the borrower's probability of default directly in the form of a PD ratio, expressed as a percentage (continuous scale). Rating classes are calculated on the basis of procedures of dividing percentage PD into groups based on geometric stepladder. In external reporting, the Bank maps the internal PD rating scale onto external ratings. The table below presents the mapping system.

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Sub-portfolio	1				2			3		4		5			6	7	8	
PD rating	1.0 – 1.2	1.4	1.6	1.8	2	2.2	2.4 – 2.6	2.8	3	3.2 – 3.4	3.6 – 3.8	4	4.2 – 4.6	4.8	5	5.2 – 5.8	Brak ratingu	6.1 – 6.5
S&P	AAA	AA+	AA, AA-	A+, A	A-	BBB+	BBB	BBB-	BB+	BB	BB-	B+	B	B-	B-	CCC+ do C	Nie dotyczy	D
	Investment Grade								**Subinvestment Grade**			**Non-investment Grade**						**Default**

The following models comprised by the rating system are used in the **retail banking** area:

- Loss Given Default (LGD) model, which covers the entire retail portfolio. The ultimate loss level is determined basing on integration of three components:
  - recovery rate for cured cases (based on mean recoveries achieved for cured defaults),
  - recovery rate for non-cured cases (based on contractual factors, bank-client relations and collateral characteristic),
  - probability of cure (based on socio-demographic factors and full product structure of contract owner).

  Estimation of loss level takes place in homogenous segments, taking into account the type of product and the type of collateral. Separate models are in place for non-default and default portfolio,
- Exposure at Default (EAD) model, which includes Credit Conversion Factor (CCF) model, Limit Utilization (LU) model and Prepayments model. The components are based on contract and customer characteristics,
- PD model with a modular structure, which integrates results of scoring cards dedicated to the retail area:
  - application scoring cards (based on socio-demographic factors, factors describing the characteristics of business activity and factors related to the specificity of applied credit products),
  - behavioural scoring cards (based on information on the history of credit and deposit relation with the Bank),
  - internal scoring card based on Credit Information Bureau data (regarding the data about liabilities held outside the Bank).

3.3.5 Monitoring and validation of models

All models of risk parameters applied in mBank, including, i.a. PD models (with all components), LGD models and CCF models are subject to detailed and annual monitoring by modelling units. Moreover, the models are cyclically validated by mBank's independent Validation Unit.

The monitoring includes tests to check discriminatory power of individual models or their components, stability over time, the materiality of individual deviations of empirical values from theoretical values and the impact on portfolio parameters. The modelling unit recalibrates the respective models, i.a. in case of identification of some mismatches.

Reports on the performed monitoring/backtests are presented to the model users and the independent Validation Unit.

Validation

Validation is an internal, complex process of independent and objective assessment of model operation, which is consistent with the Recommendation W requirements and - in case of the AIRB method - meets the supervisory guidelines set out in the CRR. The validation rules are set out in general in the Model Management Policy and described in details in other mBank's internal regulations. The validation covers models directly and indirectly used in the assessment of capital adequacy under the AIRB approach and other models indicated in the Model List maintained in mBank.

In case of AIRB models there is assured an independence of Validation Unit in the organizational structures of the Bank or the Group's subsidiary in relation to the units involved in the model's construction/maintenance, i.e. the model owner and users. The Validation Unit is responsible for the validation in mBank.

The scope of validation performed by the Validation Unit covers the assessment of models, model implementation and their application process.

Depending on the materiality and complexity of the model, as well as the type of validation task to be performed, the validation may be advanced (covers both quantitative and qualitative elements) or basic (mainly focused on the quantitative analyses and selected qualitative elements). The validation results are documented in the validation report containing, in particular, an assessment used for the purpose of approving the model, and recommendations, if any, in the form of precautionary and remedial actions, about the irregularities found.

Validation tasks are performed in accordance with the annual validation plan. Both validation plan and the results of performed validation tasks are approved by the Model Risk Committee.

IRB Method Change Policy

The Bank implemented the IRB Method Change Policy approved by the Management Board. The Policy contains internal rules for the change management within the IRB approach, based on the supervisory guidelines and taking into account the organizational specifics of the Bank. The Policy specifies the stages of the change management process, defines roles and responsibilities, describes in details the rules of classification of changes, in particular classification criteria based on the guidelines published by the European Central Bank.

3.3.6 Calculating expected credit losses

The method of calculating expected credit losses is consistent with the International Financial Reporting Standards. All the rules and definitions implemented in the Bank that are used in this section are in accordance with Polish banking law and requirements of Polish Financial Supervision Authority.

3.3.6.1 How exposures are classified to stages

The Bank, by implementing International Financial Reporting Standards, classifies credit exposures to stages:

- Stage 1 – exposures for which the risk did not increase significantly since the initial recognition in the loan portfolio,
- Stage 2 – exposures for which, as at the reporting date, a significant deterioration in credit quality was identified compared to the date of their initial recognition,
- Stage 3 – exposures for which impairment triggers were identified during its lifetime in portfolio,
- POCI (purchased or originated credit-impaired asset) – assets identified as credit-impaired at initial recognition.

In the Bank the assigment of exposure to stage 2 takes place according to the Transfer Logic algorithm, which defines the qualitative and quantitative criteria indicating a significant increase of credit risk, while the classification exposure to the stage 3 is determined by loss-events.

Once the quantitative or qualitative criteria that were used to classify the exposure in Stage 2 at the reporting date are no longer met (the client and the exposure assigned to him or her no longer meet any of the Transfer Logic qualitative criteria or quantitative criteria), the exposure will be moved from Stage 2 to Stage 1. In case of exposures classified as forborne, the additional condition for reclassification to Stage 1 is the 24-month probation period during which the loan has a performing status.

The exposure may also be transferred from Stage 3 to Stage 2 or to Stage 1 in case of the retail part of the portfolio when the impairment triggers are no longer met (except for the restructuring), and in case of the corporate customers when:

- the loss events that caused the classification of a client to the stage 3 do not longer exist, and
- the economic and financial situation of the debtor has improved to the extent which gives a high probability of repayment of all credit obligations in accordance with the conditions resulting from the original agreement or from the contract specifying the restructuring terms, and
- the overdue debt has been repaid, and
- the indebtedness is timely handled for at least 12 months after the change of contractual terms, or
- the balance of the client's credit and non-credit obligations equals to zero as a result of: their total repayment by the customer, recovery of the Bank's receivables as a result of the debt collection activities or the receivables write-off.

3.3.6.1.1 Significant deterrioration of credit quality (classification to stage 2)

A significant deterioration in credit quality is recognised for the asset concerned on the basis of quantitative and qualitative criteria, with the asset being transferred to Stage 2 once at least one of such qualitative or quantitative criteria is met.

Qualitative criteria are:

- More than 30 days past due, involving materiality threshold – the number of days for which the longest overdue amount of the exposure concerned is greater than or equal to 31 days. At the same time, the amount of capital or an off-balance-sheet commitment is greater than or equal to PLN 500 in case of retail exposure (or CZK 3000 or EUR 120 in Bank's foreign branches in Czech Republic and Slovakia respectively) and greater than or equal to PLN 3000 in case of corporate exposure.

- Occurrence of the Forborne flag (the client status shows that he or she is experiencing difficulties in repaying the loan commitment, as defined by the Bank).
- Occurrence of the Watch flag (the Bank's internal process designed to identify corporate clients who are subject to increased monitoring in terms of changes in credit quality, in accordance with the Watch List classification rules adopted by the Bank).

The quantitative criterion of the Transfer Logic is based on a significant deterioration in credit quality, which is assessed on the basis of a relative long-term change in Probability of Default (PD), specified for the exposure at the reporting date, relative to the long-term PD specified on initial recognition. This factor is determined separately for the retail and corporate portfolio within the homogeneous segments in terms of probability of default events. Where a relative change in long-term PD exceeds "the transition threshold", the exposure is moved to Stage 2. An important issue in the process of calculating the credit quality deterioration is initial date recognition consistent in the entire Bank, against which the deterioration of credit quality is examined. Initial date re-recognition is determined for the exposures for which substantial modification of contractual terms took place. Each change of initial recognition date results in recalculation taking into account the new exposure characteristics, initial PD parameter at the new initial recognition date, against which the credit quality deterioration is examined.

3.3.6.1.2 Low credit risk criteria

For exposures whose characteristics are indicative of low credit risks (LCR), expected credit losses are always determined on a 12-month basis. Exposures designated as LCR may not be transferred from Stage 1 to Stage 2, although they can be moved from Stage 1 to Stage 3 upon being recognized as credit-impaired. The Bank applies the LCR criterion to clients from the K1 segment with a PD rating grade greater than or equal to class 2.8. The LCR criterion is also applied to clients from segments such as: Governments and Banks, Local Government Units and NBFI (Non-Banking Financial Institution).The LCR criteria is not used in the retail banking segment.

3.3.6.1.3 Impairment triggers - corporate portfolio

The list of definite loss events in corporate portfolio:

- The number of days past due is above 90 days (14 days in the case of banks) and the overdue amount exceeds PLN 3 000 for corporate customers and PLN 500 for Private Banking customers;
- The Bank has sold exposures with a significant economic loss related to the decrease of the debtor creditworthiness;
- The Bank performed enforced restructuring of the exposure, which resulted in the change of the loan/transaction service schedule due to the lack of possibility of the obligor to meet his obligations under loan/transaction agreement, as initially stipulated, which resulted in:
  - reduction of financial liabilities by remitting part of these obligations, or
  - postponing the repayment of the substantial part of the principal, interest or (if it refers to) commission provided that the lack of approval for restructuring would cause more than 90 calendar days delay in repayment of substantial part of the obligation;
- Filing by the debtor or filing by the Bank, the parent or subsidiary entity of the Bank a bankruptcy motion against debtor or filing similar motion in respect of credit obligations of the debtor towards the Bank, the parent or subsidiary entity of the Bank;
- Bankruptcy of debtor or acquiring by him a similar legal protection resulting in his evasion of or delay in repayment of credit obligations towards the Bank, the parent or subsidiary entity of the Bank;
- Termination of part or whole credit agreement by the Bank or the beginning of restructuring/collection procedures;
- Client's fraud;
- Bank's expectations of loss on a client's exposure.

In addition Bank identifies loss-events specific to individual categories of entities, and so-called 'soft' loss events, introduced in order to signal situations, which may result in the loss of the debtor's ability to repay loan to the Bank. In the event of their occurrence, an in-depth analysis (taking into account the specificity of the entity's operations) is performed and individual decision on the classification of the exposure to one of the stages is made.

3.3.6.1.4 Impairment triggers - retail receivables

In the Bank's retail banking, a debtor-oriented approach, including all exposures of the customers, is applied for identification of impairment triggers.

The main impairment trigger is delay in repayment, which is identified in different ways depending on the abovementioned approach. In the retail banking in Poland, impairment trigger is identified, when the total of all customer's exposures past due more than 30 days exceeds PLN 500 and the eldest delay exceeds 90 days. In Czech and Slovak branches, an individual exposure is considered impaired when the overdue amount exceeds CZK 3 000 or EUR 120, respectively and the delay exceeds 90 days;

- Enforced restructuring of debt;
- Bankruptcy of debtor;
- Recognition of the contract as fraudulent;
- Sale of the exposure with considerable economic loss;
- Uncollectable status of debt;
- Payout of low downpayment insurance.

3.3.6.2 Calculation of expected credit losses

Expected credit losses (ECL) are measured at the level of a single contract or exposure (agreement). In the portfolio approach, expected credit losses are the multiplication of individual for each exposure estimated value of PD, LGD and EAD and the final value of expected credit losses is the sum of expected credit losses in particular periods discounted with the effective interest rate. The calculation of expected credit losses does not use a collective approach (assigning one parameter value to selected portfolios).

If on the reporting date the exposure credit risk did not increase significantly since the initial recognition, expected credit losses are calculated in 12-month horizon (12m ECL). If the exposure credit risk increased significantly since the initial recognition (exposure is in the stage 2), the Bank calculates expected credit losses in the life-time horizon (Lt ECL). The parameters used to calculate an expected credit loss in Stage 1 are identical to those used to calculate a long-term credit loss in Stage 2 for t=1, where 't' stands for the first year of the forecast. he individual approach concerns all balance sheet and off-balance sheet credit exposures with an impairment in the corporate loan portfolio and Private Banking loan portfolio, which is registered in corporate systems, as well as selected credit exposures with an impairment in the retail microfirms loan portfolio (used in the case of exposures with mortgage collateral with a debt balance over PLN 300 thousand and arrears over 1 year). The expected credit losses are calculated as a difference between the gross carrying amount of the asset and the present value of the estimated future cash flows discounted with the effective interest rate. The method of calculating the expected recoveries takes place in scenarios and depends on the Bank's chosen strategy for the client. In case of restructuring strategy, considered scenarios are developed for exposures and assume a significant share of recoveries from the customer's own payments. In case of debt collection strategy, the scenarios are developed for each recovery source (collateral) separately. Bank identifies scenarios per exposure/recovery source, minimum 2 are considered obligatory, provided one of them reflects a partial loss on exposure/recovery source. Weight of scenario results from an expert assessment of the likelihood of scenarios based on the relevant facts of the case, in particular, on existing security and their type, client's financial situation, client's willingness to cooperate, the risks that may occur in the case and micro- and macroeconomic factors.

For the valuation of expected credit losses the Bank uses data contained in the Bank's transaction systems and dedicated tools implemented for the purposes of IFRS 9.

3.3.6.2.1 Use of macroeconomics scenarios in ECL estimation

The Bank is required to set an expected credit loss in a way which meets the expectations for various forward-looking macroeconomic scenarios. In case of portfolio estimation of ECL, the non-linearity factor (NLF) is set in order to adjust the value of an expected credit loss (calculated every month). The values of NLF are used as scaling factors for individual ECLs. The NLF factor is determined separately for retail and corporate segments at least once a year. NLFs are used as scaling factors for individual ECLs that are determined at the level of individual exposures in each segment. NLFs are calculated based on results from 3 simulation calculations at the same reporting date, which result from relevant macroeconomic scenarios. In particular, NLF for a given segment is calculated as:

- probability-weighted average of the expected loss from 3 macroeconomic scenarios ('average estimation') comprising: baseline scenario, optimistic scenario, pessimistic scenario. The weights of scenarios are consistent with probabilities of realization each scenario – 60% for base, 20% for optimistic and 20% for pessimistic (except for the first quarter of 2020 where modification of the weight of macroeconomic scenarios, consisting in assigning a 100% weight to the pessimistic scenario was made. This reflected the deterioration of the economic situation in the country resulting from the COVID-19 epidemic);

- the expected loss determined under baseline scenario (reference estimate).

Simulation calculations, whose results are used to calculate NLF, are carried out on the basis of the same input data on exposure characteristics, but involve different risk parameter vectors, if the macroeconomic expectations defined in the scenarios are such as to affect the value of these parameters.

Additionally, the inclusion of forward-looking information takes place in the models of all three credit risk parameters estimated in the lifetime horizon and as part of the allocation for Stages process (Lt PD, Lt EAD, Lt LGD, TL). In the estimates the Bank uses, among others, generally available macroeconomic and financial indicators (employment in the enterprise sector, employment rate, level of export/import, salaries, monetary financial institutions receivables from households, profitability of bonds – details are presented in Note 4), expectations regarding interest rates and exchange rates, as well as changes in property prices, separately for residential and commercial properties.

In case of individual estimation of ECL, the assumed recovery scenarios take into account various macroeconomic and general factors having an impact to the time and amount of recoveries.

3.3.6.2.2. Significant model changes

Due to the deterioration of the economic situation in the country resulting from the COVID-19 epidemic, additional actions aimed at including this information in the expected credit losses models have been taken. Due to the uncertainty caused by dynamic situation changes, the Group's activities were spread over time and in the first and in the second quarter of 2020 covered:

1. modification of the weight of macroeconomic scenarios, consisting in assigning a 100% weight to the pessimistic scenario, in the expected credit loss model, applied in the first quarter of 2020,
2. updating models of the relationship between the long-term PD parameter and macroeconomic variables, based on historical data and the currently observed economic situation, in the second quarter of 2020,
3. updating macroeconomic forecasts, taking into account the impact of COVID-19 and state aid actions, affecting long-term PD, EAD and LGD parameters, as well as the level of exposure allocation to stage 2, in particular by increasing the expected level of allocation for some portfolios due to the expected increase in the loss ratio, in the second quarter of 2020,
4. restoration of macroeconomic scenario weights of 60% for the baseline scenario, 20% for the optimistic and 20% for the pessimistic respectively, in the expected credit loss model, while taking into account the current macroeconomic forecasts implemented directly in the risk parameters, in the second quarter of 2020.

Total impact of the above changes to the level of expected credit loss amounted to approx. PLN 84 million (negative impact). Additionally, the impact on the fair value valuation of the non-mortgage portfolio amounted to PLN 9 million (negative impact).

3.3.6.2.3. EBA Guidelines on the application of the definition of default (EBA/GL/2016/07)

Starting from 1st January 2021, the EBA guidelines on the application of the definition of default under Article 178 of Regulation of the European Parliament and the Council (EU) No 575/2013 from 26th June 2013 will become effective.

Major changes include:

- change in the method of calculating days past due;
- determination of the materiality threshold (relative and absolute) in accordance with the Regulation of the Minister of Finance, Investment and Development of 3 October 2019 (paragraph 2), i.e .:
    1. the sum of all amounts past due that are related to any credit obligation of the obligor to the institution will exceed:
        a. PLN 400 - in the case of retail exposures,
        b. PLN 2 000 - for exposures other than retail exposures,
    2. the amount of overdue credit obligations of the debtor in relation to the total amount of all the bank's balance sheet exposures to this debtor will exceed 1%;
- guidelines on forced restructuring. The materiality threshold from which the Bank considers a reduced financial liability to be defaulted is 1%;
- introducing a quarantine (trial period), the time during which the Bank assesses the behavior and financial situation of the debtor. The quarantine period is calculated from the moment when the event causing the trigger of default has ceased to apply. The duration of the quarantine is 12 months in the

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case of a forced restructuring, and 3 months in the case of other triggers. Proper handling of obligations by the debtor during the trial period is the basis for reclassifying him to the non-default status;

- consistent application of the definition of default - the EBA guidelines oblige institutions to implement appropriate processes ensuring that the default by one obligor is consistently identified across the entire capital group;
- detailed rules for the treatment of joint credit obligations - the bank uses the definition of default at the level of the obligor in the retail area, therefore it is obliged to apply the provisions of par. 95 - 105, on the basis of which it should define in its internal rules and procedures the rules for the treatment of joint credit obligations and for the transfer of default status between exposures.

The implementation of changes in the definition of default under the EBA guidelines unifies the approach on the European market, thus ensuring comparability of the levels of non-performing loans presented by institutions.

The impact of the implementation of EBA guidelines on the credit risk costs at mBank entity level estimated at approx. PLN 32 million (the amount estimated at the moment of implementation of the guidelines, which will be taken into account in the result of 2021).

3.3.6.3 Credit risk costs coverage of individual sub-portfolios

The tables below show the percentage of the Bank's balance sheet and off-balance sheet items relating to loans and advances, guarantees and letters of credit to individuals, corporate entities an public sector and the coverage of the exposure with credit risk costs for each of the Bank's internal rating categories (the description of rating model is included in Note 3.3.4).

Portfolio measured at amortised cost

Sub - portfolio	31.12.2020		31.12.2019	
	Exposure (%)	Provision coverage (%)	Exposure (%)	Provision coverage (%)
1	12.29	0.01	11.61	0.01
2	36.72	0.09	37.99	0.04
3	12.02	0.23	15.83	0.15
4	27.01	0.59	24.08	0.51
5	6.20	2.79	4.85	2.01
6	0.32	7.30	0.60	4.34
7	1.59	9.23	1.51	10.13
8	0.69	0.18	0.70	0.21
default	3.16	63.86	2.83	64.55
Total	**100.00**	**2.58**	**100.00**	**2.27**

As at 31 December 2020, 49.01% of the loans and advances portfolio for balance sheet and off-balance sheet exposures is categorised in the top two grades of the internal rating system (31 December 2019: 49.60%).

Portfolio measured at fair value through other comprehensive income

Sub - portfolio	31.12.2020		31.12.2019	
	Exposure (%)	Provision coverage (%)	Exposure (%)	Provision coverage (%)
1	47.81	0.02	29.93	0.01
2	45.38	0.07	60.74	0.04
3	4.07	0.27	5.69	0.19
4	1.83	0.77	2.43	0.51
5	0.51	2.36	0.77	2.10
6	0.06	4.44	0.14	3.33
7	0.20	7.32	0.27	6.31
default	0.14	26.42	0.03	24.25
Total	**100.00**	**0.13**	**100.00**	**0.10**

As at 31 December 2020, 93.13% of the loans and advances is categorized in the top two grades of the internal rating system (31 December 2019: 90.67%).

3.3.7 Fair value for credit assets

If the conditions for the measurement of a credit asset at amortized cost (IFRS 9, par. 4.1.2) are not met, then it is measured at FVtPL (Fair Value through Profit & Loss) or by FVOCI (Fair Value through Other Comprehensive Income).

3.3.7.1 Fair value valuation of non-impaired credit assets

The valuation for non-impaired exposure is based on its discounted estimated future cash flows.

Future cash flows are determined taking into account:

- repayment schedule, and in the absence of a schedule (revolving products) - based on a statistical estimation of the annual credit limit utilization in expected behavioral exposure period,
- time value of money, based on risk-free interest rates set in the process of forecasting interest flows,
- cash flows amount and their schedule fluctuations stemming from the option of prepayment (early partial or full repayment of the principal) included in the loan agreement by applied by prepayment factors,
- uncertainty of cash flows resulting from credit risk throughout the forecasted lifetime of the exposure by modifying contract flows using multi-year credit risk parameters Lt PD and Lt LGD,
- other factors that would be taken into consideration by the potential exposure buyer (overhead costs and the profit margin expected by market participants) during the process of calibration of the discount rate used in the valuation process.

Due to requirements of IFRS 13 for the exposures for which there are no quotes on an active market, the Bank calibrates the discount rate based on fair value at the date of the initial recognition (i.e. the cost price of exposure). Calibration margin reflects market valuation of costs related to maintaining exposures in the portfolio and market expectations about profit margin realized on similar exposures.

3.3.7.2 Fair value valuation of impaired credit assets

Impaired credit assets are valuated based on expected recoveries. In the case of retail exposures the valuation is reflected by LGD parameters, and for corporate exposures refers to individual recovery scenarios.

3.3.8 Repossessed collateral

The Bank classifies repossessed collaterals as assets repossessed for debts and measures them in accordance with the adopted accounting policies described in paragraph 2.18. Assets repossessed for debts classified as assets held for sale shall be put up for sale on an appropriate market and sold at the soonest possible date. The process of selling collaterals repossessed by the Bank is arranged in line with the policies and procedures specified for individual types of repossessed collaterals. In 2020 and 2019, the Bank did not have any repossessed collaterals that were difficult to sell.

3.3.9 Bank Forbearance Policy

Definition

The Bank's forbearance policy is a set of activities relating to renegotiation and restructuring of terms of loan agreements which is defined by internal regulations.

The Bank offers forbearance to assist customers, who are temporarily or permanently in financial distress and are unable to meet their original contractual repayment terms, through agreements with less restrictive terms of repayment, without which financial difficulties would prevent satisfactory repayment under the original terms and conditions of the contract. These actions may be initiated by the customer or the Bank.

The type of concession offered should be appropriate to the nature and the expected duration of the customer's financial distress. The Bank's belief in the customer's willingness and ability to repay the loan is necessary to conclude an agreement. Prior to granting a concession, an assessment of its impact on improving customer's ability to repay the loan is carried out.

The Bank renegotiates loan agreements with customers in financial difficulties to maximise possibility of receivables repayment and minimise the risk of default (situation when client fails to fulfil his contractual obligation).

Exposures with modified terms and conditions under forbearance policy (hereinafter - forborne exposures) are subject to regulatory and internal reporting.

Instruments used

The Bank maintains open communication with borrowers in order to detect any financial difficulties as early as possible and to know the reasons of such difficulties. In case of retail borrowers with temporary financial difficulties forbearance solutions focus on temporary reductions of contractual payments among others in form of capital repayments suspension with only interest repayments kept.

For borrowers under long term financial distress extension of contractual repayment schedule may be offered which can include instalments reduction.

For the corporate borrowers in financial distress, as part of the business support process, the mBank offers concessions, starting from participating in debt standstills and concluding on debt restructuring agreements. Debt restructuring agreements may improve Bank's collateral position by replacing open financing (overdraft) with factoring or invoice discount and they can waive or ease covenants (additional conditions included in the primary agreement), if it represents optimal strategy for borrower's business continuity.

The following list does not exhaust all possible concessions (forbearance measures) that are subject to forbearance, but it includes the most common:

- maturity extension/extension of loan duration,
- restructuring (medium or long term refinancing),
- capitalization of interest,
- interest deferrals,
- principal deferrals,
- covenant waiver,
- standstills.

In connection with the crisis caused by the COVID-19 pandemic, Bank offered its clients a number of assistance tools aimed at supporting them in a difficult situation resulting from the outbreak of the epidemic. The purpose of these tools was to help maintain the financial liquidity of customers by reducing the financial burden in the short term.

The supporting measures offered by the mBank till the end of September 2020 were in line with the banks' position regarding the unification of the rules for offering supporting measures in the banking sector. This position was a non-legislative moratorium within the meaning of the European Banking Authority (EBA) guidelines on legislative and non-legislative moratoria on loan repayments applied in the light of the COVID-19 crisis notified by the Polish Financial Supervision Authority to the European Banking Authority.

The moratorium covered supporting instruments granted from 13 March to 30 September 2020.

mBank offers to retail clients also support under so-called Crisis Shield 4.0, effective from 23 June 2020. The customers who lost their job or another major source of income after 13 March 2020, have the right to suspend the loan repayment for up to 3 months without charging interest during the period of suspension of the agreement. This assistance tool is considered as a legislative moratorium within the meaning of the EBA guidelines.

According to the statement of the European Banking Authority on the prudential framework regarding Default, Forbearance and IFRS 9 in light of COVID-19 measures published on 25 March 2020, saying that the use of COVID-19 aid tools in the form of repayment moratorium, meeting the EBA guidelines on legislative and non-legislative moratoria on loan repayments applied in the light of the COVID-19 crisis published on 2 April 2020 does not automatically classify exposures to default and forbearance, as well as according to the UKNF (Polish Financial Supervision Authority) statement published as a part of the Supervisory Impulse Package for Security and Development that UKNF will apply a flexible approach to the application of EBA guidelines for unsupported and restructured exposures, Bank does not classify the granting of the moratoria due to the COVID-19 crisis as forbearance.

The exception are corporate clients, for whom there is applied an approach based on individual assessment whether classification of such client's exposure as forborne is required, in accordance with the mBank's internal regulations.

Risk management

Forbearance measures have been an integral part of mBank's risk management area for many years. Forborne portfolios are subject to regular review and reporting to the area management. The effectiveness of undertaken actions, regularity of restructured transactions' service in respect of types of product and borrower's segment are subject to assessment. The risk analysis of retail forborne portfolio is based on portfolio approach and corporate portfolio analysis is based on individual approach.

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In corporate banking, every bank's exposure to borrowers with recognized loss event is classified as default and impairment test is required to be carried out. Every exposure classified as default is being taken over by the specialised unit dedicated to restructuring and debt collection, which defines and implements the Bank's optimal strategy towards the client from the point of view of minimizing losses, i.e. restructuring or debt collection. All exposures to borrowers in financial difficulties with granted concessions (incl. classified as default) have the forborne status. Non-default debtors in financial difficulties, i.e. without recognized loss event, who received the concession (forbearance measures), are subject to close monitoring (Watch List – WL) by all units involved in the loan granting process. Their financial situation is subject to close monitoring and they are under constant review to establish whether any of impairment indicators had materialised.

Bank does not use dedicated models to determine level of portfolio provision and special-purpose provision for forborne portfolio.

Forborne exit conditions – corporate banking area

The Bank ceases to recognise the exposure as forborne if all of the following conditions are met:

- debtor financial situation's analysis showed improvement and the exposure has been recognised as performing and it was reclassified from the nonperforming category,
- at least two years after exposure had been recognised as performing have passed (probation period),
- for the last 12 months of probation period, significant and regular capital or interest payments have been made by the borrower (overdue not exceeding 30 days),
- none of the debtor exposures is overdue more than 30 days at the end of probation period.

Forborne exit conditions – retail banking area

The Bank ceases to recognise the contract as forborne when all of the following conditions are met:

- the contract is recognised as performing,
- at least two years (probation period) have passed since the exposure was recognised as performing,
- at least from the middle of the abovementioned probation period regular capital or interest payments were made (lack of significant delays in repayment longer than 30 days),
- none of the debtor's exposures are overdue more than 30 days and at the same time the due amount does not exceed material threshold defined in internal regulations of the Bank at the end of the 2-year probation period.

Portfolio characteristic

	31.12.2020			31.12.2019		
	Gross carrying amount	Accumulated impairment	Net value / Fair value	Gross carrying amount	Accumulated impairment	Net value / Fair value
Loans and advances from customers measured at amortised cost	**87 025 145**	**(3 031 447)**	**83 993 698**	**85 481 126**	**(2 743 409)**	**82 737 717**
of which: forborne exposures	1 975 597	(435 714)	1 539 883	1 881 940	(572 640)	1 309 300
of which: defaulted	*822 881*	*(395 490)*	*427 391*	*1 068 052*	*(551 625)*	*516 427*
Loans and advances from customers measured at fair value through other comprehensive income	**12 531 167**	**(16 154)**	**12 515 013**	**8 429 828**	**(8 138)**	**8 421 690**
of which: forborne exposures	33 648	(916)	32 732	8 664	(159)	8 505
of which: defaulted	*2 133*	*(500)*	*1 633*	*112*	*(11)*	*101*
Loans and advances from customers measured at fair value through profit and loss			**1 372 481**			**1 813 818**
of which: forborne exposures			102 229			97 608
of which: defaulted			*91 266*			*79 230*
Forborne exposures, total			**1 674 844**			**1 415 413**
of which: defaulted			*520 290*			*595 758*

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Change of carrying value of forborne exposures	31.12.2020	31.12.2019
As at the beginning of the period	**1 415 413**	**1 158 448**
Outflow from forborne exposures	(304 346)	(282 588)
Inflow to forborne exposures	680 753	620 746
Changes in existing forborne exposures	(116 976)	(81 193)
As at the end of the period	**1 674 844**	**1 415 413**

The analysis carried out for the above reporting periods showed a negligible share of exposures that leave the forbearance status within one year and then return to it.

Forborne exposures by client segment	31.12.2020	31.12.2019
Loans and advances to customers, including:		
Individual customers:	785 908	577 763
of which: housing and mortgage loans to natural persons	558 642	*505 974*
Corporate customers	888 936	837 650
Total	**1 674 844**	**1 415 413**

Forborne exposures by the type of concession	31.12.2020	31.12.2019
Refinancing	90 436	148 288
Modification of terms and conditions	1 584 408	1 267 125
Total	**1 674 844**	**1 415 413**

Forborne exposures by geographical breakdown	31.12.2020	31.12.2019
Poland	1 626 996	1 360 206
Other countries	47 848	55 207
Total	**1 674 844**	**1 415 413**

Forborne exposures by days pas due	31.12.2020	31.12.2019
Not past due	319 960	956 169
Past due less than 30 days	1 118 388	167 217
Past due 31 – 90 days	53 612	64 784
Past due over 90 days	182 884	227 243
Total	**1 674 844**	**1 415 413**

Forborne exposures by industry	31.12.2020	31.12.2019
Natural persons	785 657	577 761
Construction	360 132	143 660
Food sector	101 992	86 417
Financial sector	99 280	101 841
Real estate	77 686	30 189
Wood, furniture and paper products	54 931	51 759
Textiles and wearing apparel	45 616	65 377
Motorisation	38 384	28 493
Scientific and technical activities	25 680	103 741
Hotels and restaurants	17 924	19 020
Other	67 562	207 155
Total	**1 674 844**	**1 415 413**

3.3.10 Counterparty risk that arises from derivatives transactions

The credit exposure on mBank portfolio to derivative transactions is calculated as the sum of the replacement cost of each transaction (which is its current net present value - NPV) and its estimated future potential exposure (Add-on). Moreover the bank uses credit mitigation techniques such as netting and collateralization. The former is implemented if close-out netting agreement is signed, whereas the latter requires prior Credit Supported Annex (CSA) or suitable clauses in the framework agreement concluded in order to collateralize the exposure. CSA states that the variation margin may be called if current valuation of the portfolio exceeds the predefined level (threshold). Moreover as far as existing agreements are concerned, additional collateral (initial margin, etc.) may also be exchanged. Credit exposure to the derivatives portfolio is adjusted appropriately depending on the collateral being paid or received in accordance with the binding agreements. For the purpose of the counterparty risk calculation only positive NPV at the derivative portfolio level is taken into account.

Credit exposure control is performed through an integrated system in real time. In particular the level of the allocated credit exposure limit usage is monitored on a daily basis. In addition, compliance with restrictions resulting from credit decisions, supervisory regulations and business decisions is controlled. Credit exposure limits are subject to limit decomposition into different products and maturities.

The decomposition of mBank credit exposure of the derivatives portfolio based on the counterparty type is as follows:

- 36.9% banks,
- 8.8% central counterparties (CCP),
- 7.5% financial institutions,
- 46.8% corporates, private banking and others.

The decomposition of mBank credit exposure of the derivatives portfolio based on client type is as follows:

Client type	Credit exposure 2020 (PLN m)	Credit exposure 2019 (PLN m)
Banks CSA	1 479	1 169
Banks uncollateralized	-	1
CCP	354	282
Corporations with limit	1 890	1 616
Non-Bank Financial Institution	302	205
Private Banking	(1)	(2)
Corporations collateralized and other	(13)	(15)

**negative exposure means overcollateralization*

Positive NPV (netting included) and inflows & outflows of the collateral for mBank of the derivatives portfolio is depicted below:

(PLN m)	Banks*		CCP*		Corporates and others			
					CSA	w/o CSA**	CSA	w/o CSA**
	2020	2019	2020	2019	2020		2019	
NPV	86.95	32.11	29.91	-	57.01	345.70	1.23	129.73
Collateral received (including collateral posted to custodian)	275.31	154.86	-	-	-	67.60	-	51.31
Collateral posed (including collateral posted to custodian)	175.35	55.30	307.24	256.45	-	-	-	-

**collateral excluding variation margin and default fund (collateral posted to the CCP lest one of its participants defaults)*

***collateral based on NPV and its estimated future potential exposure*

3.4. Concentration of assets, liabilities and off-balance sheet items

Geographic concentration risk

In order to actively manage the risk of concentration by country, the Bank:

- complies with the formal procedures aimed at identifying, measurement and monitoring this risk,
- complies with the formal limits mitigating the risk by country and the procedures to be followed when the limits are exceeded,
- uses a management reporting system, which enables monitoring the risk level by country and supports the decision-making process related to management,
- maintains contacts with a selected group of the largest banks with good ratings, which are active in handling foreign transactions. On some markets, where the risk is difficult to estimate, the Bank uses the services of its foreign correspondent banks, e.g. Commerzbank, and insurance of the Export Credit Insurance Corporation ("KUKE"), which covers the economic and political risk.

As at 31 December 2020 and 31 December 2019 there was no substantial level of geographical concentration in the credit portfolio of mBank. In terms of exposure relating to countries other than Poland there was no substantial share of impaired exposures.

Sector concentration risk

The Bank analyses the sector concentration risk in order to build its corporate portfolio in a safe and effective way and manages industrial concentration risk determining industrial limits.

Limiting covers the sectors in which the Bank's exposure is at least 5% of the total amount of exposures in corporate portfolio at the end of a given reporting period, and sectors indicated by the Corporate and Investment Banking Risk Committee (KRK).

The Bank set industrial limits on a level not higher than:

- 12% of the gross loan corporate portfolio for low risk sectors but not higher than 60% of Tier 1;
- 10% of the gross loan corporate portfolio for medium risk sectors but not higher than 50% of Tier 1;
- 7% of the gross loan corporate portfolio for high risk sectors but not higher than 35% of Tier 1.

In the case when the utilisation of the limit exceeds 90%, activities preventing the exceeding of the limits are implemented; decision in this regard shall be taken by the KRK.

The table below presents the structure of concentration of mBank S.A. exposures in particular sectors according to the sector division based on the chain value concept, where under one single sector have been focused entities operating activities related to a given market (suppliers, manufacturers, vendors).

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The structure of concentration of carrying amounts of exposure of mBank S.A.

No.	Sectors	Gross value	%	Gross value	%
		31.12.2020		31.12.2019	
1.	Natural persons	45 361 930	52.13%	43 104 957	50.43%
2.	Rental and leasing activities	12 108 583	13.91%	11 670 459	13.65%
3.	Real estate	4 256 049	4.89%	2 756 688	3.22%
4.	Financial sector	3 134 156	3.60%	3 428 979	4.01%
5.	Construction	2 876 417	3.31%	2 804 445	3.28%
6.	Food sector	2 271 547	2.61%	2 468 869	2.89%
7.	Chemicals and plastic products	1 401 420	1.61%	1 540 904	1.80%
8.	Construction materials	1 395 667	1.60%	1 638 084	1.92%
9.	Metals	1 342 377	1.54%	1 466 224	1.72%
10.	Motorisation	1 328 915	1.53%	1 815 006	2.12%
11.	Power and heating distribution	1 287 756	1.48%	1 094 863	1.28%
12.	Wood, furniture and paper products	1 219 083	1.40%	1 305 453	1.53%
13.	Retail trade	993 944	1.14%	923 994	1.08%
14.	Wholesale trade	897 279	1.03%	1 105 200	1.29%
15.	Transport and logistics	765 086	0.88%	807 018	0.94%
16.	Pharmacy	721 578	0.83%	728 256	0.85%
17.	Information and communication	640 110	0.74%	887 218	1.04%
18.	Media	498 056	0.57%	328 550	0.38%
19.	Textiles and wearing apparel	455 986	0.52%	545 493	0.64%
20.	Scientific and technical activities	432 946	0.50%	439 178	0.51%

Total Bank's engagement as at 31 December 2020 in sectors described above (apart from natural persons) amounts to 43.69% (31 December 2019: 44.15%).

The risk of investing in sectors being limited by the Bank, i.e. sectors where the Bank's exposures is at least 5% of the corporate portfolio was estimated in line with the principles of classification sectors to limitation, accepted by the KRK in May 2019.

The table below presents the risk of limited sectors as at the end of 2020 and 2019.

No.	Sectors	31.12.2020	31.12.2019
1.	Financial sector	low	low
2.	Fuels	medium	medium
3.	Food sector	medium	medium
4.	Construction	high	high
5.	Motorisation	n/a*	medium
6.	Metals	high	high
7.	Chemistry and materials	n/a*	medium
8.	Power	medium	n/a*

**„n/a" distincts cases when mBank's exposure is below 5% of corporate portfolio thus sector is not limited.*

Large exposures concentration risk

The purpose of management of the large exposures concentration risk is an ongoing monitoring of the level of limits set by the CRR Regulation. In order to ensure safety against the risk of exceeding the regulatory limits in the Bank:

- internal limits, lower than those specified in the CRR Regulation, are set,
- daily monitoring of large exposures is carried out and the participants of the lending and investment processes are immediately informed in the case of internal limits exceeding.

These activities have a direct impact on the Bank's decisions concerning new exposures and the increase of existing exposures.

mBank pays particular attention to the correct identification of the scale of risk of significant credit exposures defined in the Bank's internal regulations. In the case of exceeding specified amount of exposure/limit to a customer/group of affiliated customers identified as bulk risk, the financing requires additional decision of the Bank's Management Board irrespective of the PD-rating and the decision-making level.

Bank monitors large exposures that are subject to exposure limit i.e. exposures after taking into account the effect of the credit risk mitigation (in accordance with art. 401-403 CRR Regulation) and exemptions (art. 390 paragraph 6, Art. 400, Art. 493, paragraph 3 of CRR Regulation), which are equal or exceed 10% of the eligible capital. At the end of 2020 there was no exposure in line with the above definition.

3.5. Market risk

In its operations, the Bank is exposed to market risk, which is defined as a risk resulting from unfavourable change of the current valuation of financial instruments in the Bank's portfolios due to changes of the market risk factors, in particular:

- interest rates;
- foreign exchange rates;
- stock share prices and indices;
- implied volatilities of relevant options;
- credit spreads (to the extent reflecting market fluctuations of debt instruments prices, reflecting credit spread for corporate bonds, and spread between government yield curve and swap curve - for government bonds).

In terms of the banking book, the Bank distinguishes the interest rate risk, which defines as the risk of an adverse change in both the current valuation of the banking book position and the net interest income as a result of changes in interest rates.

3.5.1 Organisation of risk management

In the process of organisation of the market risk management, the Bank follows requirements resulting from the law and supervisory recommendations, in particular the PFSA Recommendations (among others A, C, G and I) and the EBA guidelines, concerning market risk management.

The fundamental principle applied in the organisation of the market risk management in mBank is the separation of the market risk control and monitoring functions from the functions related to opening and keeping open market risk positions.

3.5.2 Tools and measures

For the purpose of internal management, the Bank quantifies exposure to market risk, both for banking and trading book, by measuring:

- the Value at Risk (VaR);
- expected loss under condition that this loss exceeds Value at Risk (ES – Expected Shortfall);
- the Value at Risk in stressed conditions (Stressed VaR);
- economic capital to cover market risk;
- stress tests scenario values;
- portfolio sensitivities to changes of market prices or market parameters (IR BPV – Interest Rate Basis Point Value, CS BPV – Credit Spread Basis Point Value).

The Bank allocates market risk to positions in the banking book, irrespective of the method of presentation of the financial result on those positions used for financial accounting purposes. Market risk measures for interest rate positions in the banking books are determined on the basis of Net Present Value (NPV).

The Bank monitors market risk on a daily basis. For selected risk measures, the measurement is conducted on a weekly basis (Stressed VaR, CS BPV by rating classes) or monthly (economic capital).

For the banking book, the Bank also uses the following measures (described in more detail in the chapter on interest rate risk):

- sensitivity of the economic value of equity (delta EVE);
- sensitivity of net interest income (delta NII);
- repricing gap.

The Value at Risk (VaR) is calculated for each risk factor using the historical method for a 1-day and a 10-day holding period and a 95%, 97.5% and 99% confidence level, assuming a static portfolio. In this method, historical data concerning risk factors for last 254 business days are taken into consideration.

The expected loss under condition that it exceeds Value at Risk (ES) is calculated on the basis of VaR calculation as the average of six worst losses.

The Value at Risk in stressed conditions is a measure of the potential portfolio loss under adverse market conditions that deviate from typical market behaviour. The calculation is analogous to the Value at Risk calculation, the only difference being the period of occurrence of stressed conditions, which is determined on the basis of series of Value at Risk based on successive 12-month windows of risk factors changes since 2007.

The economic capital for market risk is a capital to cover losses in the course of one year coming from changes in valuation of financial instruments which built the Bank's portfolios and resulting from changes of prices and values of market parameters.

Stress tests are additional measures of market risk, supplementing the measurement of the Value at Risk. They show the hypothetical changes in the current valuation of the Bank's portfolios, which would take place as a result of realisation of the so-called stress scenarios, i.e. market situations at which the risk factors would reach specified extreme values, assuming a static portfolio.

Stress tests consist of two parts: standard stress tests designated for standard risk factors (foreign exchange rates, interest rates, stock prices and their volatility), as well as stress tests, which involve changes in credit spreads. In this way, there was addressed among others, the need for covering in stress tests analysis the independent effect of basis risk (the spread between government yield curve and swap curve), which the Bank is exposed to, due to maintaining the portfolio of Treasury bonds.

IR BPV is a sensitivity measure of the current valuation of the portfolios to an increase in interest rates by 1 basis point, and CS BPV to an increase in credit spread by 1 basis point.

In order to reflect the interest rate risk of the retail and corporate banking products with unspecified interest revaluation dates or rates administered by mBank, the Bank uses the so-called replicating portfolio models. The approach to current accounts takes into account the division of the stable part into the parts sensitive and insensitive to changes in interest rates. The tenor structure adopted for stable parts of the capital and current accounts, insensitive to changes in interest rates, reflects the approved bank's strategy to stabilise the net interest income.

The VaR and IR BPV measurement results presented later in the report show the perspective including modelling of stable parts of capital and current accounts.

The measurement methodology is subject to initial and periodic validation carried out by the Validation Unit and control by the Internal Audit Department.

In order to mitigate market risk exposure the limits are established on:

- VaR at 97,5% confidence level for a 1-day holding period;
- stress tests results;
- sensitivity measures IR BPV and CS BPV.

Decisions regarding the values of market risk limits are taken by:

- the Supervisory Board (with respect to mBank Group's portfolio);
- the Management Board (with respect to mBank's portfolio);
- the Financial Markets Risk Committee (with respect to the business units' portfolios).

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3.5.3 Market risk profile

Value at Risk

In 2020, the market risk exposure, as measured by the Value at Risk (VaR for a 1-day holding period, at 97.5% confidence level), was in relation to the established limits on moderate level.

The table below presents VaR and Stressed VaR for the mBank's portfolio:

PLN ths	2020		2019	
	31.12.2020	Mean	31.12.2019	Mean
VaR IR	11 091	9 365	3 778	3 759
VaR FX	2 196	1 390	728	961
VaR EQ	-	-	-	-
VaR CS	76 296	52 497	20 989	21 241
VaR	**66 191**	**46 512**	**21 978**	**21 344**
Stressed VaR	**152 842**	**130 963**	**94 229**	**104 269**

VaR IR – interest rate risk (without separate credit spread)
VaR FX – currency risk
VaR EQ – equity risk
VaR CS – credit spread risk

The measurement results are presented taking into the account the estimation of stable parts of capital and current accounts, invulnerable to interest rate fluctuation.

The Value at Risk (VaR) was largely influenced by the portfolios of instruments sensitive to the interest rates and the separate credit spread - mainly the portfolios of the treasury bonds (in the banking and trading books) and positions resulting from interest rate swap transactions.

Sensitivity measures

The table presents the values of IR BPV and CS BPV (+1 b.p.) for the mBank's portfolio, broken down into the banking and trading books:

PLN ths	IR BPV		CS BPV	
	31.12.2020	31.12.2019	31.12.2020	31.12.2019
Banking book	(1 195)	263	(13 739)	(8 075)
Trading book	(2)	56	(205)	(504)
Total	**(1 197)**	**319**	**(13 944)**	**(8 579)**

The credit spread sensitivity (CS BPV) for mBank's banking book, results in ca. 50% from the positions in debt securities valued at amortized cost. Changes in market price have no impact on the revaluation reserve or the income statement for these positions.

Economic capital for market risk

The Bank calculates economic capital to cover market risk with taking into account the modelling of stable parts of capital and current accounts.

As of the end of 2020 economic capital for market risk for mBank amounted to PLN 1 202.8 million (at the end of 2019: PLN 1 134.8 million). The amount of economic capital for market risk in 2020 was determined mainly by an increase in volatility of interest rates due to market turmoil after the pandemic, an increase in the volume and duration of the portfolio of treasury bonds with a fixed rate, as well as changes in the economic capital calculation method for market risk. The changes consisted in the inclusion of items resulting from the modelling of stable parts of capital and current accounts, insensitive to changes in interest rates.

3.6. Currency risk

The Bank is exposed to changes in currency exchange rates due to its financial assets and liabilities other than PLN. The following tbales present the exposure of bank to currency risk as at 31 December 2020 and 31 December 2019.

The tables below present assets and liabilities of the Bank at balance sheet carrying amount for each currency.

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31.12.2020	PLN	EUR	USD	CHF	CZK	OTHER	TOTAL
ASSETS							
Cash and cash balances with central banks	3 399 601	291 572	53 085	3 244	178 384	13 412	3 939 298
Financial assets held for trading and hedging derivatives	1 915 648	444 566	67 746	57 654	3 718	4 203	2 493 535
Non-trading financial assets mandatorily at fair value through profit or loss, including:	1 400 227	89 965	94 837	-	-	-	1 585 029
Equity instruments	*135 289*	*1 191*	-	-	-	-	*136 480*
Debt securities	-	-	*76 068*	-	-	-	*76 068*
Loans and advances to customers	*1 264 938*	*88 774*	*18 769*	-	-	-	*1 372 481*
Financial assets at fair value through other comprehensive income	46 953 709	462 708	114 762	-	200 433	-	47 731 612
Financial assets at amortised cost	68 410 889	15 909 479	954 504	13 927 690	11 461 886	127 595	110 792 043
Debt securities	*15 952 501*	-	-	-	-	-	*15 952 501*
Loans and advances to banks	*3 249 289*	*1 091 745*	*151 508*	*1 455*	*6 311 745*	*40 102*	*10 845 844*
Loans and advances to customers	*49 209 099*	*14 817 734*	*802 996*	*13 926 235*	*5 150 141*	*87 493*	*83 993 698*
Investments in associates	2 202 524	2 398	-	-	-	-	2 204 922
Intangible assets	1 013 586	25	-	-	135	-	1 013 746
Tangible assets	1 215 682	6 183	-	-	24 631	-	1 246 496
Current income tax assets	-	-	-	-	22 826	-	22 826
Deferred income tax assets	204 352	-	-	-	2 572	-	206 924
Other assets	647 078	39 611	4 837	345	63 229	18 153	773 253
TOTAL ASSETS	**127 363 296**	**17 246 507**	**1 289 771**	**13 988 933**	**11 957 814**	**163 363**	**172 009 684**
LIABILITIES							
Financial liabilities held for trading and hedging derivatives	885 097	489 900	35 062	-	-	4 315	1 414 374
Financial liabilities measured at amortised cost, including:	104 636 057	23 334 613	4 871 216	6 169 619	9 614 564	689 743	149 315 812
Amounts due to banks	*1 100 838*	*842 827*	*40 829*	*639 714*	-	*78*	*2 624 286*
Amounts due to customers	*101 988 481*	*18 362 618*	*4 830 387*	*2 292 319*	*9 614 564*	*689 665*	*137 778 034*
Debt securities issued	*35 016*	*4 129 168*	-	*2 170 981*	-	-	*6 335 165*
Subordinated liabilities	*1 511 722*	-	-	*1 066 605*	-	-	*2 578 327*
Fair value changes of the hedged items in portfolio hedge of interest rate risk	48 638	-	-	-	10 986	-	59 624
Provisions	1 732 435	43 365	1 972	883	1 152	81	1 779 888
Current income tax liabilities	199 085	-	-	-	25 944	-	225 029
Deferred income tax liabilities	-	89	-	-	-	-	89
Other liabilities	2 201 758	161 170	291 812	1 946	75 882	14 608	2 747 176
TOTAL LIABILITIES	**109 703 070**	**24 029 137**	**5 200 062**	**6 172 448**	**9 728 528**	**708 747**	**155 541 992**
Net on-balance sheet position	17 660 226	(6 782 630)	(3 910 291)	7 816 485	2 229 286	(545 384)	**16 467 692**
Loan commitments and other commitments	27 882 533	2 327 450	261 282	2	592 029	24	31 063 320
Guarantees, banker's acceptances, documentary and commercial letters of credit	5 694 104	1 866 706	468 673	20	1 893	41 579	8 072 975

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31.12.2019	PLN	EUR	USD	CHF	CZK	OTHER	TOTAL
ASSETS							
Cash and cash balances with central banks	6 795 432	826 679	34 340	6 883	184 482	13 960	7 861 776
Financial assets held for trading and hedging derivatives	2 700 406	163 458	53 957	3 926	2	-	2 921 749
Non-trading financial assets mandatorily at fair value through profit or loss, including:	1 825 305	76 110	133 774	-	-	-	2 035 189
Equity instruments	*86 498*	*1 099*	-	-	-	-	*87 597*
Debt securities	-	-	*133 774*	-	-	-	*133 774*
Loans and advances to customers	*1 738 807*	*75 011*	-	-	-	-	*1 813 818*
Financial assets at fair value through other comprehensive income	29 418 235	549 880	76 748	-	253 784	-	30 298 647
Financial assets at amortised cost	65 836 182	12 967 718	1 074 247	13 945 492	7 352 297	134 357	101 310 293
Debt securities	*11 234 873*	-	-	-	-	-	*11 234 873*
Loans and advances to banks	*3 238 886*	*495 210*	*91 312*	*994*	*3 485 082*	*26 219*	*7 337 703*
Loans and advances to customers	*51 362 423*	*12 472 508*	*982 935*	*13 944 498*	*3 867 215*	*108 138*	*82 737 717*
Investments in associates	2 162 760	1 352	-	-	-	-	2 164 112
Non-current assets and disposal groups classified as held for sale	91 605	-	-	-	-	-	91 605
Intangible assets	822 857	38	-	-	214	-	823 109
Tangible assets	906 367	7 828	-	-	31 411	-	945 606
Current income tax assets	-	-	-	-	11 878	-	11 878
Deferred income tax assets	270 880	-	-	-	2 377	-	273 257
Other assets	429 875	21 917	13 410	-	25 850	-	491 052
TOTAL ASSETS	**111 259 904**	**14 614 980**	**1 386 476**	**13 956 301**	**7 862 295**	**148 317**	**149 228 273**
LIABILITIES							
Financial liabilities held for trading and hedging derivatives	742 029	196 782	40 685	-	8 437	-	987 933
Financial liabilities measured at amortised cost, including:	89 187 865	23 281 268	3 640 393	4 972 229	7 394 510	503 718	128 979 983
Amounts due to banks	*526 434*	*440 681*	*212 927*	*696*	-	*44*	*1 180 782*
Amounts due to customers	*87 141 985*	*20 682 291*	*3 427 466*	*2 787 061*	*7 394 510*	*503 674*	*121 936 987*
Debt securities issued	-	*2 158 296*	-	*1 203 701*	-	-	*3 361 997*
Subordinated liabilities	*1 519 446*	-	-	*980 771*	-	-	*2 500 217*
Fair value changes of the hedged items in portfolio hedge of interest rate risk	-	-	-	-	136	-	136
Provisions	696 781	36 749	1 451	1 435	701	50	737 167
Current income tax liabilities	124 874	-	-	-	25 985	-	150 859
Deferred income tax liabilities	-	82	-	-	-	-	82
Other liabilities	1 884 250	93 966	142 107	3 005	107 598	26 180	2 257 106
TOTAL LIABILITIES	**92 635 799**	**23 608 847**	**3 824 636**	**4 976 669**	**7 537 367**	**529 948**	**133 113 266**
Net on-balance sheet position	**18 624 105**	**(8 993 867)**	**(2 438 160)**	**8 979 632**	**324 928**	**(381 631)**	**16 115 007**
Loan commitments and other commitments	25 341 747	1 930 463	337 433	2	510 904	696	28 121 245
Guarantees, banker's acceptances, documentary and commercial letters of credit	6 530 383	5 639 817	955 210	781 668	1 667	48 110	13 956 855

3.7. Interest rate risk

In the process of management of interest rate risk in the banking book Bank ensures independence of risk measurement, monitoring and control functions from operational activity creating the Bank's positions.

Interest rate risk of the banking book is the risk resulting from the exposure of the Bank's interest income and capital to the adverse impact of interest rates movements. Following recommendations of the Polish Financial Supervisory Authority (PFSA), in particular Recommendation G, and EBA guidelines (EBA/GL/2018/02) the Bank monitors the banking book structure in terms of repricing risk, basis risk, yield curve risk and customer option risk.

The basic measures of interest rate risk in the banking book are:

- the repricing gap (the difference between assets, liabilities and off-balance sheet banking book positions, measured in defined repricing buckets, based on repricing date of the interest rate sensitive products);
- sensitivity of net interest income (delta NII), i.e. the difference of net interest income between the base and alternative scenarios, assuming different possibilities of shifting the profitability curve and changes in the balance sheet structure;
- sensitivity of the economic value of equity (delta EVE), i.e. the difference in the present value of cash flows between the base scenario and the alternative scenario, assuming various shifts in the profitability curve, including those in line with the EBA guidelines on the regulatory outlier test.

The interest rate risk on the banking portfolio is hedged and managed based on the repricing gap limits for the entire portfolio, including separately for significant currencies, limits for market risk - imposed on Value at Risk (VaR), stress tests as well as BPV and CS BPV. Reports on the above measures are prepared on a daily basis.

The Bank calculates on monthly basis and reports quarterly the level of sensitivity of net interest income calculated for 22 scenarios of interest rate changes, taking into account changes in the level of the yield curve (including parallel curve shift, its steepening and flattening) and the base risk, both in static, dynamic and outflow balance over a 5-year horizon. The main assumptions used to calculate the measure are:

- the use of customer rates, decomposed into a trade margin and market rate;
- for products without a specific maturity date, assigning repricing dates based on the replicating portfolio model;
- limits applied to the level of lower interest rate changes to 0%;
- behavioral options including deposit termination and loan prepayments are calculated on the basis of the historical average.

In addition, the Bank calculates on a monthly basis and reports quarterly the sensitivity of the economic value of capital for 14 scenarios (including regulatory shock scenarios described in the EBA guidelines) taking into account changes in the level and slope of the yield curve as well as currency and credit spreads, broken down into values in currencies together and separately for material currencies based on the following assumptions:

- taking into account cash flows from interest rate sensitive assets and liabilities, including commercial margins;
- use of risk-free curves, except for debt securities, in the case of which the curve includes credit spread;
- exclusion of capital from liabilities;
- run-off balance sheet.

In the case of calculated sensitivity measures of net interest income and economic value of capital the Bank takes into account the risk of partial or total repayment of the loan before its maturity. The prepayment algorithm used is based on the historical average and its result is the annual prepayment rate by major currencies (PLN, CHF, EUR, CZK) and the portfolio of retail and corporate clients. As at 31 December 2020 and 31 December 2019, the percentage annual prepayments estimated for the purposes of the above-mentioned risk measures were as follows: retail clients (8.7%), corporate clients (18%).

As at 31 December 2020 and 31 December 2019, the sensitivity of net interest income (based on a static balance sheet over a 12-month horizon) and the economic value of capital (for the outflow balance) in shock scenarios for interest rate risk are presented in the table below:

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	Δ NII		Δ EVE	
	31.12.2020	31.12.2019	31.12.2020	31.12.2019
Sudden parallel up by 200 bp	284 008	193 591	(880 873)	(597 790)
Sudden parallel down by 200 bp	(862 460)	(857 302)	974 577	659 163
Parallel shock up	279 017	184 864	(893 384)	(621 015)
Parallel shock down	(1 054 944)	(1 229 657)	986 934	683 062
Steepener shock	(565 329)	(639 348)	33 025	27 127
Flattener shock	(156 800)	(53 429)	(181 862)	(129 019)
Short rates shock up	(67 690)	(9 013)	(439 965)	(305 383)
Short rates shock down	(969 131)	(1 426 397)	174 392	116 267
Maximum	(1 054 944)	(1 426 397)	(893 384)	(621 015)
Tier 1 Capital	15 049 829	14 053 467	15 049 829	14 053 467

The decrease in ΔNII sensitivity and increase in ΔEVE susceptibility in the most scenarios were due to several overlapping reasons. The three-fold reduction in interest rates by the Monetary Policy Council to a record low level of reference rate changed the structure of balance sheet and strengthened the effect of limiting the drop in interest rates below zero (floor in the case of ΔNII). The implementation of the adopted investment strategy resulted in an increase of treasury securities portfolio with a fixed interest rate. Changes of ΔNII and ΔEVE were caused also by increase of balance sheet total which was observed between 2019 and 2020.

mBank S.A. interest rate risk

The following tables present the Bank;s exposure to interes rate risk. The tables present the Bank's financial instruments at carrying amounts, categorised by the earlier of: contractual repricing or maturity dates.

31.12.2020	Up to 1 month	1-3 months	3-12 months	1-5 years	More than 5 years	Non-interest bearing	Total
Assets							
Cash and balances with the Central Bank	854 901	-	-	-	-	3 084 397	**3 939 298**
Loans and advances to banks	8 592 250	2 157 549	17 884	65 060	-	13 101	**10 845 844**
Debt and equity securities and investments in subsidiaries	4 651 567	3 344 171	18 629 374	18 485 456	6 758 200	2 417 470	**54 286 238**
Loans and advances to customers	64 567 809	26 207 960	1 764 249	4 932 247	289 261	307 568	**98 069 094**
Other assets and derivative financial instruments	198 361	173 579	186 740	272 601	28 646	1 519 291	**2 379 218**
Total assets	**78 864 888**	**31 883 259**	**20 598 247**	**23 755 364**	**7 076 107**	**7 341 827**	**169 519 692**
Liabilities							
Amounts due to banks	2 619 676	-	-	-	-	4 610	**2 624 286**
Amounts due to customers	126 548 447	5 171 351	3 516 294	1 085 820	591 984	864 138	**137 778 034**
Debt securities issued	-	35 017	1 977 493	4 322 655	-	-	**6 335 165**
Subordinated liabilities	758 184	1 066 605	753 538	-	-	-	**2 578 327**
Other liabilities and derivative financial instruments	100 210	172 186	220 697	198 722	23 891	3 445 844	**4 161 550**
Total liabilities	**130 026 517**	**6 445 159**	**6 468 022**	**5 607 197**	**615 875**	**4 314 592**	**153 477 362**
Total interest repricing gap	**(51 161 629)**	**25 438 100**	**14 130 225**	**18 148 167**	**6 460 232**		

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31.12.2019	Up to 1 month	1-3 months	3-12 months	1-5 years	More than 5 years	Non-interest bearing	Total
Assets							
Cash and balances with the Central Bank	3 738 681	-	-	-	-	4 123 095	**7 861 776**
Loans and advances to banks	4 772 011	2 280 219	99 132	-	-	186 341	**7 337 703**
Debt and equity securities and investments in subsidiaries	7 510 602	1 525 085	7 359 375	17 809 852	697 648	2 477 088	**37 379 650**
Loans and advances to customers	63 928 626	24 369 970	1 804 644	2 779 647	14 767	248 260	**93 145 914**
Other assets and derivative financial instruments	151 238	124 862	169 465	227 783	24 000	752 032	**1 449 380**
Total assets	**80 101 158**	**28 300 136**	**9 432 616**	**20 817 282**	**736 415**	**7 786 816**	**147 174 423**
Liabilities							
Amounts due to banks	980 863	189 900	-	-	-	10 019	**1 180 782**
Amounts due to customers	99 644 812	9 432 228	6 743 769	5 523 769	2 071	590 338	**121 936 987**
Debt securities issued	-	-	-	3 361 997	-	-	**3 361 997**
Subordinated liabilities	763 355	980 771	756 091	-	-	-	**2 500 217**
Other liabilities and derivative financial instruments	94 739	136 706	275 903	186 144	19 807	2 531 740	**3 245 039**
Total liabilities	**101 483 769**	**10 739 605**	**7 775 763**	**9 071 910**	**21 878**	**3 132 097**	**132 225 022**
Total interest repricing gap	**(21 382 611)**	**17 560 531**	**1 656 853**	**11 745 372**	**714 537**		

3.8. Liquidity risk

Sources of liquidity risk

The liquidity risk is understood as the risk of failure to fund assets and meet payment obligations arising from balance sheet and off-balance sheet items owed by the Bank in a timely manner and at a market price.

The reasons for liquidity risk may appear with respect to assets, liabilities and off-balance sheet liabilities.

As regards assets, their main sources of liquidity risk are market liquidity risk and untimely repayments of loans. Market liquidity risk is a threat of complete or partial impossibility of liquidating the assets held, or the possibility of selling these assets only at an unfavourable price.

As regards liabilities, the risks posed by funding and withdrawal of funds by the clients are the most common source of the liquidity risk. The former is a type of risk in terms of which, should the crisis occur, funding can be acquired only at a higher price, and in an extreme situation, it is not possible to acquire funding or renew existing. The latter is a type of threat associated with uncertainty as to the behaviour of clients whose decisions (for instance, about withdrawal of deposited funds) may weaken the Bank's ability to service its current financial obligations.

A source of risk for off-balance sheet liabilities is a risk posed by clients' behaviour and unexpected drawdown of granted lines. It also concerns the use of intraday and overdraft lines by custody and corporate clients. Materialisation of such a risk may be experienced as severe especially in the case of high concentration of commitments. In respect of derivative transactions concluded with CSA agreements (Credit Support Annex) or settled by CCP, liquidity risk can materialize in consequence of adverse and severe changes in market conditions resulting in sudden decrease in valuation of derivative instruments and related to necessity of pledging the collateral.

Daily operations of the Bank require settlements of various payment operations. Such activity generates high level of liquidity needs during a business day.

Taking into account the mBank Group the liquidity risk is also identified as a possibility of unexpected growth in significant liquidity needs of subsidiaries of mBank. A centralised approach to the management of the Group's financing was introduced in order to increase the effectiveness of the used liquidity resources and to ensure better tenor match of financing with assets.

Liquidity risk may appear as a result of usage of inappropriate models in liquidity analysis (e.g. deposit base stable part model), which may lead to underestimation of liquidity risk. It is monitored by verification and back-testing models pursuant to the Model Management Policy.

Organization of risk management

In order to ensure that the liquidity risk management process is effective, the Management Board of the Bank lies down an adequate organizational structure and delegates powers to dedicated units and Committees. Liquidity risk management is conducted based on three lines of defence.

Liquidity risk management aims at ensuring and maintaining the Bank's and the Group's ability to fulfil both current and future liabilities taking into account the cost of liquidity. The liquidity management process consists of procedures that aim at identification, measurement, controlling, monitoring, reducing and defining the acceptable level of exposure to risks. This process can be divided into two main elements in the operational sense: the part involving all forms of liquidity management and the part of controlling and monitoring liquidity risk.

The objective of liquidity risk management is to ensure and maintain the Bank's ability to fulfil both current and future commitments. The Bank achieves this objective by diversifying stable funding sources in terms of client's groups (from whom it acquires deposits), products and currencies, and at the same time, maintains liquidity buffer and optimizes its balance sheet in terms of profitability. Long-term activities of mBank in this scope are carried out taking into account conditions on funding capacity and business profitability.

In 2020, the liquidity situation was monitored and remained on high level. This year was exceptional in terms of economic conditions, which resulted in a significant inflow of customer deposits and a reduction in demand for loans.

The internal liquidity adequacy assessment process (ILAAP)

In order to review the liquidity risk management system in the Bank and the Group, the ILAAP process was developed. As part of this process all elements of the liquidity risk management system are subject to review including:

- liquidity risk management strategy;
- stress tests;
- liquidity contingency plan;
- liquidity buffer;
- intraday liquidity risk management;
- early warning system;
- identification and measurement of liquidity risk;
- reporting system.

The review is performed annually. The conclusions of the conducted review serve for further improvement and development of the liquidity risk management.

Tools and measures used in measuring liquidity risk

As part of liquidity risk management, a range of risk measures are being analysed. The basic measure is mismatch gap. It covers all the assets, liabilities and off-balance sheet items of the Bank in all the currencies and time-bands set by the Bank. In 2020, the Bank held liquidity surplus, adequate to the Bank's business activity and current market situation, in the form of a portfolio of liquid treasury and money market securities that may be pledged or sold at any time without any considerable loss in value.

In accordance with PFSA Resolution No. 386/2008 on establishing liquidity measures binding on banks and in accordance with Commission Delegated Regulation (EU) No 2015/61 of 10 October 2014 amended by the Commission Delegated Regulation (EU) 2018/1620 of 13 July 2018, effective since 30 April 2020 the Bank calculates the supervisory liquidity measures. As in 2019, in 2020 the supervisory limits were not exceeded. Moreover the Bank conducts an in-depth analysis of long-term liquidity and sets internal limits (management action triggers) on involvement in long-term assets. Internal limits and appropriate buffers are also imposed on supervisory measures. Relevant analysis of the stability and structure of the funding sources, including the core and concentration level of term deposits and current accounts are performed. Additionally, the Bank analyses the volatility of balance sheet and off-balance sheet items, in particular open credit line facilities and current accounts and overdrafts limits utilisation.

The ongoing analysis covers liquidity under normal and stress conditions, but also on the assumption of a potential liquidity loss. In order to determine the Bank's resistance to major unfavourable events, the Bank conducts scenario analyses covering extreme assumptions on the operation of financial markets and/or behavioural events relative to the Bank's clients.

For this purpose stress test scenarios are regularly calculated in the short- and long-term, in the bank, market and combined scenarios.

In addition a reverse stress test for liquidity risk is performed in the Bank on annual basis and an intraday liquidity crisis scenario on a monthly basis.

Liquidity stress tests are used in the Bank for operational management of liquidity risk.

The Bank has also adequate procedures in case mBank is threatened with financial liquidity loss. Base on severity of risk factors and the degree of the threat of financial loss relevant actions are defined either in the Contingency Plan in case of a threat of losing financial liquidity by mBank Group (Contingency Plan) or in the Recovery Plan mBank Group (Recovery Plan). Scenarios used in both plans are consistent with the above stress tests.

Execution of the strategy of ensuring liquidity of the Bank consists in active management of balance sheet structure of future cash flows and keeping liquidity reserves adequate to the liquidity needs, resulting from the activity and structure of the balance sheet of the Bank, obligations to subsidiaries and the current market situation as well as the demand for liquid assets, resulting from the conducted stress tests. For this purpose the Bank keeps a surplus of liquid and unencumbered assets constituting the liquidity reserves, for which there is a possibility of pledging, transaction on repo market or selling at any time without significant loss in value. Liquidity reserves were composed mainly of the Polish government debt securities in PLN and EUR, Polish government bills, bills issued by the National Bank of Poland in PLN, the Czech Republic's Government debt securities in CZK, bills issued by Czech National Bank in CZK and debt securities issued by European Investment Bank in PLN. Values of these reserves amounted to:

Value of liquidity reserves (in PLN million)	
31.12.2020	31.12.2019
51 088	32 750

In order to support the process of liquidity risk management, a system of early warnings indicators and recovery indicators was developed in the Bank. It is composed of indicators monitoring the level of regulatory and internal limits and additionally, indicators monitoring significant changes of market factors, as well as changes in the Bank's balance sheet structure. Exceedance of thresholds by defined indicators may be a trigger for the launch of the Contingency Plan or the Recovery Plan.

Due to the use by the Bank of FX swap i CIRS instruments to convert surpluses in local currencies into foreign currencies, internal limits are in place on the use of these instruments. Moreover, in order to limit the concentration in FX swaps, the amounts obtained in such transactions are monitored in monthly time bands up to 1 year.

Other measures of liquidity risk are calculated and reported in the Bank as follows:

- concentration of funding sources;
- stability of deposit base;
- early withdrawals of deposits;
- ratio of long-term funding for the real estate market;
- liquidity risk concentration within off-balance sheet positions related to related to financial and guarantee liabilities.

The Bank includes product's liquidity in its liquidity risk management framework. It is reflected in terms of measuring market liquidity of Treasury bonds, which make up liquidity reserves. The analysis is performed on monthly basis and takes account of market liquidity determinants such as: market turnover, order book depth, purchase/sale transaction spread and issue volume. The measurement of market liquidity is reflected in internal liquidity measures, where the scenarios structure provides for liquidating Treasury bonds held by the Bank in line with market trading in particular series of bonds. A similar check is carried out in the context of the market potential of pledging particular bond series.

The measurement, limiting and reporting the liquidity risk

At the Bank, there is a reporting process of liquidity risk. It covers both daily information delivery to entities engaged in operational management of liquidity risk and entities controlling liquidity risk management on operational level, as well as regular reporting to higher management levels for the purpose of making strategic decisions on liquidity risk.

Daily reporting covers:

- regulatory measures;
- liquidity gaps for mBank, the mBank Group and the material subsidiaries from liquidity risk perspective with the utilization of limits imposed on these measures;
- intraday liquidity;
- other internal liquidity risk measures.
- early warnings indicators (EWI).

Monthly reporting covers:

- regulatory measures and internal liquidity measures to the Management Board members and Financial Markets Risk Committee (KRF);
- regulatory measures, internal liquidity measures and forecasts of liquidity measures based on business development forecasts to the Assets and Liabilities Committee of the mBank Group (ALCO) and the Balance Sheet Management Committee.

Regulatory measures and internal liquidity measures are reported on a quarterly basis to the Bank's Supervisory Board.

For the purpose of current monitoring of liquidity, the Bank establishes values of realistic, cumulated gap of cash flows. The realistic gap is calculated on the basis of contractual cash flows (Note 3.8.1). Mainly cash flows in portfolios of non-banking customers' deposits, overdrafts and term loans are amended. In the calculation of the liquidity measures the Bank takes into account the possibilities of raising the funds by selling or pledging the debt securities from the Bank's liquidity reserves.

In the LAB methodology, the LAB Base Case measure is the primary management measure and it is also used for limiting the liquidity gap in particular foreign currencies.

Value of realistic cumulative gap of cash flows mismatch (in PLN million)				
Time bucket	LAB Base Case - 31.12.2020		LAB Base Case - 31.12.2019	
	bucket	cumulative	bucket	cumulative
up to 1 working day	22 968	22 968	18 801	18 801
up to 3 working days	3 038	26 006	(1 210)	17 591
up to 7 calendar days	(124)	25 882	0	17 591
up to 15 calendar days	398	26 280	(568)	17 023
up to 1 month	1 294	27 574	(2 340)	14 683
up to 2 months	3 021	30 595	1 979	16 662
up to 3 months	(184)	30 411	(6)	16 656
up to 4 months	195	30 606	(94)	16 562
up to 5 months	195	30 801	(476)	16 086
up to 6 months	(91)	30 710	(13)	16 073
up to 7 months	60	30 770	(225)	15 848
up to 8 months	265	31 035	(335)	15 513
up to 9 months	(117)	30 918	(2 318)	13 195
up to 10 months	(196)	30 722	(565)	12 630
up to 11 months	(528)	30 194	(142)	12 488
up to 12 months	(2 608)	27 586	361	12 849

The above values should be interpreted as liquidity surplus/deficit in relevant time buckets. The dynamics of the development of non-bank term deposits and current accounts had a positive impact on the change in the liquidity gap in the amount of PLN 20.4 billion calculated with the exchange rate of 31 December 2020 had a positive impact on the level of liquidity gap, exceeding the dynamics of the development of lending activities in the amount of PLN 3.2 billion calculated with the exchange rate of 31 December 2020 (in 2019, respectively: PLN 13.8 billion and PLN 10.1 billion, calculated with the exchange rate of 31 December 2019).

The level of liquidity gap was adversely affected in 2020 by the development of wholesale funding resulting from repayment of EUR 612 million and USD 50 million of unsecured funding (in 2019: repayment of EUR 500 million of unsecured funding, repayment of EUR 376 million of secured funding, acquiring of CHF 263 million).

Moreover the Bank calculates the amount of additional collateral requirement resulting from signed agreements with the counterparties that the Bank would have to deliver in case of potential rating downgrade. As of 31 December 2020 and 31 December 2019 the Bank would not have to post additional collateral.

In 2020 the Bank's liquidity remained at a safe level which was reflected in surplus of liquid assets over short-term liabilities according to LAB in various scenarios and supervisory liquidity measures.

LAB cash flows gaps mismatch in terms up to 1 month and up to 1 year within 2020 and values of regulatory measures M3–M4 and LCR at the end of 2019 and 2020 are presented in the following table:

	31.12.2020	31.12.2019
LAB Base Case 1M	27 574	14 683
LAB Base Case 1Y	27 586	12 849
M3	4.11	4.30
M4	1.52	1.38
LCR	202%	169%

**LAB measures are shown in PLN million; M3, M4 and LCR are relative measures presented as a decimal.*

The long-term coverage ratios (M3, M4) are characterized by high stability on safe level, above minimum established by regulatory authority equal to 1. The LCR measure remained on safe level, significantly exceeding 100%.

Funding sources

The strategic assumptions concerning the diversification of funding sources and profitable structure of the balance sheet are reflected in the financial plan of mBank defined by selected measures, e.g. L/D ratio (Loans to Deposits). It measures a specific relation of loans to deposits in order to maintain a stable structure of its balance sheet. In 2020, L/D ratio slightly changed from 75.9% at the end of 2019 to 76.4% at the end of 2020. The Bank aims at building a stable deposit base by offering to clients deposit and investment products, regular and specific-purpose savings offerings. Funds acquired from the Bank's clients constitute the major funding source for the business activity along with the portfolio of long-term loans from banks (with maturities over 1 year) and issuance of debt securities (Note 28). The loans and issuances together with subordinated loans (Note 28) are the core funding source for the portfolio of mortgage loans in CHF. According to the suspension of granting new mortgage loans in CHF, the Bank's receivables in this currency have been decreasing successively along with loans repayments.

Moreover, in order to acquire funding (also in foreign currencies) the Bank uses mid-term and long-term instruments, including credit line facilities on the international markets, unsecured issuances, bilateral loans as well as FX swap and CIRS transactions.

When making funding-related decisions, in order to match the term structure of its funding sources with the structure of long-term assets optimally, the Bank takes into consideration the supervisory liquidity measures and limits, as well as the internal liquidity risk limits.

3.8.1 Cash flows from transactions in non-derivative financial instruments

The table below shows cash flows the Bank is required to settle, resulting from financial liabilities. The cash flows have been presented as at the year-end date, categorised by the remaining contractual maturities. The amounts denominated in foreign currencies were converted to Polish zloty at the average rate of exchange announced by the National Bank of Poland at the year-end date. The amounts disclosed in maturity dates analysis are undiscounted contractual cash flows.

31.12.2020	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Amounts due to banks	2 624 368	-	-	-	-	**2 624 368**
Amounts due to customers	127 356 736	4 346 413	2 591 407	2 983 417	593 163	**137 871 136**
Debt securities issued	56 439	31 343	2 052 142	4 368 767	-	**6 508 691**
Subordinated liabilities	21 433	5 274	40 540	960 314	1 919 682	**2 947 243**
Other liabilities	2 066 066	34	265	372	-	**2 066 737**
Total liabilities	**132 125 042**	**4 383 064**	**4 684 354**	**8 312 870**	**2 512 845**	**152 018 175**
Assets (by remaining contractual maturity dates)						
Total assets	**19 703 500**	**9 090 181**	**30 606 003**	**70 533 421**	**54 047 139**	**183 980 244**
Net liquidity gap	**(112 421 542)**	**4 707 117**	**25 921 649**	**62 220 551**	**51 534 294**	**31 962 069**

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31.12.2019	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Amounts due to banks	996 811	1 301	3 932	192 315	-	**1 194 359**
Amounts due to customers	100 484 733	8 616 606	6 856 140	4 732 630	1 682 154	**122 372 263**
Debt securities issued	44 102	-	-	3 325 247	-	**3 369 349**
Subordinated liabilities	34 828	5 068	57 163	307 123	2 684 908	**3 089 090**
Other liabilities	1 599 469	-	-	-	-	**1 599 469**
Total liabilities	**103 159 943**	**8 622 975**	**6 917 235**	**8 557 315**	**4 367 062**	**131 624 530**
Assets (by remaining contractual maturity dates)						
Total assets	**21 436 868**	**8 327 215**	**23 517 037**	**68 982 682**	**42 589 608**	**164 853 410**
Net liquidity gap	**(81 723 075)**	**(295 760)**	**16 599 802**	**60 425 367**	**38 222 546**	**33 228 880**

The assets which ensure the payment of all the liabilities and lending commitments comprise cash in hand, cash at the Central Bank, cash in transit and treasury bonds and other eligible bonds, amounts due from banks, loans and advances to customers.

In the normal course of business, some of the loans granted to customers with the contractual repayment date falling due within the year, will be prolonged. Moreover, a part of debt securities, were pledged as collateral for liabilities. The Bank could ensure cash for unexpected net outflows by selling securities and availing itself of other sources of financing, such as the market of securities secured with assets.

Lease liabilities by maturity dates (undiscounted) are presented in the note 28.

Remaining contractual maturities for guarantees issued are presented in the note 33.

3.8.2 Cash flows from derivatives

Derivatives settled in a net basis

Derivative financial instruments settled in net amounts by the Bank comprise:

- Forward Rate Agreements (FRA),
- Options,
- Warrants,
- Interest rate swaps (IRS),
- Cross currency interest rate swaps (CIRS),
- Commodity swaps
- Bonds forwards,
- Commodity forwards,
- CO_2 emission forwards.

Financial instruments for commodities are concluded in bank back-to-back and till 2019 were insignificant from the liquidity risk perspective.

The table below shows derivative financial liabilities of the Bank, which valuation as of end of 2020 and 2019 was negative, grouped by appropriate remaining maturities as at the balance sheet date and are presented as contractual maturities apart from Other up to 1 month and Futures contracts which are presented as net present value (NPV). The amounts denominated in foreign currencies were converted to Polish zloty at the average rate of exchange announced by the National Bank of Poland at the balance sheet date.

31.12.2020	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Forward Rate Agreements (FRA)	1 590	1 861	214	-	-	**3 665**
Interest Rate Swaps (IRS)	206 259	353 477	1 155 508	2 744 196	180 774	**4 640 214**
Cross Currency Interest Rate Swaps (CIRS)	(923)	(5 713)	13 899	34 479	(364)	**41 378**
Options	(770)	1 754	(7 340)	(8 841)	13	**(15 184)**
Other	2 789	10 093	18 387	661	-	**31 930**
Total derivatives settled on a net basis	**208 945**	**361 472**	**1 180 668**	**2 770 495**	**180 423**	**4 702 003**

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31.12.2019	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Forward Rate Agreements (FRA)	597	338	242	27	-	**1 204**
Interest Rate Swaps (IRS)	43 506	189 028	335 858	1 409 739	159 838	**2 137 969**
Cross Currency Interest Rate Swaps (CIRS)	(1 213)	(7 053)	(17 266)	12 699	1 415	**(11 418)**
Options	2 863	8 875	21 751	8 177	3	**41 669**
Other	2 309	87 475	171 391	184 307	-	**445 482**
Total derivatives settled on a net basis	**48 062**	**278 663**	**511 976**	**1 614 949**	**161 256**	**2 614 906**

<u>Derivative financial instruments settled in gross amounts</u>

Derivative financial instruments settled in gross amounts by the Bank comprise foreign exchange derivatives: curency forwards and currency swaps.

The table below presents derivative financial liabilities/assets of the Bank, which will be settled on a gross basis, grouped by appropriate remaining maturities as at the balance sheet date. The amounts denominated in foreign currencies were converted to Polish zloty at the average rate of exchange announced by the National Bank of Poland at the balance sheet date.

31.12.2020	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Currency derivatives						
- outflows	23 898 127	10 203 748	7 334 439	4 189 193	-	45 625 507
- inflows	24 005 802	10 136 207	7 330 734	4 174 794	-	45 647 537

31.12.2019	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Currency derivatives						
- outflows	13 752 578	4 905 390	5 777 105	3 784 871	-	28 219 944
- inflows	13 734 007	4 897 816	5 761 983	3 702 077	-	28 095 883

The amounts dosclosed in the table are undiscounted contractual outflows/inflows.

The amounts presented in the table above are nominal cash flows of currency derivatives, which have not been settled, while Note 19 shows nominal values of all open derivative transactions.

Detailed data concerning liquidity risk related to off-balance sheet items are presented in the Note 33.

3.9. Operational risk

Operational risk is understood as the risk of loss resulting from a mismatch or unreliability of internal processes, systems, mistakes or activities taken by the employee of the Bank or external events. Operational risk includes, in particular, the following material sub-categories: legal risk, IT risk, cyber risk, compliance risk, conduct risk, external fraud risk, outsourcing risk. Operational risk does not include reputational risk, however materialisation of operational risk may increase reputational risk.

Operational risk management is performed in mBank and, at the consolidated level, in mBank Group. While organising the operational risk management process, the Bank takes into account regulatory requirements, which are the starting point for preparation of framework for the operational risk control and management system in the Bank and the Group.

The aim of operational risk management in the Bank is to reduce the causes of operational events, the probability of their occurrence and the severity of potential consequences. Cost versus benefits analysis is considered while deciding on an acceptable operational risk level.

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. The tools applied by the Bank strive for cause-oriented operational risk management and focus on bottom-up approach to identify risk.

Qualitative tools are aimed at establishing (within the Bank and the mBank Group) consistent qualitative assessment of internal and external factors affecting the operational risk management process. The basic qualitative tool is the Internal Control System Self-assessment (ICS) process, which enables to assess the most important risks, control mechanisms and independent monitoring of control mechanisms, and then to develop and implement necessary corrective action plans.

In addition, mBank collects data about operational risk events and losses in the Group, collects and monitors key risk indicators, and develops and performs operational scenario analyses in order to identify exposure to potential high-severity events. At the same time, the communication with all areas of the Bank (business and support areas) is maintained for the purpose of monitoring and taking preventive actions once the risk of critical events has been signalled in any area.

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Operational losses

The vast majority of the Bank's operational losses refers to the following business lines (separated in accordance with the CRR Regulation): commercial banking and retail banking.

In terms of losses by risk category, the Group incurs the highest losses in two categories of operational risk: (i) crimes committed by outsiders; (ii) customers, products and business practices.

The following table presents the actual gross losses by operational risk category, incurred by mBank in 2020 and 2019:

Operational event category	Year ended 31 December	
	2020	2019
Crimes committed by outsiders	5 051	30 952
Customers, products and business practices	1 065 858	408 744
Execution, delivery and process management	9 727	3 346
Other	13 976	1 417
Total	**1 094 612**	**444 459**

The high share of losses in the "Customers, products and business practices" category in 2020 resulted from the creation of legal risk provisions for CHF currency loans and provisions for liabilities related to the reimbursement of part of the fees charged for granting loans, in connection with the judgment of the Court of Justice of the European Union (CJEU) in case C-383/18 of 11 September 2019. More information on the above provisions is presented in Note 4 and Note 32. The high share of losses in abovementioned category in 2019, resulted from creation of legel risk provisions for currency loans.

The level of operational risk losses is constantly monitored and regularly reported to the management and Supervisory Board of the Bank. Monitoring takes place at the level of individual transactions and at the level of the value of total losses. In the case of single operational events with a high loss or a total of losses exceeding the set thresholds, analysis of the causes and development of corrective action plans that will reduce the occurrence of similar losses in the future is required.

3.9.1 Compliance risk

Compliance risk management is realized in mBank, in particular, in accordance with the provisions of the Compliance Policy at mBank S.A. The Policy sets forth general rules for ensuring compliance of operations pursued by the Bank with provisions of law, internal regulations and market standards.

Compliance risk is the risk posed by consequences of failure to observe the law, internal regulations and market standards in processes executed in the bank. The objective of compliance risk management is the minimisation of this risk. Noncompliance of the bank's operations with the law is understood as special situations in which:

- the Bank's internal regulations do not take into account legal provisions,
- the Bank fails to implement recommendations issued by the Polish Financial Supervision Authority and other supervisory authorities performing their task concerning financial institutions,
- the Bank fails to implement recommendations arising from internal proceedings, internal and external audits and DC's inspections,
- Bank processes and operational activities are not in compliance with legal provisions and internal regulations.

Compliance is ensured by means of compliance risk management with respect to processes operating at the bank and the control function as part of three lines of defence. The first line of defence comprises risk management and control function implementation in operating activities. The second line of defence comprises at least:

- compliance risk management and control function implementation as part of the tasks executed by Compliance Department,
- risk management by employees holding dedicated positions or working in dedicated organisational units in the case when part of tasks pertaining to compliance risk identification and assessment was assigned to other first and second line of defence units.

The third line of defence comprises the activity of the Internal Audit Department.

In all three lines of defence, the bank's employees duly apply control mechanisms or independently monitor the observance of control mechanisms in order to guarantee compliance of the bank's operations with the law, internal regulations, and market standards.

Compliance of the bank's internal rules with the Polish and international law and with market standards and observing internal rules by employees guarantees fulfilment of the objectives of the internal control system and mitigates compliance risk, and eliminates or minimises the possibility of occurrence of the following risks: legal risk, reputational risk, risk of imposing sanctions and financial losses and risk resulting from discrepancies in interpretations of the law.

All the Bank employees are responsible for the implementation of compliance risk management process in line with the scope of their duties as well as granted authorisations. The Compliance Department is responsible for the coordination and supervision of the compliance risk management process.

The supervision over the implementation of common compliance standards by the mBank Group subsidiaries is exercised in a manner that does not violate applicable law, prudential regulations and independence of employees performing the compliance function in the subsidiaries, in particular under agreements concluded with the subsidiaries.

3.10. Business risk

Business risk means the risk of losses resulting from deviations between actual net operating result of the mBank Group and the planned level thereof. The calculation of deviations between actual and planned values is done separately for revenues and costs. Business risk includes, in particular, strategic risk connected with the possibility of occurrence of negative financial consequences as a result of wrong or disadvantageous decisions or their wrong implementation. It is assumed, that the results of the strategic decisions are reflected in deviations between actual operating result and the planned level in one-year horizon.

Business risk is included in the calculation of economic capital of mBank and mBank Group.

In order to manage effectively and reduce business risk, the following actions are taken:

- coordination of the planning process by the Controlling and Management Information Department, which includes also verification of the planned data,
- regular analysis of the causes of observed deviations of the actual financial performance of the mBank Group organizational units from the planned level and informing the Management Board about results of the above analyses,
- periodic verification of the adopted strategy,
- regular analysis of the competitors' activities.

3.11. Model risk

Model risk is understood as the risk of negative consequences connected with the decisions made on the basis of the output data of models which have been improperly constructed or are improperly administered. Model risk may result in financial losses, improper business or strategic decisions or negatively influence the Bank's reputation.

The following specific subcategories can be distinguished, in particular, in model risk: risk inextricably linked with the restrictions connected with modelling a given phenomenon, assumption/methodology risk, data risk, models administration risk, and risk of interdependence.

Model risk is managed in the Bank on a systemic basis by proper internal regulations concerning model and their risk management process, in particular monitoring and validation of models.

An important role in the model and their risk management process is played by the Model Risk Committee. It recommends, among others, model risk tolerance level, which is finally approved by the Management Board and the Supervisory Board.

3.12. Reputational risk

The aim of management of reputational risk, defined as a risk resulting from a negative perception of the image of the bank or other member of the group among their stakeholders, is to identify, assess and reduce reputational risk in specific processes in order to protect and strengthen the good name of mBank and mBank Group.

All Bank's organizational units, foreign branches, and subsidiaries are directly responsible for any reputational risk arising from their own business activities.

The following tools and methods are used in mBank to monitor and manage reputational risk:

- mBank's values (client-centric organization, simplicity, professionalism, engagement and forward looking), which are mBank's code used while building either business relations or internal inside of the Group,
- engagement culture survey - perception of mBank by its employees,
- Corporate Social Responsibility: taking responsible action for the benefit of customers, employees, the environment and local communities (including employee volunteer work) and participation in projects of the mBank Foundation,
- monitoring of press publications, comments in the Internet and social media,
- customer satisfaction analysis in retail and corporate banking,
- new product process: reputational risk is one of the aspects analyzed during the new products' implementation process,
- analysis of customers' complaints.

Reputational Risk Management Strategy of mBank Group describes rules and components of reputational risk management.

3.13. Capital risk

In mBank there is a capital management process in order to prevent materialization of capital risk, understood as risk resulting from the lack of capital as well as lack of the possibility to achieve sufficient capital adequate to the business activity's risk undertaken by the Bank, required to absorb unexpected losses and meet regulatory requirements enabling further independent functioning of the Bank. Capital risk encompasses the risk of excessive leverage. Capital risk management is performed, at an individual level, in mBank and, at a consolidated level, in mBank Group.

The capital management in mBank Group is organised as a process including planning, steering and controlling regulatory and internal capital. Within the framework of capital management process, regular monitoring of capital adequacy and effectiveness is conducted, aimed at assurance that adequate and optimum level of capital is maintained in mBank Group. This is supported by stress test analyses, aiming to provide in depth view on current capital position, as well as its possible future developments resulting from the stress scenarios adopted for the analysis.

More information on capital adequacy of mBank Group is provided in Note 44.

3.14. FX loans portfolio risk

The FX loan portfolio risk is related to mortgage loans in foreign currencies, granted to unsecured borrowers until 2011. This risk may result in particular from the materialization of operational (legal), as well as credit and reputational risk in relation to the above-mentioned borrowers.

The legal risk of the portfolio of loans in foreign currencies (loans indexed with a foreign exchange rate) relates to the portfolio of mortgage-secured loans granted to natural persons in the years 2004-2011.

This risk relates to the possibility of realizing losses resulting from court decisions unfavorable for the bank in cases brought by borrowers.

In managing this risk, the Bank takes action to protect the its interests in court proceedings, aimed at obtaining decisions favorable to the Bank. Bank's actions are based on the strategy for proceedings in court cases concerning indexed loans, adopted in June 2020 by the Management Board of the Bank. Bank reviews and updates the strategy every six months.

For effective management of legal risk of the FX loans portfolio, mBank has established the Disputed Loans Department, whose tasks include in particular:

- preparation of materials used in court proceedings,
- coordinating the activities of legal representatives,
- calculation of provisions for legal risk,
- preparation of recommendations for updating the strategy,
- cooperation and communication with external institutions on indexed loans.

Credit risk and reputational risk related to the FX loans portfolio are managed in line with the principles of managing these risks.

3.15. Tax risk

The purpose of the tax risk management (process) is effective and safe performance of all obligations provided for by the tax law. Therefore, Bank identifies tax risks and eliminates or limit them in connection with the role of:

- taxpayer,
- withholding agent,
- an entity providing tax information to the Bank's clients, the Bank's contractors or tax authorities.

Bank manages tax risk by ensuring:

- integrity of tax law with accounting law and financial reporting in the Bank's internal regulations,
- correct tax processes in accordance with the applicable tax law,
- cooperation of organizational units preparing, giving opinions and offering products to the Bank's clients,
- correct identification and monitoring of tax risks,
- rules for concluding transactions with customers,
- monitoring changes in the tax law and jurisprudence.

3.16. Fair value of assets and liabilities

Fair value is the price that would be received from the sale of asset or paid to transfer a liability in an ordinary transaction between market participants at the measurement date. A fair value measurement assumes that the transaction of selling the asset or transferring a liability occurs:

- on the main market for the asset or liability,
- in the absence of a main market, for the most advantageous market for the asset or liability.

In line with IFRS 9, for accounting purposes, the Bank determines the valuation of its assets and liabilities through amortised cost or through fair value. In addition, for the positions that are valued through amortised cost, fair value is calculated, but only for disclosure purposes – according to IFRS 7.

The approach to the method used for the loans that are fair valued in line of IFRS 9 requirements, is described in the point 3.3.7.

Following market practices the Bank values open positions in financial instruments using either the mark-to-market approach or is applying pricing models well established in market practice (mark-to-model method) which use as inputs market prices or market parameters, and in few cases parameters estimated internally by the Bank. All significant open positions in derivatives are valued by market models using prices observable in the market. Domestic commercial papers are marked to model (by discounting cash flows), which in addition to market interest rate curve uses credit spreads estimated internally.

For disclosure purposes, the Bank estimated that the fair value of short-term financial liabilities (less than 1 year) is equal to the balance sheet values of such items. In addition, the Bank assumed that the estimated fair value of financial assets and financial liabilities longer than 1 year is based on discounted cash flows using appropriate interest rates.

Positions recognised in General Ledger at amortised cost

The following table presents a summary of balance sheet values and fair values for each group of financial assets and liabilities not recognised in the statement of financial position of the Bank at their fair values.

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	31.12.2020		31.12.2019	
	Carrying value	Fair value	Carrying value	Fair value
Financial assets at amortised cost				
Debt securities	**15 952 501**	**16 445 401**	**11 234 873**	**11 409 164**
Loans and advances to banks	**10 845 844**	**10 839 089**	**7 337 703**	**7 334 393**
Loans and advances to customers, including:	**83 993 698**	**84 521 246**	**82 737 717**	**82 724 274**
Loans and advances to individuals	**43 594 568**	**45 118 397**	**41 456 124**	**42 383 476**
Current accounts	6 807 188	6 948 252	6 828 579	7 011 607
Term loans	36 496 410	37 879 175	34 265 519	35 009 843
Other	290 970	290 970	362 026	362 026
Loans and advances to corporate entities	**40 255 292**	**39 258 906**	**40 995 685**	**40 057 005**
Current accounts	4 335 675	4 219 578	5 934 931	5 799 411
Term loans	35 522 354	34 642 065	34 638 535	33 835 375
Rreverse repo or buy/sell back transactions	103 832	103 832	13 398	13 398
Other loans and advances	277 050	277 050	158 911	158 911
Other	16 381	16 381	249 910	249 910
Loans and advances to public sector	**143 838**	**143 943**	**285 908**	**283 793**
Financial liabilities at amortised cost				
Amounts due to banks	**2 624 286**	**2 624 286**	**1 180 782**	**1 180 747**
Amounts due to customers	**137 778 034**	**137 805 488**	**121 936 987**	**122 037 314**
Debt securities issued	**6 335 165**	**6 405 592**	**3 361 997**	**3 407 731**
Subordinated liabilities	**2 578 327**	**2 552 098**	**2 500 217**	**2 519 770**

The following sections present the key assumptions and methods used by the Bank for estimation of the fair values of financial instruments:

Loans and advances to banks and loans and advances to customers

The fair value for loans and advances to banks and loans and advances to customers is calculated as the estimated value of future cash flows (adjusted by prepayments) using current interest rates, including credit spread, cost of liquidity and cost of capital margin. The level of credit spread was determined based on market quotation of median credit spreads for Moody's rating grade. Attribution of a credit spread to a given credit exposure is based on a mapping between Moody's rating grade and internal rating grades of the Bank. To reflect the fact that the Bank's exposures are in major part collateralised whereas the median of market quotation is centred around unsecured issues, the Bank applied appropriate adjustments.

Financial liabilities

Financial instruments representing liabilities include the following:

- Contracted borrowings;
- Deposits;
- Issues of debt securities;
- Subordinated liabilities.

The fair value for these financial liabilities with more than 1 year to maturity is based on cash flows discounted from capital and interest rates using discounted factor. For the loans received from European Investment Bank in EUR the Bank used the EBI yield curve. With regard to the own issue as part of the EMTN programme the market price of the relevant financial services has been used.

In the case of deposits, the Bank has applied the curve constructed on the basis of quotations of interbank market rates as well as FRA and IRS contracts for appropriate currencies and maturities. In case of measurement of subordinated liabilities the Bank used curves based on cross-currency basis swap levels taking into account the original spread on subordinated liabilities and their maturities.

The Bank assumed that the fair values of these instruments with less than 1 year to maturity was equal to the carrying amounts of the instruments.

According to the fair value methodology applied by the Bank, financial assets and liabilities are classified as follows:

- Level 1: prices quoted on active markets for the same instrument (without modification);
- Level 2: prices quoted on active markets for the similar instruments or other valuation techniques for which all significant input data are based on observable market data;
- Level 3: valuation methods for which at least one significant input data is not based on observable market data.

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The table below presents the fair value hierarchy of financial assets and liabilities measured at fair value in accordance with the assumptions and methods described above, exclusively for disclosure as at 31 December 2020 and as at 31 December 2019.

31.12.2020	Including:	Level 1	Level 2	Level 3
		Quoted prices in active markets	Valuation techniques based on observable market data	Other valuation techniques
VALUATION ONLY FOR PURPOSES OF DISCLOSURE				
FINANCIAL ASSETS				
Debt securities	16 445 401	13 395 856	-	3 049 545
Loans and advances to banks	10 839 089	-	-	10 839 089
Loans and advances to customers	84 521 246	-	-	84 521 246
FINANCIAL LIABILITIES				
Amounts due to banks	2 624 286	-	-	2 624 286
Amounts due to customers	137 805 488	-	4 296 271	133 509 217
Debt securities issued	6 405 592	6 369 433	-	36 159
Subordinated liabilities	2 552 098	-	2 552 098	-
Total financial assets	**111 805 736**	**13 395 856**	**-**	**98 409 880**
Total financial liabilities	**149 387 464**	**6 369 433**	**6 848 369**	**136 169 662**

31.12.2019	Including:	Level 1	Level 2	Level 3
		Quoted prices in active markets	Valuation techniques based on observable market data	Other valuation techniques
VALUATION ONLY FOR PURPOSES OF DISCLOSURE				
FINANCIAL ASSETS				
Debt securities	11 409 164	11 409 164	-	-
Loans and advances to banks	7 334 393	-	-	7 334 393
Loans and advances to customers	82 724 274	-	-	82 724 274
FINANCIAL LIABILITIES				
Amounts due to banks	1 180 747	-	189 885	990 862
Amounts due to customers	122 037 314	-	7 158 593	114 878 721
Debt securities issued	3 407 731	3 407 731	-	-
Subordinated liabilities	2 519 770	-	2 519 770	-
Total financial assets	**101 467 831**	**11 409 164**	**-**	**90 058 667**
Total financial liabilities	**129 145 562**	**3 407 731**	**9 868 248**	**115 869 583**

Level 1

Level 1 of financial assets includes the value of treasury securities and EIB bonds whose valuation consists in the direct use of market current prices of these instruments originating from active and liquid financial markets.

Level 1 of financial liabilities includes the fair value of bonds issued by the Bank (Note 28). For the purpose of disclosures the Bank applied market price of the issued debt securities.

Level 2

Level 2 includes the fair value of long-term loans received from banks, the fair value of long-term deposits placed by customers and the fair value of the loans received from the EIB (Note 28). In addition, at level 2, the Bank has presented subordinated liabilities.

The fair value of financial liabilities included at Level 2 with more than 1 year to maturity is based on cash flows discounted using interest rates. In case of the loans received from European Investment Bank in EUR, the Bank used EIB yield curve and the value of margin which was agreed upon the last contract. Based on that assumption, the spread of Bank to market swap curve was estimated. In case of deposits the Bank used the curve based on overnight rates, term cash rates, as well as FRA contracts for appropriate currencies and maturities. For debt securities issued the Bank used the prices directly from the market for these securities. For the purpose of measurement of subordinated liabilities the Bank used obtained primary market spreads of subordinated bonds issued by the Bank and if required corresponding cross-currency basis swap levels for the respective maturities.

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Level 3

Level 3 includes:

(i) the fair value of loans and advances to banks and loans and advances to customers, which is disclosed, as described earlier, based on quotation of median credit spreads for Moody's ratings,
(ii) liabilities due to banks and to customers with maturity up to one year, for which the Bank assumed that their fair value is equal to the carrying value,
(iii) the fair value of liabilities due to banks and to customers with maturity exceeding one year, for which were used valuation methods using at least one significant input data not based on observable market data.

Positions recognised in General Ledger at fair value

The following tables present fair value hierarchy of financial assets and liabilities recognized in the statement of financial position of the Bank at their fair values.

31.12.2020	Including:	Level 1	Level 2	Level 3
		Quoted prices in active markets	Valuation techniques based on observable market data	Other valuation techniques
RECURRING FAIR VALUE MEASUREMENTS				
FINANCIAL ASSETS				
Financial assets held for trading and hedging derivatives	**2 493 535**	**366 517**	**1 605 965**	**521 053**
Loans and advances to customers	187 902	-	-	187 902
Debt securities	699 668	366 517	-	333 151
Derivative financial instruments, including:	1 605 965	-	1 605 965	-
Derivative financial instruments held for trading:	1 817 678	-	1 817 678	-
Hedging derivative financial instruments:	820 483	-	820 483	-
Offsetting effect	(1 032 196)	-	(1 032 196)	-
Non-trading financial assets mandatorily at fair value through profit or loss	**1 585 029**	**960**	**-**	**1 584 069**
Loans and advances to customers	1 372 481	-	-	1 372 481
Debt securities	76 068	-	-	76 068
Equity securities	136 480	960	-	135 520
Financial assets at fair value through other comprehensive income	**47 731 612**	**33 556 650**	**149 997**	**14 024 965**
Loans and advances to customers	12 515 013	-	-	12 515 013
Debt securities	35 216 599	33 556 650	149 997	1 509 952
TOTAL FINANCIAL ASSETS	**51 810 176**	**33 924 127**	**1 755 962**	**16 130 087**
FINANCIAL LIABILITIES				
Derivative financial instruments, including:	**1 414 374**	**-**	**1 414 374**	**-**
Derivative financial instruments held for trading	1 678 160	-	1 678 160	-
Hedging derivative financial instruments	7 706	-	7 706	-
Offsetting effect	(271 492)	-	(271 492)	-
TOTAL FINANCIAL LIABILITIES	**1 414 374**	**-**	**1 414 374**	**-**

Assets Measured at Fair Value Based on Level 3 - changes in 2020	Debt trading securities	Non-trading debt securities mandatorily at fair value through profit or loss	Non-trading equity securities mandatorily at fair value through profit or loss	Debt securities at fair value through other comprehensive income
As at the beginning of the period	**460 191**	**133 774**	**86 772**	**1 488 819**
Gains and losses for the period:	**21 089**	**12 632**	**48 748**	**20 625**
Recognised in profit or loss:	21 089	12 632	48 748	-
- Net trading income	*21 089*	*1 922*	*91*	-
- Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss	-	*10 710*	*48 657*	-
Recognised in other comprehensive income:	-	-	-	20 625
- Financial assets at fair value through other comprehensive income	-	-	-	*20 625*
Purchases	2 075 197	-	-	1 243 442
Redemptions	(233 837)	-	-	(433 937)
Sales	(9 729 999)	-	-	(5 090 143)
Issues	7 740 510	-	-	4 281 146
Settlements	-	(70 338)	-	-
As at the end of the period	**333 151**	**76 068**	**135 520**	**1 509 952**

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31.12.2019	Including:	Level 1 Quoted prices in active markets	Level 2 Valuation techniques based on observable market data	Level 3 Other valuation techniques
RECURRING FAIR VALUE MEASUREMENTS				
FINANCIAL ASSETS				
Financial assets held for trading and hedging derivatives	**2 921 749**	**1 330 541**	**958 328**	**632 880**
Loans and advances to customers	172 689	-	-	172 689
Debt securities	1 790 732	1 330 541	-	460 191
Derivative financial instruments, including:	958 328	-	958 328	-
Derivative financial instruments held for trading:	1 058 084	-	1 058 084	-
Hedging derivative financial instruments:	392 705	-	392 705	-
Offsetting effect	(492 461)	-	(492 461)	-
Non-trading financial assets mandatorily at fair value through profit or loss	**2 035 189**	**825**	**-**	**2 034 364**
Loans and advances to customers	1 813 818	-	-	1 813 818
Debt securities	133 774	-	-	133 774
Equity securities	87 597	825	-	86 772
Financial assets at fair value through other comprehensive income	**30 298 647**	**17 388 493**	**2 999 645**	**9 910 509**
Loans and advances to customers	8 421 690	-	-	8 421 690
Debt securities	21 876 957	17 388 493	2 999 645	1 488 819
TOTAL FINANCIAL ASSETS	**35 255 585**	**18 719 859**	**3 957 973**	**12 577 753**
FINANCIAL LIABILITIES				
Derivative financial instruments, including:	**987 933**	**-**	**987 933**	**-**
Derivative financial instruments held for trading	1 108 063	-	1 108 063	-
Hedging derivative financial instruments	11 887	-	11 887	-
Offestting effect	(132 017)	-	(132 017)	-
TOTAL FINANCIAL LIABILITIES	**987 933**	**-**	**987 933**	**-**

Assets Measured at Fair Value Based on Level 3 - changes in 2019	Debt trading securities	Non-trading debt securities mandatorily at fair value through profit or loss	Non-trading equity securities mandatorily at fair value through profit or loss	Debt securities at fair value through other comprehensive income
As at the beginning of the period	**328 102**	**58 130**	**11 456**	**1 742 614**
Gains and losses for the period:	**1 777**	**75 644**	**75 316**	**(9 660)**
Recognised in profit or loss:	1 777	75 644	75 316	-
- Net trading income	*1 777*	*320*	(10)	-
- Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss	-	*75 324*	75 326	-
Recognised in other comprehensive income:	-	-	-	(9 660)
- Financial assets at fair value through other comprehensive income	-	-	-	*(9 660)*
Purchases	*2 044 401*	-	-	1 397 817
Redemptions	*(531 490)*	-	-	(274 629)
Sales	*(6 819 158)*	-	-	(2 155 733)
Issues	*5 436 559*	-	-	788 410
As at the end of the period	**460 191**	**133 774**	**86 772**	**1 488 819**

In 2019 and 2020 there were no transfers of financial instruments between the levels of fair value hierarchy.

With regard to financial instruments valuated in repetitive way to the fair value classified as level 1 and 2 in hierarchy of fair value, any cases in which transfer between these levels may occur, are monitored by the Balance Risk Management Department on the basis of internal rules. In case there is no market price used to a direct valuation for more than 5 working days, the method of valuation is changed, i.e. change from marked-to-market valuation to marked-to-model valuation under the assumption that the valuation model for the respective type of this instrument has been already approved. The return to marked-to-market valuation method takes place after a period of at least 10 working days in which the market price was available on a continuous basis. If there is no market prices for a debt treasury bonds the above terms are respectively 2 and 5 working days.

Level 1

As at 31 December 2020, at level 1 of the fair value hierarchy, Bank has presented the fair value of held for trading government bonds in the amount of PLN 366 517 thousand and the fair value of government bonds and treasury bills measured at fair value through other comprehensive income in the amount of PLN 32 375 426 thousand (31 December 2019 respectively: PLN 1 330 541 thousand and PLN 16 404 265 thousand. Level 1 includes the fair values of corporate bonds in the amount of PLN 1 181 224 thousand (31 December 2019: PLN 984 228 thousand).

In addition, as at 31 December 2020, level 1 includes the value of the registered preferred shares of Giełda Papierów Wartościowych in the amount of PLN 960 thousand (31 December 2019: PLN 825 thousand).

These instruments are classified as level 1 because their valuation is directly derived by applying current market prices quoted on active and liquid financial markets.

Level 2

Level 2 of the fair value hierarchy mainly includes the fair values of bills issued by NBP in the amount of PLN 149 997 thousand (31 December 2019: PLN 2 999 645 thousand), whose valuation is based on a NPV model (discounted future cash flows) fed with interest rate curves generated by transformation of quotations taken directly from active and liquid financial markets.

In addition, the level 2 category includes the valuation of derivative financial instruments borne on models consistent with market standards and practices, using parameters taken directly from the markets (e.g., foreign exchange rates, implied volatilities of FX options, stock prices and indices) or parameters which transform quotations taken directly from active and liquid financial markets (e.g. interest rate curves).

As at 31 December 2020 and 31 December 2019, level 2 also includes the value of options referencing on the WIG20 index. For options valuation on WIG 20 index an internal Bank's model (based on implied volatility model) using market parameters is applied

Level 3

Level 3 of the hierarchy presents the fair values of commercial debt securities issued by local banks and companies in the amount of PLN 1 882 836 thousand (31 December 2019: PLN 2 046 502 thousand) and includes i.a. the fair value of a debt instrument measured at fair value through profit or loss, resulting from the reclassification of preferred stock in Visa Inc.

Level 3 includes also the fair value of local government bonds in the amount of PLN 36 335 thousand (31 December 2019: PLN 36 282 thousand).

Model valuation for these items assumes a valuation based on the market interest rate yield curve adjusted by the level of credit spread. The credit spread parameter reflects the credit risk of the security issuer and is determined in accordance with the Bank's internal model. This model uses credit risk parameters (e.g. PD, LGD) and information obtained from the market (including implied spreads from transactions). PD and LGD parameters are not observed on active markets and therefore have been determined on the basis of statistical analyses. Both models - the valuation of debt instruments and the credit spread model were built internally in the Bank by risk units, were approved by the Model Risk Committee and are subject to periodic monitoring and validation carried out by an entity independent of the units responsible for building and maintaining the model.

Level 3 as at 31 December 2020 includes the value of loans and advances to customers in the amount of PLN 14 075 396 thousand (31 December 2019: PLN 10 408 197 thousand).

The principles for Fair Value calculation for loans and advances to customers is described in Note 3.3.7.

Moreover, level 3 covers mainly the fair value of equity securities amounting to PLN 135 520 thousand (31 December 2019: PLN 86 772 thousand). Equity securities presented at level 3 are valuated using the market multiples method. The market multiples method consists of valuating the equity of a company by using a relation between market values of equity or total capital invested in comparable companies and selected economic and financial figures.

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The table below presents the sensitivity of the fair value measurement to the change of unobservable parameters used in the models for financial instruments measured at fair value at level 3.

Portfolio	Fair value 31.12.2020	Sensitivity to change of unobservable parameter		Description
		(+)	(-)	
Commercial debt securities measured at fair value through other comprehensive income	1 509 952	(35 990)	35 990	The unobservable parameter is the credit spread. Sensitivity was calculated assuming a change in the credit spread by 100 bp. As the value of the parameter increases, the Bank expects a loss (-), as it decreases, the Bank expects a profit (+).
Commercial debt securities measured at fair value through profit or loss	333 151	(7 045)	7 045	
Loans and advances to customers held for trading	187 902	(306)	285	The valuation model uses credit risk parameters (PD and LGD). Sensitivity was calculated assuming a change in PD and LGD by +/- 10%. As the value of the parameter increases, the Bank expects a loss (-), as it decreases, the Bank expects a profit (+).
Loans and advances to customers at fair value through profit or loss	1 372 481	(25 873)	26 007	
Loans and advances to customers at fair value through other comprehensive income	12 515 013	(5 289)	4 926	

Portfolio	Fair value 31.12.2019	Sensitivity to change of unobservable parameter		Description
		(+)	(-)	
Commercial debt securities measured at fair value through other comprehensive income	1 488 819	(38 323)	38 323	The unobservable parameter is the credit spread. Sensitivity was calculated assuming a change in the credit spread by 100 bp. As the value of the parameter increases, the Bank expects a loss (-), as it decreases, the Bank expects a profit (+).
Commercial debt securities measured at fair value through profit or loss	460 191	(12 422)	12 422	
Loans and advances to customers held for trading	172 689	(130)	137	The valuation model uses credit risk parameters (PD and LGD). Sensitivity was calculated assuming a change in PD and LGD by +/- 10%. As the value of the parameter increases, the Bank expects a loss (-), as it decreases, the Bank expects a profit (+).
Loans and advances to customers at fair value through profit or loss	1 813 818	(29 063)	28 962	
Loans and advances to customers at fair value through other comprehensive income	8 421 690	(3 449)	3 239	

4. Major estimates and judgments made in connection with the application of accounting policy principles

The Bank applies estimates and adopts assumptions which impact the values of assets and liabilities presented in the subsequent period. Estimates and assumptions, which are continuously subject to assessment, rely on historical experience and other factors, including expectations concerning future events, which seem justified under the given circumstances.

Impairment of loans and advances

The Bank reviews its loan portfolio in terms of possible impairments at least once per quarter. In order to determine whether any impairment loss should be recognised in the income statement, the Bank assesses whether any evidence exists that would indicate some measurable reduction of estimated future cash flows attached to the loan portfolio. The methodology and the assumptions (on the basis of which the estimated cash flow amounts and their anticipated timing are determined) are regularly verified. If the current value of estimated cash flows for portfolio of loans and advances as well as contingent liabilities which are impaired, change by +/-10%, the estimated loans and advances as well as contingent liabilities impairment would either decrease by PLN 41 million or increase by PLN 43 million as at 31 December 2020, respectively (as at 31 December 2019: PLN 34.6 million and PLN 37.1 million, respsctively). This estimation was performed for portfolio of loans and advances and contingent liabilities individually assessed for impairment on the basis of future cash flows due to repayments and recovery from collateral - Stage 3. The rules of determining write-downs and provisions for impairment of credit exposures have been described under Note 3.3.6.

COVID-19 pandemic impact on the mBank activities

Support measures implemented in mBank as a result of the COVID-19 pandemic

In connection with the crisis caused by the COVID-19 pandemic, Bank offered its clients a number of assistance tools aimed at supporting them in a difficult situation resulting from the outbreak of the epidemic. The purpose of these tools was to help maintain the financial liquidity of customers by reducing the financial burden in the short term.

The supporting measures offered by the mBank were in line with the banks' position regarding the unification of the rules for offering supporting measures in the banking sector. This position was a non-legislative moratoriums within the meaning of the European Banking Authority (EBA) guidelines on legislative and non-legislative moratoria on loan repayments applied in the light of the COVID-19 crisis notified by the Polish Financial Supervision Authority to the European Banking Authority.

The moratorium covered supporting instruments granted from 13 March 2020 to 30 September 2020.

The moratorium offered by mBank in Retail Banking area enables changes in the schedule of payments by suspending the payments of principal amounts or full instalments for the limited period up to 6 months, with the possibility of extending the loan period by the duration of the moratorium. Examination of applications that meet the conditions set by the moratorium took place in a simplified process, i.e. without the verification of the client's repayment ability. The application process was supported by the mechanism of automated verification of boundary conditions (i.a. no delay in payment of more than one installment, no grace period in the last 12 months, at least 6-month repayment history). If the verification result is positive, the customer's request was automatically accepted. Customer requests that fail the automatic verification were subject to review by a credit analyst.

While deferring the repayment of the principal part of the loan installment the sum of the principal amount remaining after the grace period is divided according to the algorithm (equal or decreasing installments - according to the credit agreement) for the residual maturity period. The extension of the loan period translates into lower installments after the grace period, than in case of the deferral without the extension. When suspending principal and interest payments, the mechanism for the capital was the same as for the capital repayment deferral, while the suspended interest parts of installments are spread out proportionally over the outstanding period after the suspension period.

The supporting tools accessible within the moratorium applied to retail clients whose delay in capital or interest payments did not exceed 30 days at the date of submission of the support application and applied only to loans granted before 13 March 2020, which were not classified as default.

mBank offers to retail clients also support under so-called Crisis Shield 4.0, effective from 23 June 2020. The customers who lost their job or another major source of income after 13 March 2020, have the right to suspend the loan repayment for up to 3 months without charging interest during the period of suspension of the agreement. This assistance tool is considered as a legislative moratorium within the meaning of the EBA guidelines. The scale of applications submitted for this form of assistance is currently not significant.

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The moratorium offered by mBank in Corporate Banking enabled changes in the schedule of payments by suspending the payments of principal amounts for the limited period up to 6 months. In addition, small and medium-sized enterprises who are mBank's clients, have the possibility to suspend the repayment of full installments for up to 3 months.

The amount of suspended principal part of installments increases the last loan installment. Concerning the suspension of both principal and interest part of installments, the amount of suspended principal increased the last loan installment, while the amount of suspended interest was added to subsequent interest installments payable after the deferral period. In the case of commercial real estate financing transactions exceeding PLN 10 million, the repayment terms were negotiated individually.

mBank made available for the Corporate Banking clients also new financing aimed at stabilizing their liquidity situation, according to which collateral in the form of BGK (Bank Gospodarstwa Krajowego) guarantees is used. These guarantees do not constitute a government subsidies as defined in IAS 20. A transaction secured with a BGK guarantee must meet the conditions defined in a specific portfolio guarantee line agreement signed between mBank and BGK. The BGK guarantee secures up to 80% of the exposure, but not more than the specified maximum level defined in the agreement. mBank may use the BGK guarantee in the first place in case of non-payment of a borrower. If the Bank have used BGK guarantee, potential recoveries from the borrower are shared between mBank and BGK on a pari passu basis.

In accordance with the Bank's internal regulations the moratorium applied to all corporate clients who as of 15 March 2020 were not classified as default. The moratorium applied only to loans granted before 8 March 2020. In addition, when granting assistance, mBank required maintaining collateral at least at the same level and limiting distribution to the owner.

The tables below present information on the scope of the moratoria applied in mBank and new financing covered by public guarantee programs (BGK) applied as a result of the outbreak of the COVID-19 pandemic.

	31.12.2020	
	Number of obligors	Of which: granted
Moratoria	53 889	53 889
Government guarantees (BGK)	47	47

	31.12.2020				
	Gross carrying amount of moratoria	Of which: subject to expired moratoria	Of which: subject to active moratoria	Accumulated impairment, accumulated negative changes in fair value due to credit risk of active moratoria	Net carrying amount of active moratoria
Moratoria	**9 756 578**	**9 513 066**	**243 512**	**(6 364)**	**237 148**
- Individual customers	5 906 428	5 745 596	160 832	(5 712)	155 120
- Corporate customers	3 850 150	3 767 470	82 680	(652)	82 028
Government guarantees (BGK)	**512 591**	**-**	**512 591**	**(4 946)**	**507 645**
- Individual customers	-	-	-	-	-
- Corporate customers	512 591	-	512 591	(4 946)	507 645

Active assistance tools as at 31 December 2020 granted in the period from 13 March 2020 to 30 September 2020	Performing				
	Gross carrying amount	Of which: exposures with forbearance measures	Of which: grace period of capital and interest	Of which: instruments with significant increase in credit risk since initial recognition but not credit-impaired (Stage 2)	Accumulated impairment
Moratoria	**234 936**	**19 802**	**116 442**	**126 799**	**(4 220)**
- Individual customers	152 256	16 121	105 920	113 066	(3 568)
- Corporate customers	82 680	3 681	10 522	13 733	(652)
Government guarantees (BGK)	**512 591**	**-**	**-**	**217 253**	**(4 946)**
- Individual customers	-	-	-	-	-
- Corporate customers	512 591	-	-	217 253	(4 946)

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Active assistance tools as at 31 December 2020 granted in the period from 13 March 2020 to 30 September 2020	Non-performing				
	Gross carrying amount	Of which: exposures with forbearance measures	Of which: unlikely to pay that are not past-due or past-due <= 90 days	Accumulated impairment	Gross carrying amount – Inflows to non-performing exposures
Moratoria	**8 576**	**1 362**	**-**	**(2 144)**	**7 281**
- Individual customers	8 576	1 362	-	(2 144)	7 281
- Corporate customers	-	-	-	-	-
Government guarantees (BGK)	**-**	**-**	**-**	**-**	**-**
- Individual customers	-	-	-	-	-
- Corporate customers	-	-	-	-	-

The vast majority of clients who received support under repayment moratoria, corresponding to 96% of the total exposure covered by the moratoria, benefited only from the suspension of the principal repayments. Consequently the customers are still obeyed to make repayments but in a lower amount. The delay in the interest payments is subject to the standard days-past-due calculation. Overdue interest payment exceeding 30 days results in the reclassification of exposure to stage 2, and exceeding 90 days - to stage 3.

The tables below present information on the expired moratoria, which were applied in the Bank as a result of the outbreak of the COVID-19 pandemic from 13 March to 30 Semptember 2020.

Expired assistance tools as at 31 December 2020 granted in the period from 13 March 2020 to 30 September 2020	Performing				
	Gross carrying amount	Of which: exposures with forbearance measures	Of which: instruments with significant increase in credit risk since initial recognition but not credit-impaired accumulated impairment of (Stage 2)	Accumulated impairment	Of which: instruments with significant increase in credit risk since initial recognition but not credit-impaired accumulated impairment of (Stage 2)
Moratoria	**9 414 161**	**98 811**	**3 633 320**	**(97 758)**	**(77 152)**
- Individual customers	5 680 706	13 937	2 829 672	(66 991)	(59 128)
- Corporate customers	3 733 455	84 874	803 648	(30 767)	(18 024)
Government guarantees (BGK)	**-**	**-**	**-**	**-**	**-**
- Individual customers	-	-	-	-	-
- Corporate customers	-	-	-	-	-

Expired assistance tools as at 31 December 2020 granted in the period from 13 March 2020 to 30 September 2020	Non-performing				
	Gross carrying amount	Of which: exposures with forbearance measures	Of which: unlikely to pay that are not past-due or past-due <= 90 days	Accumulated impairment	Gross carrying amount – Inflows to non-performing exposures
Moratoria	**98 905**	**161**	**-**	**(45 761)**	**46 934**
- Individual customers	64 890	118	-	(26 358)	42 506
- Corporate customers	34 015	43	-	(19 403)	4 428
Government guarantees (BGK)	**-**	**-**	**-**	**-**	**-**
- Individual customers	-	-	-	-	-
- Corporate customers	-	-	-	-	-

According to European Banking Authority (EBA) guidelines, mBank together with other banks in Poland, decided to resume non-legislative moratoria. The Bank will accept applications for a new moratorium between 18 January 2021 and 31 March 2021. The content of the moratorium is similar to the moratorium granted in 2020, but its scope is much smaller. The scope is limited only to companies operating in the specific industries.

Impact of the COVID-19 pandemic on the client's financial situation assessment process

In assessing the financial situation of corporate clients, mBank uses only individual assessment as the most appropriate and precise (Bank does not use a collective or sectorial approach).

The process of client and transaction risk monitoring takes into account the impact of the COVID-19 pandemic on the client's situation and the strength of the impact (i.e. temporary turbulence, long-term problem for the business model, etc.) as well as the plan to mitigate this impact implemented by the client. The Bank conducts sector analysis of clients that have applied for moratorium. Among those clients, the largest balance sheet exposure as at 31 December 2020 is held by clients operating in the following sectors: real estate activities (70.1%), wholesale and retail trade (12.2%), accommodation and food service activities (7.5%) and manufacturing (5.0%).

The client is placed on the Watch List (LW - list of clients under observation) based on standard criteria defined in the mBank's internal regulations. With regard to clients who have submitted an application for assistance to mBank, the list of criteria classifying to LW has been extended by an additional, discretionary premise in respect of COVID-19. On the basis of this premise, a risk analyst may put the client on the LW if, according to his opinion, problems arising from a pandemic may have a long-term nature and after its termination the customer may not return to the financial situation allowing the settlement of his obligations. Other criteria of the placement on LW, defined in mBank' credit regulations, also apply to customers who have received support from mBank in connection with COVID-19. Placing a customer on LW results in customer classification to stage 2.

In the scope of retail customers risk assessment, the borrowers with granted assistance tools in the form of moratorium were subject to scoring approach in accordance with the standard risk assessment process.

Description of the forbearance classification approach applied in the mBank in relation to COVID-19

According to the statement of the European Banking Authority on the prudential framework regarding Default, Forbearance and IFRS 9 in light of COVID-19 measures published on 25 March 2020, saying that the use of COVID-19 aid tools in the form of repayment moratorium, meeting the EBA guidelines on legislative and non-legislative moratoria on loan repayments applied in the light of the COVID-19 crisis published on 2 April 2020 does not automatically classify exposures to default and forbearance, as well as according to the UKNF (Polish Financial Supervision Authority) statement published as a part of the Supervisory Impulse Package for Security and Development that UKNF will apply a flexible approach to the application of EBA guidelines for unsupported and restructured exposures, Bank does not classify the granting of the moratoria due to the COVID-19 crisis as forbearance, with the exception of corporate clients, for whom there is applied an approach based on individual assessment whether classification of such client's exposure as forborne is required, in accordance with the mBank's internal regulations.

Due to the deterioration of the economic situation in the country resulting from the COVID-19 epidemic, the Bank has taken additional actions aimed at including this information in the expected credit losses. Due to the uncertainty caused by dynamic situation changes, the mBank's activities were spread over time and in particular covered:

1. review of sectors and individual clients of the corporate portfolio, in particular clients under observation, in order to verify the potential increase in the probability of failure to implement the restructuring plans, which was already carried out in March as the first activity of the mBank as part of taking into account the impact of the epidemic on clients' financial situation,
2. modification of the weight of macroeconomic scenarios, consisting in assigning a 100% weight to the pessimistic scenario, in the expected credit loss model, applied in the first quarter of 2020,
3. updating models of the relationship between the long-term PD parameter and macroeconomic variables, based on historical data and the currently observed economic situation, in the second quarter of 2020,
4. updating macroeconomic forecasts, taking into account the impact of COVID-19 and state aid actions, affecting long-term PD, EAD and LGD parameters, as well as the level of exposure allocation to stage 2, in particular by increasing the expected level of allocation for some portfolios due to the expected increase in the loss ratio, in the second quarter of 2020,
5. restoration of macroeconomic scenario weights of 60% for the baseline scenario, 20% for the optimistic and 20% for the pessimistic respectively, in the expected credit loss model, while taking into account the current macroeconomic forecasts implemented directly in the risk parameters, in the second quarter of 2020,
6. monitoring of macroeconomic forecasts in order to verify the macroeconomic data used in the models in terms of their adequacy to the actual development of the economic situation in Poland. There was no basis for changing the macroeconomic forecasts within the risk parameters, in the third and fourth quarter of 2020.

Due to the uncertainty related to the difficulties in observation of the timeliness of repayment of loans covered by moratoria, Bank also decided in the third quarter of 2020 to reclassify, some of the exposures of retail clients covered by this form of support, selected on the basis of behavioral characteristics, to stage 2 despite no evidence of a significant increase of credit risk, which resulted in the recognition of additional cost of credit risk at the end of 2020 in the amount of PLN 53.1 million. The total gross carrying amount of the reclassified portfolio as at 31 December 2020 was PLN 3 227.57 million.

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The change had an impact on exposure allocation to the stages. The share of stage 2 in the total exposure of the loan portfolio increased but its coverage with provisions decreased, which is a natural consequence of allocating to stage 2 exposures with a lower probability of default (lower PD).

In addition, at the end of 2020, mBank decided to automatically reclassify exposures subject to the relief in the form of the statutory moratorium to stage 3, or, in justified cases, to stage 2. The final allocation of the exposure to stage 2 was possible after conducting additional analyzes taking into account quantitative and qualitative factors, such as: co-borrower in the contract, credit quality of all customer exposures, the amount of cash flow after the date of the application for a moratorium. The reclassification resulted in the recognition of additional cost of credit risk in the amount of PLN 1.7 million. The total gross carrying amount of the reclassified portfolio as at 31 December 2020 was PLN 9.97 million.

The above-mentioned activities resulted in recognition of additional cost of credit risk in the amount of PLN 203.5 million in the portfolio measured at amortized cost. In addition, these activities had an impact on the valuation of the loan portfolio at fair value through profit or loss, for which mBank recognized an additional cost of PLN 9.4 million.

Due to the fact that changes in risk parameters following the outbreak of the COVID-19 pandemic were implemented over a period of several months in a very dynamically changing macroeconomic environment, mBank decided to present the total value of their impact on 31 December 2020, as presented in the table below.

	31.12.2020		
	Individual customers	Corporate customers	Total
Financial asset measured at amortized cost	**133 273**	**70 254**	**203 527**
Stage 1	2 910	1 367	4 277
Stage 2	113 619	4 058	117 677
Stage 3	16 744	64 829	81 573
Financial assets measured at fair value through profit or loss	**9 414**	**-**	**9 414**

The most important write-offs in stage 3 were concerned in corporate clients from the following sectors: wholesale and retail trade, professional, scientific and technical activities and transport and storage.

As at 31 December 2020, the mBank did not apply management corrections (overlays).

Bank will continue to analyze the impact of COVID-19 and state aid programs on the result of the cost of credit risk in the upcoming quarters.

In order to assess expected credit loss (ECL) sensitivity to the future macroeconomic conditions, mBank determined the ECL value separately for each of the scenarios used for the purposes of calculating the expected credit risk losses. The impact of each of the scenarios is presented in the table in the next chapters of the document.

The table below presents forecasts of the main macroeconomic indicators used in the expected credit loss model as of 31 of December 2020 and 31 of December 2019:

Scenario as at 31.12.2020		base		optimistic		pessimistic	
Probability		60%		20%		20%	
		The first year of the forecast	The average for the next two years	The first year of the forecast	The average for the next two years	The first year of the forecast	The average for the next two years
GDP	y/y	-4.2	4.4	0	3.9	-6.4	0.4
Unemployment rate	end of the year	7.0%	5.5%	3.3%	2.9%	9.2%	11.9%
WIBOR3M	end of the year	0.31	0.38	0.7	0.7	0.1	0.1
Real estate price index	y/y	101.0	105.5	103.0	105.9	91.9	102.8
CHF/PLN	end of the year	4.21	4.03	4.11	3.93	4.43	4.43

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Scenario as at 31.12.2019		base		optimistic		pessimistic	
Probability		60%		20%		20%	
		The first year of the forecast	The average for the next two years	The first year of the forecast	The average for the next two years	The first year of the forecast	The average for the next two years
GDP	y/y	3.3	2.8	4.3	3.4	0.6	1.4
Unemployment rate	end of the year	3.9%	4.0%	3.0%	3.5%	6.5%	8.0%
WIBOR3M	end of the year	2.0	2.3	1.7	1.7	0.5	0.5
Real estate price index	y/y	102.0	101.0	103.8	103.2	100.0	102.6
CHF/PLN	end of the year	3.62	3.48	3.72	3.62	4.48	4.15

The value of credit risk cost is the result of all presented macroeconomic scenarios and the weights assigned to them. Impact of individual scenarios on the credit risk costs is as shown in the table below (weight of a given scenario 100%).

Scenario as at 31.12.2020	The change of the value of credit risk costs
	31.12.2020
optimistic	41 360
base	10 276
pessimistic	(120 905)

The above results were estimated taking into account the equal allocation to the stage 2 based on the weighted average of all 3 macroeconomic scenarios, without and assumption of additional potential migrations between stages. The ECL sensitivity analysis was performed on 84% of the assets of the portfolio of loans and advances to customers and off-balance sheet liabilities granted to them.

The reason for changes in the key values in mBank's risk models were changes in macroeconomic indicators following the outbreak of the COVID-19 pandemic.

Apart from the activities related to the updating of the credit risk models mentioned above, the Bank did not introduce any other dedicated changes into the models used for the purposes of calculating the expected credit risk losses. Due to:

- lack of significant impact of the current economic situation (resulting mainly from the applied support measures) on parameters such as default rate or level of portfolio losses,
- results of consultations with other units of the Bank's risk division indicating that there is no need to take into account additional effects of the COVID-19 impact on the models,

In the model management process, the Bank has carried out to cyclical activities such as:

- cyclical recalibration of the short-term PD models reflecting the current level of the portfolio's default rate,
- cyclical recalibration of the long-term PD models and quantitative staging model,
- recalibration of the long-term LGD model for corporates adjusting the estimated level of losses to the observed in recent years.

Provisions for legal risks relating to indexation clauses in mortgage and housing loans in CHF

Provisions for legal proceedings are recognized for the value in dispute and other costs on each reporting date based on an estimate of the probability of losing in court. However, the Bank's final liability may differ from the provisions that have been recognized, as a high degree of judgement is involved in assessing the probability of uncertain liabilities in such legal proceedings and quantifying them. These estimates may turn out to be inaccurate at a later stage of the proceedings.

The Bank closely observes the developments in courts verdicts in legal proceedings regarding mortgage and housing loans in CHF, including impact of the Court of Justice of the European Union (CJEU) judgment as well as analyses the PFSA's Chairman proposal, what was described in details in the Note 32. As of 31 December 2020, the Bank recognized a provision for individual court cases concerning indexation clauses in mortgage and housing loans in CHF in the amount of PLN 1 426 563 thousand (as of 31 December 2019: PLN 417 653 thousand). This provision has been calculated in accordance with the calculation methodology implemented in 2019 based on the 'expected value' method allowed by the IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" in which the obligation is estimated by weighting all possible outcomes by their associated probabilities. The methodology applied by the Bank depends on numerous assumptions that take into account historical data adjusted with the Bank's expectations regarding the future and associated with significant degree of expert judgement. The most important assumptions are: an expected population of borrowers who will file a lawsuit against the Bank, the probability of losing the case having final and binding judgement, the distribution of expected verdicts judged by the courts and the loss to be incurred by the Bank in case of a losing the case in court.

The increase in the provision in 2020 alone resulted mainly from (i) the changes in probability of losing in court assumed in the calculation (ii) changes in assumptions regarding the number of the projected cases and (iii) changes in level of loss on loan exposure in case of losing the case by the Bank. The Bank believes that since the current line of jurisprudence in CHF cases is inconsistent, the probability of losing court cases must, to a large extent, be based on professional judgement supported by external legal opinion until Polish Supreme Court and the CJEU address all the legal uncertainties (in particular, whether abusive provisions can be replaced with other provisions, whether the theory of balance or the theory of two conditionalities will apply, what is a limitation period for parties' claims and whether banks may receive a compensation for usage of the principal granted).

The population of borrowers who will file a lawsuit against the Bank has been projected for a period of 5 years (since 31 December 2020) based on the Bank's history of legal cases in the past and assumes a further inflow of new cases. The Bank assumes that vast majority of the projected cases will be filed until 2022, and then their number will decrease following the expected clarification of the legal environment.

For the purpose of calculating the provisions mBank assumes that approximately 18% of FX borrowers (i.e. 15.4 thousand borrowers with both, active and repaid loans) filed or will file a lawsuit against the Bank. The Bank observes that clients with higher loan amounts were the first ones to file the claims (18% of customers represent 24% of the total CHF loan portfolio, both active and repaid), and therefore that average ticket of the suing population will be decreasing over time. The assumption, due to significant legal uncertainties surrounding CHF cases as well as other external factors that may shape clients preferences to file the lawsuits, is highly judgmental and may be a subject to an adjustment in future. In 2020 the Bank increased the assumed number of the cases by 74.0% when compared to 31 December 2019. If an additional 1% of the borrowers (both holding active loans in CHF as well as borrowers who already repaid their loans in CHF) filed a lawsuit against the Bank, the amount of the provision would increase by approximately PLN 61 million (while other relevant assumptions remain constant) as compared to 31 December 2020.

The probability of losing in court has been calculated taking into account, among others, data from the Bank's history of final and binding positive and negative verdicts. As of 31 December 2020 mBank received 173 final rulings in individual lawsuits (31 December 2019: 80 final rulings), out of which 70 rulings were favourable to the Bank and 103 rulings were unfavourable (31 December 2019: 22 rulings unfavourable).

At the same time 193 proceedings (as of 31 December 2020) at the second instance courts have remained suspended due to the legal issues referred to the Supreme Court and the CJEU. The Bank submits cassation appeals to the Supreme Court against legally binding judgments unfavorable for the Bank. Unfavorable judgments were issued based on the same patterns of facts which resulted in different verdicts. Approximately 50% of unfavourable verdicts led to the invalidation of the loan agreement, others led to the conversion of the agreement into PLN + LIBOR / WIBOR.

Since, in the opinion of the Bank, the number of final verdicts is not statistically representative (too few binding verdicts have been issued by courts in cases related to mBank) the assumption of probability of losing in court takes also into account expert judgements of the Bank supported by legal opinion about the future trends in the court verdicts as well as upcoming verdicts of the Supreme Court and CJEU. In 2020 the Bank revised the probability of losing in court and assumed, based on its own judgement and the external legal opinion, the level of 50% as of 31 December 2020 (30% as of 31 December 2019). If the assumed probability of losing in court changed by +/- 1 percentage point and all other relevant assumptions remained constant, the amount of the provision would change by +/- PLN 29.0 million.

The projected loss rate was calculated using the probabilities of different verdicts that may be issued. As currently there is still no homogenous line of verdicts taken by the courts the Bank took into account three possible losing scenarios: (i) the contract remains valid but the indexation mechanism is eliminated, which transforms a loan indexed to CHF into a PLN loan subject to the interest rate of the loan indexed to CHF, (ii) the contract is invalid in whole because deleting the exchange rate clause would be too far-reaching change (based on assumption that this clause defines the main subject matter of the contract), and (iii) the contract remains a mortgage indexed to CHF, but the FX clause is substituted by the fixing rate of the NBP. Under scenario (ii), the Bank takes into account two versions of the invalidity, assuming that the parties settle each other's claims at the same time. The first version assumes that the consumer is obliged to return the disbursed capital together with the remuneration for using it, and the second assumes that the consumer is only obliged to return the capital without remuneration. Each of these scenarios is associated with a different level of predicted losses for the Bank. The Bank calculated the average level of loss weighted with the probabilities of occurrence of the given scenario in case of negative final and binding judgement, with invalidity scenario assumed to be most probable. The probabilities of those scenarios applied by the Bank has been based on the assessment of the Bank consulted with the legal advisor.

If the assumed weighted average loss changed by +/- 1 percentage point and all other relevant assumptions remained constant the amount of the provision would change by +/- PLN 24.5 million. The weighted average loss assumed in the calculation as of 31 December 2020 increased by 8.9% compared to 31 December 2019.

The method used to calculate the provision is based on parameters that are highly judgmental and with a high range of possible values. It is possible that the provision will have to be adjusted significantly in the future, particularly that important parameters used in calculations are interdependent.

As at the date of approval these consolidated financial statements the Bank has not made any decisions on offering settlements according to the PFSA's Chairman proposal nor has taken any steps to acquire any corporate consents in that matter. It will be a subject of further analysis and discussions with financial authorities. The PFSA's proposal has not been taken into consideration when calculating provision for legal risk related to indexed loans.

More information on provisions for legal risks relating to indexation clauses in mortgage and housing loans in CHF is presented in the Note 32.

Prepayments of retail loans

CJEU ruled on 11 September 2019 that in case concerning consumer loans paid off prematurely the consumer has the right to a reduction in the total cost of the loan in the event of early repayment of the credit. The interpretation constituted an answer to a prejudicial question asked in a court case in which few banks have participated including mBank.

The above ruling impacts consumer loans granted on 18 December 2011 or later, in the amount not exceeding 255 550 PLN or its equivalent in other currency and mortgage loans granted on 22 July 2017 or later with no limit of the loan amount, which have been paid off fully or partially.

As of 31 December 2020 the provision recorded within other provisions (Note 30) related to potential reimbursements of commissions in relation to early repayments of loans before the date of the verdict amounted to PLN 13.8 million (PLN 16.3 million as of 31 December 2019).

The total negative impact of early repayments of retail loans on the Group's gross profit for 2020 amounted to PLN 56.5 million (2019: PLN 93.3 million) of which PLN 52.4 million reduced net interest income and PLN 4.1 million increased other operating expenses (2019: PLN 68.5 million and PLN 24.8 million, respectively).

The above estimates are burdened with significant uncertainty regarding the number of customers who will request the Bank to refund commissions regarding earlier repayments made by the CJEU verdict as well as the expected rate of loan prepayments in the future.

Fair value of derivatives and other financial instruments

The fair value of financial instruments not listed on active markets is determined by applying valuation techniques. All the models are approved prior to being applied and they are also calibrated in order to assure that the obtained results indeed reflect the actual data and comparable market prices. As far as possible, observable market data originating from an active market are used in the models. Methods for determining the fair value of financial instruments are described in Note 2.5.

Deferred tax assets

Deferred tax assets are recognised in respect of tax losses to the extent that it is probable that future taxable profit will be available, against which the losses can be utilised. Judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits.

Revenue and expenses from sale of insurance products bundled with loans

Revenue from sale of insurance products bundled with loans are split into interest income and fee and commission income based on the relative fair value analysis of each of these products.

The remuneration included in fee and commission income is recognised partly as upfront income and partly including deferring over time based on the analysis of the stage of completion of the service.

The Bank leads in case of insurance policies bundled with loans to upfront recognition less than 8% of bancassurance income associated with cash and car loans and 0% to approximately 20% of bancassurance income associated with mortgage loans. Recognition of the remaining part of the income is spread over the economic life of the associated loans. Expenses directly linked to the sale of insurance products are recognised using the same pattern.

<u>Liabilities due to post-employment employee benefits</u>

The costs of post-employment employee benefits are determined using an actuarial valuation method. The actuarial valuation involves making assumptions about discount rates, future salary increases, mortality rates and other factors. Due to the long–term nature of these programmes, such estimates are subject to significant uncertainty.

<u>Leasing</u>

Estimates relating to leases, where the Bank is a lessee, in areas such as determination of the duration of contracts, determining the interest rate used to discount future cash flows and determination of the depreciation rate of right-of-use assets are presented in Note 2.20.

<u>Test for impairment of the Bank</u>

Due to the fact that as at 31 December 2020 the carrying amount of the Bank's net assets was higher than the value of their market capitalization, the Bank performed an impairment test with reference to the Bank's net asset value.

The Bank estimated the recoverable amount of its net assets, based on ten-year projections of financial results. As a result of its comparison to the carrying amount of the net assets, no impairment was recognised. In the test, a discount rate used was determined based on the cost of capital of comparable entities – the rate was set at 8.75%. A change in the projected result in 2029 (and in the residual period) by 1% would change the recoverable amount by PLN 19.3 million.

Although estimates used are based on best knowledge, actual results may differ from the estimates made. The impairment test was performed in accordance with IAS 36 “Impairment of assets”.

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5. Net interest income

	Year ended 31 December	
	2020	**2019**
Interest income		
Interest income accounted for using the effective interest method	**3 647 495**	**3 946 091**
Interest income of financial assets at amortised cost, including:	2 923 474	3 248 623
- Loans and advances	*2 637 919*	*2 959 366*
- Debt securities	*273 672*	*232 177*
- Cash and short-term placements	*19 995*	*55 066*
- Gains (losses) on non-substantial modification (net)	*(12 744)*	*(5 035)*
- Other	*4 632*	*7 049*
Interest income on financial assets at fair value through other comprehensive income	724 021	697 468
- Debt securities	*364 346*	*456 258*
- Loans and advances	*360 135*	*241 210*
- Gains (losses) on non-substantial modification (net)	*(460)*	*-*
Income similar to interest on financial assets at fair value through profit or loss, including:	**461 744**	**508 765**
Financial assets held for trading	33 914	53 908
- Loans and advances	*5 259*	*4 434*
- Debt securities	*28 655*	*49 474*
Non-trading financial assets mandatorily at fair value through profit or loss, including:	88 027	180 648
- Loans and advances	*88 027*	*180 648*
Interest income on derivatives classified into banking book	122 832	173 933
Interest income on derivatives concluded under the fair value hedge	52 717	45 739
Interest income on derivatives concluded under the cash flow hedge	164 254	54 537
Total interest income	**4 109 239**	**4 454 856**

	Year ended 31 December	
	2020	**2019**
Interest expenses		
Financial liabilities measured at amortised cost, including:	(547 643)	(899 193)
- deposits	*(348 854)*	*(666 118)*
- loans received	*(8 567)*	*(13 081)*
- issue of debt securities	*(46 466)*	*(32 405)*
- subordinated liabilities	*(67 888)*	*(76 167)*
- other financial liabilities	*(73 191)*	*(108 508)*
- leasing agreements	*(2 677)*	*(2 914)*
Other	(20 434)	(10 967)
Total interest expense	**(568 077)**	**(910 160)**

Interest income in 2020 and 2019 was affected by recognition of cumulative effect of change in estimates regarding the amounts and timing of the cash flows related to the loans which are expected to be repaid before the contractual term. The issue was described in detail in Note 4.

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Net interest income per client groups is as follows.

	Year ended 31 December	
	2020	2019
Interest income		
From banking sector	337 345	466 478
From other customers, including:	3 771 894	3 988 378
- individual clients	*2 073 073*	*2 082 435*
- corporate clients	*1 169 711*	*1 296 317*
- public sector	*529 110*	*609 626*
Total interest income	**4 109 239**	**4 454 856**
Interest expenses		
From banking sector	(16 641)	(56 427)
From other customers, including:	(437 082)	(745 161)
- individual clients	*(263 644)*	*(333 100)*
- corporate clients	*(159 191)*	*(370 740)*
- public sector	*(14 247)*	*(41 321)*
Debt securities issued	(46 466)	(32 405)
Subordinated liabilities	(67 888)	(76 167)
Total interest expense	**(568 077)**	**(910 160)**

6. Net fee and commission income

	Year ended 31 December	
	2020	2019
Fee and commission income		
Payment cards-related fees	430 242	435 878
Credit-related fees and commissions	388 317	350 035
Commisions for foreign currencies exchange	339 629	306 014
Fees from brokerage activity and debt securities issue	224 935	89 903
Commissions from bank accounts	222 312	210 930
Commissions from money transfers	147 323	145 376
Commissions due to guarantees granted and trade finance commissions	86 043	84 475
Commissions for agency service regarding sale of insurance products of external financial entities	67 958	49 857
Commissions for agency service regarding sale of other products of external financial entities	46 834	54 001
Fees from cash services	42 586	48 570
Commissions on trust and fiduciary activities	31 454	28 027
Fees from portfolio management services and other management-related fees	23 196	14 161
Other	44 421	42 708
Fee and commission income	**2 095 250**	**1 859 935**

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	Year ended 31 December	
	2020	**2019**
Fee and commission expense		
Payment cards-related fees	(226 851)	(241 198)
Commissions paid to external entities for sale of the Bank's products	(135 918)	(153 711)
Commissions paid for agency service regarding sale of insurance products of external financial entities	(15 809)	(14 279)
Discharged brokerage fees	(39 663)	(28 846)
Cash services	(44 464)	(41 944)
Fees to NBP and KIR	(15 910)	(14 706)
Other discharged fees	(157 676)	(147 573)
Total fee and commision expense	**(636 291)**	**(642 257)**

7. Dividend income

	Year ended 31 December	
	2020	**2019**
Financial assets at fair value through profit or loss	4 926	4 220
Investments in subsidiaries, joint ventures and associates accounted for using equity method	26 345	316 075
Total dividend income	**31 271**	**320 295**

8. Net trading income

	Year ended 31 December	
	2020	**2019**
Foreign exchange result	**69 224**	**75 004**
Net exchange differences on translation	(72 656)	46 661
Net transaction gains/(losses)	141 880	28 343
Gains or losses on financial assets and liabilities held for trading	**122 242**	**57 986**
Derivatives, including:	67 160	24 146
- Interest-bearing instruments	*54 051*	*16 256*
- Market risk instruments	*13 109*	*7 890*
Debt securities	59 649	33 981
Loans and advances	(4 567)	(141)
Gains or losses from hedge accounting	**(7 742)**	**3 785**
Net profit on hedged items	(75 933)	(34 543)
Net profit on fair value hedging instruments	66 573	39 154
Ineffective portion of cash flow hedge	1 618	(826)
Net trading income	**183 724**	**136 775**

The foreign exchange result includes profit/(loss) on spot and forward contracts, options, futures and recalculated assets and liabilities denominated in foreign currencies. The result on derivative transactions of interest-bearing instruments includes the result of swap contracts for interest rates, options and other derivatives. The result of the market risk instruments operations include profit/(loss) on: bond futures, index futures, security options, stock exchange index options, and options on futures contracts as well as the result from securities forward transactions and commodity swaps. The result on capital instruments operations includes the valuation and result on trading in equity securities held for trading.

The Bank applies fair value hedge accounting and cash flow hedge accounting. Detailed information on hedge accounting are included in Note 19.

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9. Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss

	Year ended 31 December	
	2020	**2019**
Equity instruments	72 041	75 382
Debt securities	10 710	75 324
Loans and advances	(65 011)	(78 603)
Total gains or losses on non-trading financial assets mandatorily at fair value through profit or loss	**17 740**	**72 103**

In the item Equity instruments, Bank recognised mainly a profit resulting from revaluation to fair value of sahres of Krajowa Izba Rozliczeniowa S.A. in the amount of PLN 22 639 thousand and shares in Polski Standard Płatności sp. z o.o. in the amount of PLN 21 203 thousand, as well as result from convertion and sale of VISA Inc. shares in a total amount of PLN 23 249 thousand. In 2019, under Equity instruments, Bank recognized a profit of PLN 45 058 thousand, resulting from the revaluation of Polski Standard Płatności Sp. z o.o., made in connection with the commencement of strategic cooperation with Mastercard.

In September 2020, VISA Inc. converted half of the Series C Preference Shares held by Bank (disclosed in the financial statements as debt securities). As a result of the conversion, the Bank received Series A Preferred Stock, which will be automatically converted into Class A Common Stock upon sale in the proportion of 1 Series A Preferred Stock per 100 Class A Common Stock shares.

At the end of 2020, Bank still holds the Series C Preference Shares of VISA Inc. but their value on the day of their coversion was reduced by 50%. The value of Series C Preference Shares of VISA Inc. is presented in the item Debt securities. The amount of PLN 75 324 thousand of gains from debt securities in 2019, includes the result of revaluation to fair value, as well as profit related to change in a methdology to discount levels used in the model in the amount of PLN 48 369 thousand.

10. Gains less losses on derecgition of financial assets and liabilities not measured at fair value through profit or loss

	Year ended 31 December	
	2020	**2019**
Gains less losses from derecognition, including:	97 809	19 634
- Financial assets at fair value through other comprehensive income	*60 459*	*19 335*
- Financial assets at amortised cost	*(3 985)*	*299*
- Financial liabilities at amortised cost	*41 335*	*-*
Gains less losses related to sale or revaluation of investments in subsidiaries and associates	(2 695)	(1 247)
Gains less losses on derecgition of financial assets and liabilities not measured at fair value through profit or loss	**95 114**	**18 387**

The result from the derecognition includes the result from the sale of debt securities, as well as the result from the sale of retail mortgage loans that were transferred from mBank to mBank Hipoteczny in pooling transactions in the amount of PLN -31 532 thousand (in 2019: PLN -17 843 thousand).

The result from derecognition of financial assets at amortised cost arises mainly from the sale of individual credit exposures.

The result from derecognition of financial liabilities at amortised cost arises mainly from substitution of liabilities with mFinance France S.A. to mBank S.A., which is described detailly in the Note 28 and the settlement of hedge accounting in connection with the derecognition of the security deposit submitted to the Bank by mFinance France.

Gains or losses on derecognition

	Year ended 31.12.2020		Year ended 31.12.2019	
	Gains	**Losses**	**Gains**	**Losses**
Debt securities	99 924	(3 759)	39 687	(2 509)
Loans and advances	5 203	(44 894)	11 272	(28 816)
Depositis	37 357	(1 610)	-	-
Liabilities due to issue of debt securities	5 588	-	-	-
Gains or losses on derecognition	**148 072**	**(50 263)**	**50 959**	**(31 325)**

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11. Other operating income

	Year ended 31 December	
	2020	**2019**
Gains from sale or liquidation of fixed assets, intangible assets, assets held for sale and inventories	4 203	6 162
Income from services provided	1 607	5 809
Net operating income due to operating lease and subleasing right-of-use assets	-	-
Income due to release of provisions for future commitments	16 747	9 515
Income from recovering receivables designated previously as prescribed, remitted or uncollectible	735	4 654
Income from compensations, penalties and fines received	311	311
Other	21 740	25 564
Total other operating income	**45 343**	**52 015**

Income from services provided is earned on non-banking activities.

The table below presents net operating income due to operating lease and subleasing right-of-use assets for 2020 and 2019.

	Year ended 31 December	
	2020	**2019**
Net operating income due to operating lease and subleasing right-of-use assets		
- Income from operating lease	783	1 839
- Income from right-of-use assets in sublease	11 125	13 144
- Amortisation cost of assets in operating lease and right-of-use assets	(11 908)	(14 983)
Total net operating income due to operating lease and subleasing right-of-use assets	**-**	**-**

Income from subleasing of right-of-use assets relate to the sublease of office space.

12. Overhead costs

	Year ended 31 December	
	2020	**2019**
Staff-related expenses	(863 388)	(905 664)
Material costs, including:	(591 758)	(563 763)
- costs of administration and real estate services	(226 203)	(223 522)
- IT costs	(156 586)	(140 061)
- marketing costs	(122 366)	(135 529)
- consulting costs	(77 101)	(56 489)
- other material costs	(9 502)	(8 162)
Taxes and fees	(24 181)	(27 949)
Contributions and transfers to the Bank Guarantee Fund	(287 159)	(242 395)
Contributions to the Social Benefits Fund	(8 358)	(7 598)
Total overhead costs	**(1 774 844)**	**(1 747 369)**

In 2020, the item "Material costs" consists of: costs related to short-term lease agreements of PLN 32 thousand (2019: PLN 1 742 thousand), costs related to leases of low-value assets in the amount of PLN 657 thousand (2019: PLN 2 952 thousand) and costs related to variable lease payments not included in the measurement of the lease liability (included in overhead costs) in the amount of PLN 1 984 thousand (2019: PLN 3 130 thousand).

In 2019, the item "Material costs" consists of tangible assets operating lease payment costs (mainly real estate) of PLN 27 997 thousand.

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Staff-related expenses in 2020 and 2019 are presented below.

	Year ended 31 December	
	2020	**2019**
Wages and salaries	(696 643)	(733 289)
Social security expenses	(114 974)	(122 065)
Remuneration concerning share-based payments, including:	(10 159)	(9 947)
- share-based payments settled in mBank S.A. shares	*(10 159)*	*(9 947)*
Other staff expenses	(41 612)	(40 363)
Staff-related expenses, total	**(863 388)**	**(905 664)**

Detailed information regarding incentive programmes to which share-based payments relate, is included under the Note 41.

13. Other operating expenses

	Year ended 31 December	
	2020	**2019**
Losses from sale or liquidation of fixed assets, intangible assets, assets held for resale and inventories	(1 321)	(2 526)
Provisions for future commitments	(44 647)	(51 399)
Costs arising from provisions created for other receivables (excluding loans and advances)	(1 061)	(1 196)
Donations made	(3 238)	(6 003)
Compensation, penalties and fines paid	(1 938)	(4 237)
Debt collection related costs	(39 578)	(41 838)
Other operating costs	(34 189)	(67 009)
Total other operating expenses	**(125 972)**	**(174 208)**

In 2019, the item "Other operating expenses" includes a cost in the amount of PLN 26 283 thousand, created as a result of the Bank's decision to select an alternative method of taxing with income tax the interest paid by the Bank in relation to bonds issued before 1 January 2020 on foreign public markets under the EMTN program.

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14. Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss

	Year ended 31 December	
	2020	**2019**
Financial assets at amortised cost, including:	**(950 873)**	**(585 884)**
- Debt securities	(56)	8
Stage 1	*(56)*	*8*
- Loans and advances	(950 817)	(585 892)
Stage 1	*(3 974)*	*(83 690)*
Stage 2	*(113 457)*	*(35 915)*
Stage 3	*(823 266)*	*(465 750)*
POCI	*(10 120)*	*(537)*
Financial assets at fair value through other comprehensive income	**(9 911)**	**(4 268)**
- Debt securities	(1 251)	171
Stage 1	*(459)*	*927*
Stage 2	*(792)*	*(756)*
- Loans and advances	(8 660)	(4 439)
Stage 1	*(827)*	*(1 996)*
Stage 2	*(3 967)*	*(1 880)*
Stage 3	*(3 784)*	*(550)*
POCI	*(82)*	*(13)*
Commitments and guarantees given	**(70 492)**	**(42 978)**
Stage 1	*(25 769)*	*(5 992)*
Stage 2	*(14 639)*	*(4 969)*
Stage 3	*(1 984)*	*(28 227)*
POCI	*(28 100)*	*(3 790)*
Net impairment losses on financial assets not measured at fair value through profit or loss	**(1 031 276)**	**(633 130)**

15. Income tax expense

	Year ended 31 December	
	2020	**2019**
Current tax	(513 452)	(493 100)
Deferred income tax	33 503	(10 385)
Total income tax	**(479 949)**	**(503 485)**
Profit before tax	**572 996**	**1 484 465**
Tax calculated at Polish current tax rate (19%)	(108 869)	(282 048)
Income not subject to tax	17 198	61 713
Costs other than tax deductible costs	(386 528)	(283 150)
Inactive tax losses	(1 750)	-
Total tax liability	**(479 949)**	**(503 485)**
Effective tax rate calculation		
Profit (loss) before income tax	572 996	1 484 465
Income tax	(479 949)	(503 485)
Effective tax rate	**83.76%**	**33.92%**

Item "Income not subject to tax" includes i.a. dividends excluded from taxation under Article 20 item 3 of Corporate Income Tax Act from 15 February 1992 (Journal of Laws 2020, item 865).

Item "Costs other than tax deductible costs" includes i.a. impact of banking tax introduced by the Act on Tax on Certain Financial Institutions from 15 January 2016 (Journal of Laws 2016, item 68) in 2019, provisions established for legal risk related to the portfolio of mortgage and housing loans in CHF and other expenses non-deductible costs according to Article 16 item 1 of Corporate Income Tax Act from 15 February 1992 (Journal of Laws 2020, item 865).

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Since 1 January 2020 mBank S.A., mBank Hipoteczny S.A., mFinanse S.A. and mLeasing Sp. z. o o established, based on Corporate Income Tax Act, Tax Capital Group of mBank ("TCG"). According to the Corporate Income Tax Act, mBank – as a dominant entity – represents TCG with respect described by tax law. In a year preceding establishing the TCG, there was no tax losses in either of the entity that is a member of TCG. The TCG agreement has been concluded for 4 years.

The current tax breakdown by country is presented below.

	Year ended 31 December	
	2020	2019
Poland	(485 816)	(465 937)
Czech Republic	(27 636)	(27 163)
Total current tax	**(513 452)**	**(493 100)**

Information about deferred income tax is presented in Note 31. The tax on the Bank's profit before tax differs from the theoretical amount that would arise using the basic tax rate of the parent as presented above.

16. Earnings per share

Earnings per share for 12 months

	Year ended 31 December	
	2020	2019
Basic:		
Net profit	93 047	980 980
Weighted average number of ordinary shares	42 355 695	42 340 263
Net basic profit per share (in PLN per share)	**2.20**	**23.17**
Diluted:		
Net profit, applied for calculation of diluted earnings per share	93 047	980 980
Weighted average number of ordinary shares	42 355 695	42 340 263
Adjustments for:		
- share options and subscription warrants	24 031	18 266
Weighted average number of ordinary shares for calculation of diluted earnings per share	42 379 726	42 358 529
Diluted earnings per share (in PLN per share)	**2.20**	**23.16**

According to IAS 33, the Bank prepares a calculation of the diluted earnings per share taking into account contingently issuable shares as part of the incentive programmes is described in the Note 41. The calculations did not include those elements of the incentive programmes, which were antidilutive for the presented reporting periods that could potentially dilute basic earnings per share in the future.

The basic earnings per share are computed as the quotient of the Bank stockholders' share of the profit and the weighted average number of ordinary shares during the year.

The diluted earnings per share are calculated by as ratio of net profits attributable to Bank's shareholder and the weighted average number of ordinary shares as if all possible ordinary shares causing the dilution were replaced with shares. The Bank has two categories of potential ordinary shares causing the dilution: share options and subscription warrants. The number of diluting shares is computed as the number of shares that would be issued if all rights to shares were executed at the market price, determined as the average annual closing price of the Bank's shares.

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17. Other comprehensive income

Disclosure of tax effects relating to each component of other comprehensive income	Year ended 31 December 2020			Year ended 31 December 2019		
	Before-tax amount	Tax (expense) benefit	Net amount	Before-tax amount	Tax (expense) benefit	Net amount
Items that may be reclassified subsequently to the the income statement	**357 054**	**(101 407)**	**255 647**	**8 009**	**(12 172)**	**(4 163)**
Exchange differences on translation of foreign operations	2 854	-	2 854	9	-	9
Cash flow hedges	350 037	(66 507)	283 530	47 539	(9 032)	38 507
Share of other comprehensive income of entities under the equity method	9 898	-	9 898	3 250	-	3 250
Debt instruments at fair value through other comprehensive income	(5 735)	(34 900)	(40 635)	(42 789)	(3 140)	(45 929)
Items that will not be reclassified to the income statement	**(7 698)**	**1 463**	**(6 235)**	**(2 444)**	**464**	**(1 980)**
Actuarial gains and losses relating to post-employment benefits	(7 698)	1 463	(6 235)	(2 444)	464	(1 980)
Total comprehensive income (net)	**349 356**	**(99 944)**	**249 412**	**5 565**	**(11 708)**	**(6 143)**

The table below presents detailed information concerning other comprehensive income for the years 2020 and 2019.

	Year ended 31 December	
	2020	2019
Items that may be reclassified subsequently to the the income statement, including:	**255 647**	**(4 163)**
Exchange differences on translating foreign operations	**2 854**	**9**
Unrealised gains or losses on echange differences on translation of foreign operations included in other comprehensive income	2 854	9
Unrealised gains (positive differences) arising during the year (net)	*29 566*	*2 012*
Unrealised losses (negative differences) arising during the year (net)	*(26 712)*	*(2 003)*
Cash flows hedges (effective part)	**283 530**	**38 507**
Unrealised gain or losses included in other comprehensive inocme	416 576	82 682
Unrealized gains arising during the year (net)	*416 576*	*82 682*
Reclassification to the income statement (net)	(133 046)	(44 175)
Valuation of debt instruments at fair value through other comprehensive income (net)	**(40 635)**	**(45 929)**
Unrealised gains or losses on valuation of debt instruments included in other comprehensive income	2 347	(33 658)
Unrealised gains on debt instruments arising during the year (net)	*217 309*	*59 860*
Unrealised losses on debt instruments arising during the year (net)	*(214 962)*	*(93 518)*
Reclassification adjustments of gains (losses) on debt instruments to the income statement (net)	(42 982)	(12 271)
Share of other comprehensive income of entities under the equity method	**9 898**	**3 250**
Share of other comprehensive income of associates arising during the year (net)	9 898	3 250
Items that will not be reclassified to profit or loss	**(6 235)**	**(1 980)**
Actuarial gains and losses relating to post-employment benefits	(6 235)	(1 980)
Actuarial losses	*(6 235)*	*(1 980)*
Total comprehensive income (net)	**249 412**	**(6 143)**

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18. Cash and balances with central bank

	31.12.2020	31.12.2019
Cash on hand	1 483 489	1 271 472
Cash balances at central banks	2 455 809	6 590 304
Total cash and cash balances with central banks	**3 939 298**	**7 861 776**

On the basis of the Act on the National Bank of Poland of 29 August 1997, mBank holds a mandatory reserve deposit. The arithmetic mean of daily balances of the mandatory reserve that mBank is obliged to maintain during a given period in the current account with NBP amounted to:

- PLN 631 270 thousand for the period from 31 December 2020 to 30 January 2021,
- PLN 3 562 715 thousand for the period from 31 December 2019 to 30 January 2020.

As at 31 December 2020, the mandatory reserve in Central Bank bore 0.10% interest (31 December 2019: 0.50%).

19. Financial assets and liabilities held for trading and hedging derivatives

Financial assets held for trading and hedging derivatives

	31.12.2020	31.12.2019
Derivatives	**1 605 965**	**958 328**
- Derivatives held for trading classified into banking book	149 749	138 691
- Derivatives held for trading classified into trading book	1 667 929	919 393
- Derivatives designated as fair value hedges	192 564	119 423
- Derivatives designated as cash flow hedges	627 919	273 282
- Offsetting effect	(1 032 196)	(492 461)
Debt securities	**699 668**	**1 790 732**
- General governments	366 517	1 330 541
pledged securities	*19 021*	*162 038*
- Credit institutions	132 311	211 401
- Other financial corporations	72 785	139 144
- Non-financial corporations	128 055	109 646
Loans and advances to customers	**187 902**	**172 689**
- Corporate customers	187 902	172 689
Total financial assets held for trading and hedging derivatives	**2 493 535**	**2 921 749**

Trading securities include securities used to secure sell/buy back transactions with customers, the market value of which as at 31 December 2020 amounted to PLN 19 201 thousand (31 December 2019: PLN 162 038 thousand).

Financial liabilities held for trading and hedging derivatives

	31.12.2020	31.12.2019
Derivatives, including:	1 414 374	987 933
- Derivatives held for trading classified into banking book	350 426	106 364
- Derivatives held for trading classified into trading book	1 327 734	1 001 699
- Derivatives designated as fair value hedges	7 646	6 451
- Derivatives designated as cash flow hedges	60	5 436
- Offsetting effect	(271 492)	(132 017)
Financial liabilities held for trading and hedging derivatives	**1 414 374**	**987 933**

Derivative financial instruments

The Bank has the following types of derivative instruments:

Forward currency transactions represent commitments to purchase foreign and local currencies, including outstanding spot transactions.

Futures for currencies and interest rates are contractual commitments to receive or pay a specific net value, depending on currency rate of exchange or interest rate variations, or to buy or sell a foreign currency or a financial instrument on a specified future date for a fixed price established on the organised financial market. Because futures contracts are collateralised with fair-valued cash or securities and the changes of the face value of such contracts are accounted for daily in reference to stock exchange quotations, the credit risk is marginal.

FRA contracts are similar to futures except that each FRA is negotiated individually and each requires payment on a specific future date of the difference between the interest rate set in the agreement and the current market rate on the basis of theoretical amount of capital.

Currency and interest rate swap contracts are commitments to exchange one cash flow for another cash flow. Such a transaction results in swap of currencies or interest rates (e.g., fixed to variable interest rate) or combination of all these factors (e.g., cross-currency CIRS). With the exception of specific currency swap contracts, such transactions do not result in swaps of capital. The credit risk of the Bank consists of the potential cost of replacing swap contracts if the parties fail to discharge their liabilities. This risk is monitored daily by reference to the current fair value, proportion of the face value of the contracts and market liquidity. The Bank evaluates the parties to such contracts using the same methods as for its credit business, to control the level of its credit exposure.

Currency and interest rate options are agreements, pursuant to which the selling party grants the buying party the right, but not an obligation, to purchase (call option) or sell (put option) a specific quantity of a foreign currency or a financial instrument at a predefined price on or by a specific date or within an agreed period. In return for accepting currency or interest rate risk, the buyer offers the seller a premium. An option can be either a public instrument traded at a stock exchange or a private instrument negotiated between the Bank and a customer (private transaction). The Bank is exposed to credit risk related to purchased options only up to the balance sheet value of such options, i.e. the fair value of the options.

Market risk transactions include futures contracts as well as commodity options, stock options and index options.

Face values of certain types of financial instruments provide a basis for comparing them to instruments disclosed in the statement of financial position but they may not be indicative of the value of the future cash flows or of the present fair value of such instruments. For this reason, the face values do not indicate the level of the Bank's exposure to credit risk or price change risk. Derivative instruments can have positive value (assets) or negative value (liabilities), depending on market interest or currency exchange rate fluctuations. The aggregate fair value of derivative financial instruments may be subject to strong variations.

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The fair values of derivatives held by the Bank is presented in the table below.

As at 31 December 2020	Contract amount		Fair value	
	Purchase	Disposal	Assets	Liabilities
Derivatives held for trading				
Foreign exchange derivatives				
- Currency forwards	24 062 575	23 822 486	334 168	82 238
- Currency swaps	22 982 107	23 200 135	96 393	320 710
- Cross-currency interest rate swaps	10 749 492	10 878 299	30 373	90 251
- OTC currency options bought and sold	4 478 235	4 816 593	92 278	57 809
Total OTC derivatives	**62 272 409**	**62 717 513**	**553 212**	**551 008**
- Currency futures	700 385	696 996	-	-
Total foreign exchange derivatives	**62 972 794**	**63 414 509**	**553 212**	**551 008**
Interest rate derivatives				
- Interest rate swap, OIS	231 967 530	231 967 530	949 552	821 871
- Forward rate agreements	3 100 000	2 725 000	38	48
- OTC interest rate options	343 824	398 286	170	331
Total interest rate derivatives	**235 411 354**	**235 090 816**	**949 760**	**822 250**
Market risk transactions	2 153 766	2 175 532	314 706	304 902
Total derivative assets / liabilities held for trading	**300 537 914**	**300 680 857**	**1 817 678**	**1 678 160**
Hedging derivatives				
Derivatives designated as fair value hedges	14 236 661	14 236 661	192 564	7 646
- Interest rate swaps	14 236 661	14 236 661	192 564	7 646
Derivatives designated as cash flow hedges	14 165 000	14 165 000	627 919	60
- Interest rate swaps	14 165 000	14 165 000	627 919	60
Total hedging derivatives	**28 401 661**	**28 401 661**	**820 483**	**7 706**
Offsetting effect	**-**	**-**	**(1 032 196)**	**(271 492)**
Total recognised derivative assets/ liabilities	**328 939 575**	**329 082 518**	**1 605 965**	**1 414 374**
Short-term (up to 1 year)	105 460 483	105 402 937	55 640	728 342
Long-term (over 1 year)	223 479 092	223 679 581	1 550 325	686 032

As at 31 December 2019	Contract amount		Fair value	
	Purchase	Disposal	Assets	Liabilities
Derivatives held for trading				
Foreign exchange derivatives				
- Currency forwards	16 794 196	17 075 856	44 517	184 798
- Currency swaps	12 755 613	12 597 992	133 030	53 899
- Cross-currency interest rate swaps	11 659 765	11 697 787	36 749	51 859
- OTC currency options bought and sold	4 018 320	4 324 731	30 626	56 647
Total OTC derivatives	**45 227 894**	**45 696 366**	**244 922**	**347 203**
- Currency futures	282 677	283 586	-	-
Total foreign exchange derivatives	**45 510 571**	**45 979 952**	**244 922**	**347 203**
Interest rate derivatives				
- Interest rate swap, OIS	213 325 615	213 325 616	700 137	651 973
- Forward rate agreements	7 150 000	5 725 850	42	24
- OTC interest rate options	422 692	414 647	108	230
Total interest rate derivatives	**220 898 307**	**219 466 113**	**700 287**	**652 227**
Market risk transactions	**2 611 910**	**2 860 643**	**112 875**	**108 633**
Total derivative assets / liabilities held for trading	**269 020 788**	**268 306 708**	**1 058 084**	**1 108 063**
Hedging derivatives				
Derivatives designated as fair value hedges	10 491 195	10 491 195	119 423	6 451
- Interest rate swaps	10 491 195	10 491 195	119 423	6 451
Derivatives designated as cash flow hedges	15 365 000	15 365 000	273 282	5 436
- Interest rate swaps	15 365 000	15 365 000	273 282	5 436
Total hedging derivatives	**25 856 195**	**25 856 195**	**392 705**	**11 887**
Offsetting effect	**-**	**-**	**(492 461)**	**(132 017)**
Total recognised derivative assets/ liabilities	**294 876 983**	**294 162 903**	**958 328**	**987 933**
Short-term (up to 1 year)	99 381 174	98 541 489	282 248	643 538
Long-term (over 1 year)	195 495 809	195 621 414	676 080	344 395

Except of valuation of derivatives, the offsetting effect includes PLN 2 232 thousand of placed collaterals and PLN 762 936 thousand of collaterals received in connection with the derivative transactions subject to compensation (31 December 2019: PLN 4 503 thousand and PLN 364 947 thousand respectively).

In the both reporting periods, market risk transactions comprise the fair values of: stock index options, shares and other equity securities, futures for commodities, swap contracts for commodities.

As at 31 December 2020 and 31 December 2019, the Bank did not hold any financial assets and financial liabilities designated upon initial recognition as at fair value through the income statement.

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Credit quality of financial assets held for trading and derivatives according to internal rating system

Sub-portfolio	31.12.2020		31.12.2019	
	Derivatives	Loans and advances to customers	Derivatives	Loans and advances to customers
1	1 089 902	-	731 610	-
2	402 190	-	286 591	85 408
3	765 232	-	316 716	38 423
4	186 943	187 902	39 797	48 858
5	55 767	-	11 136	-
6	577	-	121	-
7	10 005	-	1 183	-
8	127 447	-	63 388	-
default	98	-	247	-
offsetting effect	(1 032 196)		(492 461)	
Total	**1 605 965**	**187 902**	**958 328**	**172 689**

Rating	31.12.2020	31.12.2019
	Debt securities	Debt securities
1.0 - 1.2	366 517	1 330 541
1.4 - 1.6	23 202	62 302
1.8 - 2.0	73 342	91 569
2.2 - 2.8	134 975	168 051
3.0 - 3.8	101 632	138 269
Total	**699 668**	**1 790 732**

Hedge accounting

In accordance with the IFRS9 provisions, only on the day of initial application the Bank had the opportunity to choose as its accounting policy element to continue to apply the IAS 39 hedge accounting requirements instead of the IFRS 9 requirements.

IFRS 9 requires the Bank to ensure that its hedging relationships are compliant with the risk management strategy applied by the Bank and its objectives. IFRS 9 introduces new requirements with regard to the assessment of hedge effectiveness, rebalancing of the hedge relationship as well as it prohibits voluntary discontinuation of hedge accounting (i.e. in the absence of the conditions to stop the application of hedge accounting, as defined in the standard).

The Bank decided to continue from 1 January 2018, to apply the hedge accounting requirements in accordance with IAS 39.

The Bank determines the hedge ratio based on the nominal value of the hedged item and hedging instrument and it is 1:1.

The sources of hedge ineffectiveness for hedging relationships for which the ineffectiveness arises include mismatch of cash flow dates and repricing periods, base mismatch (e.g. another WIBOR), CVA/DVA mismatch which is in hedging instrument and is not in hedged instrument and mismatch due to initial valuation of hedging instruments if a previously acquired derivative was included in hedging relationship.

Fair value hedge accounting

The Bank has been applying fair value hedge accounting. The interest rate risk is the only type of risk hedged for which hedge accounting is applied. Result from the valuation of hedged items and hedging instruments is presented in the line "Gains or losses from hedge accounting" in the Note 8.

At the end of each month, the Bank evaluates effectiveness of the applied hedging by carrying out analysis of changes in fair value of the hedged and hedging instruments in respect of the hedged risk in order to confirm that hedging relationships are effective in accordance with the accounting policy described in Note 2.11.

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Description of the hedging relation

The Bank hedges against the risk of change in fair value:

- fixed interest rate eurobonds issued by mFinance France S.A. (mFF), subsidiary of mBank, acquired by the Bank in the substitution process. The hedged risk results from changes in interest rates,
- loans received by mBank from European Investment Bank. The hedged risk results from changes in interest rates,
- fixed rate bonds issued by mBank S.A. The hedged risk results from changes in interest rates,
- part of the fixed interest rate mortgage portfolio granted by mBank's foreign branch in Czech Republic. The hedged risk results from changes in interest rates,
- part of portfolio of deposits modelles by mBank in PLN with eceonomic characteristics of fixed-rate deposits. The hedged risk results from changes in interest rates.

Hedged items

The hedged items are:

- one tranche of fixed interest rate eurobonds issued by mFF, acquired by the Bank in the substitution process, with a total nominal value of EUR 427 583 thousand,
- one tranche of fixed interest rate eurobonds issued by mFF, acquired by the Bank in the substitution process, with a total nominal value of CHF 200 000 thousand,
- fixed interest rate loans received by mBank from European Investment Bank with a nominal value of EUR 500 000 thousand, CHF 113 110 thousand and CHF 175 560 thousand,
- fixed rate bonds issued by mBank S.A. with a nominal value of CHF 305 000 thousand,
- fixed rate bonds issued by mBank S.A. with a nominal value of EUR 460 030 thousand,
- part of the fixed interest rate mortgage portfolio, denominated in CZK, granted by mBank's foreign branch in the Czech Republic,
- part of portfolio of deposits modelles by mBank in PLN with eceonomic characteristics of fixed-rate deposits.

Hedging instruments

IRS is the hedging instrument swapping the fixed interest rate for a variable interest rate.

Presentation of the result from hedged and hedging transactions

Fair value adjustment of the hedged assets and liabilities as well as valuation of the hedging instruments is recognized in the income statement as the income from trading operation except for interest income and interest cost of interest part of valuation of hedging instruments, presented in item "Interest income/cost on derivatives concluded under the fair value hedge accounting".

Hedged items – fair value hedges

31.12.2020	Wartość bilansowa pozycji zabezpieczanych	Skumulowana kwota korekty zabezpieczenia wartości godziwej pozycji zabezpieczanej zawarta w wartości bilansowej pozycji zabezpieczanej	Pozycja w bilansie która zawiera pozycję zabezpieczaną	Zmiana wartości godziwej pozycji zabezpieczanej stosowanej jako podstawa ujęcia nieefektywności zabezpieczenia w danym okresie
Fixed interest rate mortgage loans in CZK	820 225	(10 986)	Financial assets at amoritsed cost – Loans and advances to customers	(10 850)
Bonds issued by mBank S.A. with a fixed interest rate (including those subject to substitution)	(6 300 149)	(34 567)	Financial liabilities measured at amortised cost – Debt securities issued	(3 227)
Fixed interest rate loans received by mBank from European Investment Bank	(2 331 637)	(46 568)	Financial liabilities measured at amortised cost – Amounts due to customers – Loans and advances received	(20 815)
Deposits modelled by mBank in PLN with economic characteristics of fixed-rate deposits	(4 980 000)	(48 638)	Financial liabilities measured at amortised cost – Amounts due to customers – Deposits	(48 638)
Fixed interest rate security deposits given by mFF	-	-	-	7 597
TOTAL				**(75 933)**

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31.12.2019	Carrying amount of the hedged items in the statement of financial position	Accumulated amount of fair value hedge adjustment of hedged item included in carrying amount of hedged item recognised in the statement of financial position	The line item in the statement of financial position that includes hedged item	The change in value of the hedged item used as the basis for recognising hedge ineffectiveness for the period
Fixed interest rate mortgage loans in CZK	23 981	(136)	Financial assets at amoritsed cost – Loans and advances to customers	(136)
Fixed interest rate security deposits given by mFF	(5 097 329)	(44 953)	Financial liabilities measured at amortised cost – Amounts due to customers	2 251
Fixed rate bonds issued by mBank S.A.	(3 361 997)	(33 373)	Financial liabilities measured at amortised cost – Debt securities issued	(15 068)
Fixed interest rate loans received by mBank from European Investment Bank	(2 128 603)	(25 753)	Financial liabilities measured at amortised cost – Amounts due to customers – Loans and advances received	(21 590)
TOTAL				**(34 543)**

Nominal values of hedging derivatives - fair value hedges

Nominal value	up to 1 month	1-3 months	3-12 months	1-5 years	over 5 years	Total
			Interest Rate Swaps (IRS)			
31.12.2020	-	-	1 973 219	11 673 344	590 098	**14 236 661**
31.12.2019	-	-	2 129 250	6 687 324	1 674 621	**10 491 195**

The total results of fair value hedge accounting recognized in the income statement

	Year ended 31 December	
	2020	**2019**
Interest income on derivatives concluded under the fair value hedge accounting (Note 5)	52 717	45 739
Net profit on hedged items (Note 8)	(75 933)	(34 543)
Net profit on fair value hedging instruments (Note 8)	66 573	39 154
The total result of fair value hedge accounting recognised in the income statement	**43 357**	**50 350**

Cash flow hedge accounting

The Bank applies cash flow hedge accounting of the part of loans at a variable interest rate indexed to the market rate portfolio, granted by the Bank. An Interest Rate Swap is the hedging instrument changing the variable interest rate to a fixed interest rate. The interest rate risk is the hedged risk within applied by the Bank cash flow hedge accounting. The ineffective portion of the gains or losses on the hedging instrument is presented in Note 8 in the position "Other net trading income and result on hedge accounting". Portion of the gains or losses on the hedging instrument that is an effective hedge, is presented in the statement of comprehensive income as "Cash flow hedges (net)".

Hedged items – cash flow hedges

	Nominal value of hedged items		The change in value of the hedged item used as the basis for recognising hedge ineffectiveness for the period		The balances in the cash flow hedge reserve for continuing hedges	
	31.12.2020	31.12.2019	31.12.2020	31.12.2019	31.12.2020	31.12.2019
Loans and advances to customers - loans in variable interest rate indexed to the market rate	14 165 000	15 365 000	511 146	161 352	405 680	122 150

Nominal values of hedging derivatives - cash flow hedges

31.12.2020	up to 1 month	1-3 months	3-12 months	1-5 years	over 5 years	Total
			INTEREST RATE RISK			
			Interest rate swaps hedging cash flows arising from granted loans with a variable interest rate denominated in PLN			
Nominal value	300 000	70 000	650 000	12 945 000	200 000	**14 165 000**
The average rate of fixed leg	1.838%	2.283%	2.163%	1.825%	1.928%	

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31.12.2019	up to 1 month	1-3 months	3-12 months	1-5 years	over 5 years	Total
INTEREST RATE RISK						
Interest rate swaps hedging cash flows arising from granted loans with a variable interest rate denominated in PLN						
Nominal value	-	200 000	3 590 000	11 375 000	200 000	**15 365 000**
The average rate of fixed leg	-	1.865%	1.967%	2.095%	1.928%	

The period from January 2021 to August 2029 is the period in which the cash flows are expected, and when they are expected to have an impact on the results.

Below is given the timetable prepared as at 31 December 2020 and 31 December 2019, presenting the periods in which the cash flows from loans secured under the cash flow hedge accounting are expected and their impact on the profit and loss account.

	up to 3 months	period from 3 months to 1 year	period from 1 to 5 years	over 5 years
31.12.2020	6 865	13 122	92 059	9 974
31.12.2019	65 461	161 170	439 290	16 813

The following note presents other comprehensive income due to cash flow hedges as at 31 December 2020 and 31 December 2019.

	Year ended 31 December	
	2020	2019
Other gross comprehensive income from cash flow hedge at the beginning of the period	**150 802**	**103 263**
Unrealised gains/losses included in other gross comprehensive income during the reporting period	514 291	102 076
The amount transferred in the period from comprehensive income to profit and loss	(164 254)	(54 537)
- *net interest income*	*(164 254)*	*(54 537)*
Accumulated other gross comprehensive income at the end of the reporting period	**500 839**	**150 802**
Deferred income tax on accumulated other comprehensive income at the end of the reporting period	(95 159)	(28 652)
Accumulated other net comprehensive income at the end of the reporting period	**405 680**	**122 150**
Impact on other comprehensive income in the reporting period (gross)	350 037	47 539
Deferred tax on cash flow hedges	(66 507)	(9 032)
Impact on other comprehensive income in the reporting period (net)	**283 530**	**38 507**

Total result on cash flow hedge accounting recognized in other gross comprehensive income

	Year ended 31 December	
	2020	2019
Gains/losses recognised in comprehensive income (gross) during the reporting period, including:		
Unrealised gains/losses included in other comprehensive income (gross)	350 037	47 539
Results of cash flow hedge accounting recognised in the income statement	165 872	53 711
- Amount included as interest income in income statement during the reporting period	*164 254*	*54 537*
- Ineffective portion of hedge recognised included in other net trading income in income statement	*1 618*	*(826)*
Impact on other comprehensive income in the reporting period (gross)	**515 909**	**101 250**

Impact of the IBOR reform

In connection with the amendments to the standards IFRS 9, IAS 39 and IFRS 7 Interest Rate Benchmark Reform, described in the Note 2.26, and as a result of an ongoing reform of the interest rate reference benchmark and its replacement with a risk free alternative interest rate, the Bank has established a project to manage the transition for any of its contracts that could be affected. The specific impact of IBOR reform on the Bank's hedging activities is subject to the management as part of the overall project to achieve IBOR reform in the Bank.

The table below indicates the nominal amount and weighted average maturity of derivatives in hedging relationships that will be affected by IBOR reform, analyzed by interest rate basis. The derivative hedging instruments provide a close approximation to the extent of the risk exposure the Bank manages through hedging relationships.

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31.12.2020	31.12.2020		31.12.2019	
	Nominal amount	Average maturity (years)	Nominal amount	Average maturity (years)
Interest Rate Swaps				
LIBOR CHF (3 months)	3 974 386	5.6	3 654 877	6.3
EURIBOR (3 months)	4 557 636	2.3	6 813 600	5.2
WIBOR (1 months)	1 200 000	4.5	2 000 000	3.5
WIBOR (3 months)	12 515 000	4.6	12 965 000	4.4
WIBOR (6 months)	450 000	5.0	400 000	2.7
PRIBOR (3 months)	806 310	5.0	22 718	5.0
Interest Rate Swaps, total	**23 503 332**		**25 856 195**	

20. Non-trading financial assets mandatorily at fair value through profit or loss

	31.12.2020	31.12.2019
Equity instruments	**136 480**	**87 597**
- Other financial corporations	136 480	87 597
Debt securities	**76 068**	**133 774**
- Other financial corporations	76 068	133 774
Loans and advances to customers	**1 372 481**	**1 813 818**
Individual customers	1 216 809	1 685 799
Corporate customers	154 939	121 348
Public sector customers	733	6 671
Total non-trading financial assets mandatorily at fair value through profit or loss	**1 585 029**	**2 035 189**
Short-term (up to 1 year) gross	1 054 912	1 339 448
Long-term (over 1 year) gross	530 117	695 741

Credit quality of non-trading financial assets mandatorily at fair value through profit or loss according to internal rating system

Sub-portfolio	31.12.2020	31.12.2019
	Loans and advances to customers	Loans and advances to customers
1	15 450	24 968
2	240 577	334 142
3	202 580	333 443
4	440 053	512 714
5	248 674	282 977
6	22 282	35 206
7	59 856	140 715
default	143 009	149 653
Total	**1 372 481**	**1 813 818**

Rating	31.12.2020	31.12.2019
	Debt securities	Debt securities
1.8 – 2.0	76 068	133 774
Total	**76 068**	**133 774**

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21. Financial assets at fair value through other comprehensive income

31.12.2020	Carrying amount	Gross carrying amount				Accumulated impairment			
		Stage 1	Stage 2	Stage 3	POCI	Stage 1	Stage 2	Stage 3	POCI
Debt securities	**35 216 599**	**35 110 658**	**111 568**	**-**	**-**	**(3 716)**	**(1 911)**	**-**	**-**
- Central banks	149 997	149 997	-	-	-	-	-	-	-
- General governments, including:	32 411 761	32 411 848	-	-	-	(87)	-	-	-
pledged assets	*1 243 749*	*1 243 749*	-	-	-	-	-	-	-
- Credit institutions, including:	747 934	748 124	-	-	-	(190)	-	-	-
- Other financial corporations	1 373 371	1 374 996	-	-	-	(1 625)	-	-	-
- Non-financial corporations	533 536	425 693	111 568	-	-	(1 814)	(1 911)	-	-
Loans and advances to customers	**12 515 013**	**10 897 552**	**1 616 606**	**16 461**	**548**	**(3 394)**	**(8 266)**	**(4 426)**	**(68)**
Individual customers	12 515 013	10 897 552	1 616 606	16 461	548	(3 394)	(8 266)	(4 426)	(68)
Total financial assets at fair value through other comprehensive income	**47 731 612**	**46 008 210**	**1 728 174**	**16 461**	**548**	**(7 110)**	**(10 177)**	**(4 426)**	**(68)**
Short-term (up to 1 year) gross	13 111 119								
Long-term (over 1 year) gross	34 642 274								

31.12.2019	Carrying amount	Gross carrying amount				Accumulated impairment			
		Stage 1	Stage 2	Stage 3	POCI	Stage 1	Stage 2	Stage 3	POCI
Debt securities	**21 876 957**	**21 840 198**	**41 121**	**-**	**-**	**(3 242)**	**(1 120)**	**-**	**-**
- Central banks	2 999 645	2 999 645	-	-	-	-	-	-	-
- General governments, including:	16 440 547	16 440 616	-	-	-	(69)	-	-	-
pledged assets	*1 232 295*	*1 232 295*	-	-	-	-	-	-	-
- Credit institutions, including:	719 910	721 033	-	-	-	(1 123)	-	-	-
pledged assets	*129 714*	*129 714*							
- Other financial corporations	1 162 968	1 163 964	-	-	-	(996)	-	-	-
- Non-financial corporations	553 887	514 940	41 121	-	-	(1 054)	(1 120)	-	-
Loans and advances to customers	**8 421 690**	**7 907 525**	**519 400**	**2 796**	**107**	**(2 874)**	**(4 560)**	**(693)**	**(11)**
Individual customers	8 421 690	7 907 525	519 400	2 796	107	(2 874)	(4 560)	(693)	(11)
Total financial assets at fair value through other comprehensive income	**30 298 647**	**29 747 723**	**560 521**	**2 796**	**107**	**(6 116)**	**(5 680)**	**(693)**	**(11)**
Short-term (up to 1 year) gross	3 976 795								
Long-term (over 1 year) gross	26 334 352								

As at 31 December 2020, the carrying amounts of debt securities with fixed interest rates amounted to PLN 20 372 229 thousand and debt securities with variable interest rates PLN 14 849 997 thousand (31 December 2019: PLN 11 325 027 thousand and PLN 10 556 292 thousand).

The above note includes government bonds pledged under the Bank Guarantee Fund (BFG), government bonds pledged as sell/buy back transactions, government bonds pledged as collateral for the loans received from the European Investment.

In accordance with the Act of 10 June 2016 on the Bank Guarantee Fund (BFG), Deposit Guarantee Scheme and Resolution, as at 31 December 2020 the Bank held government bonds and bills included in the statement of financial position in the amount of PLN 638 044 thousand with a nominal value of PLN 610 660 thousand, which were pledged as collateral for the BFG and were deposited in a separate account at the National Depository of Securities (31 December 2019: PLN 634 764 thousand and PLN 625 660 thousand, respectively)

In addition the Bank held government bonds, which were securing the payment commitment to the BFG guarantee fund and forced restructuring fund in the amount of PLN 57 029 thousand (31 December 2019: PLN 56 244 thousand).

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Movements in expected credit losses allowance on financial assets at fair value through other comprehensive income

As at 31 December 2020	As at the beginning of the period	Transfer to Stage 1	Transfer to Stage 2	Transfer to Stage 3	New financial assets originated or purchased	Financial assets derecognised during the period	Changes in credit risk	As at the end of the period
Debt securities	**(4 362)**	**-**	**-**	**-**	**(1 978)**	**2 210**	**(1 497)**	**(5 627)**
Stage 1	(3 242)	-	182	-	(1 978)	2 192	(870)	(3 716)
Stage 2	(1 120)	-	(182)	-	-	18	(627)	(1 911)
Loans and advances to customers	**(8 138)**	**-**	**-**	**-**	**(814)**	**1 327**	**(8 529)**	**(16 154)**
Stage 1	(2 874)	(14 248)	1 988	5	(912)	348	12 299	(3 394)
Stage 2	(4 560)	13 742	(2 162)	1 202	-	360	(16 848)	(8 266)
Stage 3	(693)	506	174	(1 207)	-	619	(3 825)	(4 426)
POCI	(11)	-	-	-	98	-	(155)	(68)
Expected credit loss allowance, total	**(12 500)**	**-**	**-**	**-**	**(2 792)**	**3 537**	**(10 026)**	**(21 781)**

As at 31 December 2019	As at the beginning of the period	Transfer to Stage 1	Transfer to Stage 2	Transfer to Stage 3	New financial assets originated or purchased	Financial assets derecognised during the period	Changes in credit risk	As at the end of the period
Debt securities	**(4 535)**	**-**	**-**	**-**	**(963)**	**2 518**	**(1 382)**	**(4 362)**
Stage 1	(4 171)	(214)	72	-	(963)	2 367	(333)	(3 242)
Stage 2	(364)	214	(72)	-	-	151	(1 049)	(1 120)
Loans and advances to customers	**(4 839)**	**-**	**-**	**-**	**(1 020)**	**1 557**	**(3 836)**	**(8 138)**
Stage 1	(1 324)	(9 126)	1 028	1	(1 020)	468	7 099	(2 874)
Stage 2	(3 372)	9 057	(1 225)	151	-	830	(10 001)	(4 560)
Stage 3	(143)	69	197	(152)	-	259	(923)	(693)
POCI	-	-	-	-	-	-	(11)	(11)
Expected credit loss allowance, total	**(9 374)**	**-**	**-**	**-**	**(1 983)**	**4 075**	**(5 218)**	**(12 500)**

Explanation of changes in the financial instruments gross carrying amount impacting the changes on expected credit losses allowance

As at 31 December 2020	As at the beginning of the period	Transfer to Stage 1	Transfer to Stage 2	Transfer to Stage 3	New financial assets originated or purchased	Financial assets derecognised during the period	Other movements	As at the end of the period
Debt securities	**21 881 319**	**-**	**-**	**-**	**21 303 582**	**(7 764 380)**	**(198 295)**	**35 222 226**
Stage 1	21 840 198	-	(96 872)	-	21 298 904	(7 764 380)	(167 192)	35 110 658
Stage 2	41 121	-	96 872	-	4 678	-	(31 103)	111 568
Loans and advances to customers	**8 429 828**	**-**	**-**	**-**	**5 184 208**	**(1 594 527)**	**511 658**	**12 531 167**
Stage 1	7 907 525	273 340	(816 435)	(8 130)	4 617 110	(1 515 519)	439 661	10 897 552
Stage 2	519 400	(273 340)	816 983	(6 515)	566 236	(78 245)	72 087	1 616 606
Stage 3	2 796	-	(548)	14 093	862	(763)	21	16 461
POCI	107	-	-	552	-	-	(111)	548
Financial assets at fair value through other comprehensive income, gross	**30 311 147**	**-**	**-**	**-**	**26 487 790**	**(9 358 907)**	**313 363**	**47 753 393**

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As at 31 December 2019	As at the beginning of the period	Transfer to Stage 1	Transfer to Stage 2	Transfer to Stage 3	New financial assets originated or purchased	Financial assets derecognised during the period	Other movements	As at the end of the period
Debt securities	**23 599 335**	**-**	**-**	**-**	**4 360 167**	**(7 006 081)**	**927 898**	**21 881 319**
Stage 1	23 577 614	12 952	(40 218)	-	4 360 167	(6 997 311)	926 994	21 840 198
Stage 2	21 721	(12 952)	40 218	-	-	(8 770)	904	41 121
Loans and advances to customers	**4 583 149**	**-**	**-**	**-**	**5 071 765**	**(1 540 121)**	**315 035**	**8 429 828**
Stage 1	4 207 506	204 783	(83 095)	(2 012)	4 690 757	(1 420 963)	310 549	7 907 525
Stage 2	374 900	(204 783)	83 095	(153)	381 008	(119 158)	4 491	519 400
Stage 3	625	-	-	2 165	-	-	6	2 796
POCI	118	-	-	-	-	-	(11)	107
Financial assets at fair value through other comprehensive income, gross	**28 182 484**	**-**	**-**	**-**	**9 431 932**	**(8 546 202)**	**1 242 933**	**30 311 147**

Credit quality of financial assets at fair value through other comprehensive income according to internal rating system

As at 31 December 2020	Stage 1	Stage 2	Stage 3	POCI	TOTAL
Debt securities at fair value through other comprehensive income					
1.0 – 1.2	33 506 322	-	-	-	33 506 322
1.4 – 1.6	525 610	-	-	-	525 610
1.8 – 2.0	460 856	-	-	-	460 856
2.2 – 2.8	217 712	-	-	-	217 712
3.0 – 3.8	400 158	68 206	-	-	468 364
unrated	-	43 362	-	-	43 362
Gross carrying amount	**35 110 658**	**111 568**	**-**	**-**	**35 222 226**
Accumulated impairment	(3 716)	(1 911)	-	-	(5 627)
Total carrying amount	**35 106 942**	**109 657**	**-**	**-**	**35 216 599**

As at 31 December 2020	Stage 1	Stage 2	Stage 3	POCI	TOTAL
Loans and advances to customers at fair value through other comprehensive income					
1	5 594 653	398 232	-	-	5 992 885
2	4 780 715	905 488	-	-	5 686 203
3	384 972	125 098	-	-	510 070
4	118 551	110 786	-	-	229 337
5	17 779	45 943	-	-	63 722
6	882	6 441	-	-	7 323
7	-	24 618	-	-	24 618
default	-	-	16 461	548	17 009
Gross carrying amount	**10 897 552**	**1 616 606**	**16 461**	**548**	**12 531 167**
Accumulated impairment	(3 394)	(8 266)	(4 426)	(68)	(16 154)
Total carrying amount	**10 894 158**	**1 608 340**	**12 035**	**480**	**12 515 013**

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As at 31 December 2019	Stage 1	Stage 2	Stage 3	POCI	Total
Debt securities at fair value through other comprehensive income					
1.0 - 1.2	20 134 432	-	-	-	20 134 432
1.4 - 1.6	484 159	-	-	-	484 159
1.8 - 2.0	496 788	-	-	-	496 788
2.2 - 2.8	286 248	-	-	-	286 248
3.0 - 3.8	438 571	-	-	-	438 571
4.0 - 5.0	-	41 121	-	-	41 121
Gross carrying amount	**21 840 198**	**41 121**	**-**	**-**	**21 881 319**
Accumulated impairment	(3 242)	(1 120)	-	-	(4 362)
Total carrying amount	**21 836 956**	**40 001**	**-**	**-**	**21 876 957**

As at 31 December 2019	Stage 1	Stage 2	Stage 3	POCI	Total
Loans and advances to customers at fair value through other comprehensive income					
1	2 466 839	55 953	-	-	2 522 792
2	4 891 872	228 321	-	-	5 120 193
3	390 388	89 056	-	-	479 444
4	139 367	65 569	-	-	204 936
5	18 711	46 539	-	-	65 250
6	348	11 379	-	-	11 727
7	-	22 583	-	-	22 583
default	-	-	2 796	107	2 903
Gross carrying amount	**7 907 525**	**519 400**	**2 796**	**107**	**8 429 828**
Accumulated impairment	(2 874)	(4 560)	(693)	(11)	(8 138)
Total carrying amount	**7 904 651**	**514 840**	**2 103**	**96**	**8 421 690**

Financial effect of collaterals

As at 31 December 2020	Gross amount	Accumulated impairment	Accumulated impairment without cash flow from collaterals	Financial effect of collaterals
Balance sheet data				
Loans and advances to customers	12 531 167	(16 154)	(23 619)	7 465
Individual customers	12 531 167	(16 154)	(23 619)	7 465
Total balance sheet data	**12 531 167**	**(16 154)**	**(23 619)**	**7 465**

As at 31 December 2019	Gross amount	Accumulated impairment	Accumulated impairment without cash flow from collaterals	Financial effect of collaterals
Balance sheet data				
Loans and advances to customers	8 429 828	(8 138)	(12 301)	4 163
Individual customers	8 429 828	(8 138)	(12 301)	4 163
Total balance sheet data	**8 429 828**	**(8 138)**	**(12 301)**	**4 163**

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22. Financial assets at amortised cost

31.12.2020	Carrying amount	Gross carrying amount				Accumulated impairment			
		Stage 1	Stage 2	Stage 3	POCI	Stage 1	Stage 2	Stage 3	POCI
Debt securities	**15 952 501**	**15 952 636**	**-**	**-**	**-**	**(135)**	**-**	**-**	**-**
- General governments, including:	11 303 908	11 303 908	-	-	-	-	-	-	-
pledged assets	*2 705 060*	*2 705 060*	-	-	-	-	-	-	-
- Credit institutions	1 984 770	1 984 770	-	-	-	-	-	-	-
- Other financial corporations	2 663 823	2 663 958	-	-	-	(135)	-	-	-
Loans and advances to banks	**10 845 844**	**10 846 771**	**-**	**-**	**-**	**(927)**	**-**	**-**	**-**
Loans and advances to customers	**83 993 698**	**74 557 668**	**8 641 523**	**3 537 273**	**288 681**	**(274 423)**	**(332 339)**	**(2 371 638)**	**(53 047)**
Individual customers	43 594 568	37 321 816	5 828 262	2 103 023	108 829	(159 499)	(278 243)	(1 322 037)	(7 583)
Corporate customers	40 255 292	37 093 935	2 811 096	1 434 249	179 852	(114 681)	(54 095)	(1 049 600)	(45 464)
Public sector customers	143 838	141 917	2 165	1	-	(243)	(1)	(1)	-
Total financial assets at amortised cost	**110 792 043**	**101 357 075**	**8 641 523**	**3 537 273**	**288 681**	**(275 485)**	**(332 339)**	**(2 371 638)**	**(53 047)**

Short-term (up to 1 year) gross	41 574 463
Long-term (over 1 year) gross	72 250 089

31.12.2019	Carrying amount	Gross carrying amount				Accumulated impairment			
		Stage 1	Stage 2	Stage 3	POCI	Stage 1	Stage 2	Stage 3	POCI
Debt securities	**11 234 873**	**11 234 952**	**-**	**-**	**-**	**(79)**	**-**	**-**	**-**
- General governments, including:	9 975 484	9 975 484	-	-	-	-	-	-	-
pledged assets	*1 799 235*	*1 799 235*	-	-	-	-	-	-	-
- Other financial corporations	1 259 389	1 259 468	-	-	-	(79)	-	-	-
Loans and advances to banks	**7 337 703**	**7 338 835**	**-**	**-**	**-**	**(1 132)**	**-**	**-**	**-**
Loans and advances to customers	**82 737 717**	**76 631 868**	**5 342 180**	**3 296 627**	**210 451**	**(269 215)**	**(217 482)**	**(2 240 936)**	**(15 776)**
Individual customers	41 456 124	37 968 053	3 029 231	2 005 514	102 159	(185 019)	(188 813)	(1 272 461)	(2 540)
Corporate customers	40 995 685	38 377 609	2 312 949	1 291 111	108 292	(83 898)	(28 669)	(968 473)	(13 236)
Public sector customers	285 908	286 206	-	2	-	(298)	-	(2)	-
Total financial assets at amortised cost	**101 310 293**	**95 205 655**	**5 342 180**	**3 296 627**	**210 451**	**(270 426)**	**(217 482)**	**(2 240 936)**	**(15 776)**

Short-term (up to 1 year) gross	38 720 527
Long-term (over 1 year) gross	65 334 386

The above note includes government bonds pledged under the Bank Guarantee Fund and government bonds pledged as collateral for the loans received from the European Investment Bank.

In addition the Bank held government bonds, which were securing the payment commitment to the BFG guarantee fund and forced restructuring fund in the amount of PLN 244 046 thousand (31 December 2019: PLN 155 531 thousand).

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Loans and advances to banks

	31.12.2020	31.12.2019
Current accounts	259 699	296 254
Placements with other banks (up to 3 months)	6 135	46 200
Included in cash equivalents (Note 40)	**265 834**	**342 454**
Loans and advances	2 667 757	2 820 611
Reverse repo or buy/sell back	6 301 724	3 362 331
Other receivables	1 611 456	813 439
Total (gross) loans and advances to banks	**10 846 771**	**7 338 835**
Provisions created for loans and advances to banks (negative amount)	**(927)**	**(1 132)**
Total (net) loans and advances to banks	**10 845 844**	**7 337 703**
Short-term (up to 1 year) gross	8 148 407	4 371 320
Long-term (over 1 year) gross	2 698 364	2 967 515

The item "Other receivables" includes cash collaterals in the amount of PLN 593 824 thousand, placed with other banks under the derivative transactions concluded by the Bank (Note 34) (31 December 2019: PLN 390 464 thousand). This item includes also the deposit submitted in relation to the guarantee granted for mBank Hipoteczny in the amount of PLN 609 909 thousand.

As at 31 December 2020, the variable rate loans to banks amounted to PLN 2 592 125 thousand and the fixed rate loans to banks amounted to PLN 75 632 thousand (31 December 2019: PLN 2 801 328 thousand and PLN 19 283 thousand, respectively).

As at 31 December 2020 and as at 31 December 2019 the term placements with other banks were fixed rated. An average interest rate for placements in other banks and loans granted to other banks amounted to 0.75% (31 December 2019: 1.70%).

The following table presents receivables from Polish and foreign banks:

	31.12.2020		31.12.2019	
	Loans and advances to Polish banks	Loans and advances to foreign banks (gross)	Loans and advances to Polish banks	Loans and advances to foreign banks (gross)
Gross carrying amount	3 687 624	7 159 147	3 230 655	4 108 180
Accumulated impairment	(457)	(470)	(58)	(1 074)
Loans and advances to banks, net	**3 687 167**	**7 158 677**	**3 230 597**	**4 107 106**

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Loans and advances to customers

Loans and advances to customers 31.12.2020	Gross carrying amount	including:		
		Individual customers	Corporate customers	Public sector customers
Current accounts	11 992 641	7 389 930	4 601 392	1 319
Term loans, including:	74 342 513	37 681 030	36 518 719	142 764
- *housing and mortgage loans to natural persons*	*24 872 476*	*24 872 476*		
Reverse repo or buy/sell back	103 832	-	103 832	-
Other loans and advances	278 808	-	278 808	-
Other receivables	307 351	290 970	16 381	-
Total gross carrying amount	**87 025 145**	**45 361 930**	**41 519 132**	**144 083**

Loans and advances to customers 31.12.2020	Accumulated impairment	including:		
		Individual customers	Corporate customers	Public sector customers
Current accounts	(848 459)	(582 742)	(265 717)	-
Term loans, including:	(2 181 230)	(1 184 620)	(996 365)	(245)
- *housing and mortgage loans to natural persons*	*(427 300)*	*(427 300)*		
Other loans and advances	(1 758)	-	(1 758)	-
Total accumulated impairment	**(3 031 447)**	**(1 767 362)**	**(1 263 840)**	**(245)**

Total gross carrying amount	**87 025 145**	**45 361 930**	**41 519 132**	**144 083**
Total accumulated impairment	(3 031 447)	(1 767 362)	(1 263 840)	(245)
Total carrying amount	**83 993 698**	**43 594 568**	**40 255 292**	**143 838**

Short-term (up to 1 year) gross	30 494 872
Long-term (over 1 year) gross	56 530 273

Loans and advances to customers 31.12.2019	Gross carrying amount	including:		
		Individual customers	Corporate customers	Public sector customers
Current accounts	13 732 870	7 493 468	6 236 243	3 159
Term loans, including:	70 964 003	35 249 463	35 431 491	283 049
- *housing and mortgage loans to natural persons*	*23 011 901*	*23 011 901*		
Reverse repo or buy/sell back	13 398	-	13 398	-
Other loans and advances	158 919	-	158 919	-
Other receivables	611 936	362 026	249 910	-
Total gross carrying amount	**85 481 126**	**43 104 957**	**42 089 961**	**286 208**

Loans and advances to customers 31.12.2019	Accumulated impairment	including:		
		Individual customers	Corporate customers	Public sector customers
Current accounts	(966 201)	(664 889)	(301 312)	-
Term loans, including:	(1 777 200)	(983 944)	(792 956)	(300)
- *housing and mortgage loans to natural persons*	*(388 729)*	*(388 729)*		
Other loans and advances	(8)	-	(8)	-
Total accumulated impairment	**(2 743 409)**	**(1 648 833)**	**(1 094 276)**	**(300)**

Total gross carrying amount	**85 481 126**	**43 104 957**	**42 089 961**	**286 208**
Total accumulated impairment	(2 743 409)	(1 648 833)	(1 094 276)	(300)
Total carrying amount	**82 737 717**	**41 456 124**	**40 995 685**	**285 908**

Short-term (up to 1 year) gross	32 584 995
Long-term (over 1 year) gross	52 896 131

As at 31 December 2020, gross amount of variable interest rate loans amounted to PLN 84 902 987 thousand and fixed interest rate loans amounted to PLN 2 122 158 thousand (31 December 2019: PLN 84 315 753 thousand and PLN 1 165 373 thousand, respectively). In 2020, an average interest rate for loans granted to customers (excluding reverse repos) amounted to 3.01% (in 2019: 3.55%).

In the item loans and advances granted to individual customers were also included loans granted to microenterprises serviced by mBank S.A. Retail Banking.

As at 31 December 2020, the above note includes receivables in the amount of PLN 182 801 thousand from the National Depository of Securities CCP in connection with the Brokerage Office activity (31 December 2019: PLN 49 898 thousand).

In addition, the item "other" includes cash collaterals in the amount of PLN 191 307 thousand placed by the Bank under derivatives transactions (Note 34)(31 December 2019: PLN 27 234 thousand).

The currency structure of housing and mortgage loans

	31.12.2020	31.12.2019
Housing and mortgage loans to natural persons (in PLN 000's), including:	**24 445 176**	**22 623 172**
- PLN	2 735 321	2 697 947
- CHF	13 559 830	13 561 831
- EUR	3 832 060	3 107 607
- CZK	4 113 213	3 024 539
- USD	180 718	204 749
- other	24 034	26 499
Housing and mortgage loans to natural persons in original currencies (main currencies in 000's)		
- PLN	2 735 321	2 697 947
- CHF	3 179 998	3 458 504
- EUR	830 385	729 742
- CZK	23 463 851	18 046 175
- USD	48 084	53 914

The table above presents currency breakdown of net carrying value of housing and mortgage loans measured at amortised cost granted to natural persons. The table above does not present housing and mortgage loans measured at fair value through other comprehensive income in the amount of PLN 12 515 013 thousand, granted entirely in PLN (Note 21).

Credit quality of financial assets at amortised cost according to internal rating system

As at 31 December 2020	Stage 1	Stage 2	Stage 3	POCI	TOTAL
Debt securities at amortised cost					
1.0 – 1.2	12 914 524	-	-	-	12 914 524
1.8 – 2.0	3 038 112	-	-	-	3 038 112
Total gross carrying amount	**15 952 636**	**-**	**-**	**-**	**15 952 636**
Total accumulated impairment	(135)	-	-	-	(135)
Total carrying amount	**15 952 501**	**-**	**-**	**-**	**15 952 501**

As at 31 December 2020	Stage 1	Stage 2	Stage 3	POCI	TOTAL
Loans and advances to banks at amortised cost					
1	10 530 062	-	-	-	10 530 062
2	272 589	-	-	-	272 589
3	283	-	-	-	283
4	38 242	-	-	-	38 242
8	5 595	-	-	-	5 595
Total gross carrying amount	**10 846 771**	**-**	**-**	**-**	**10 846 771**
Total accumulated impairment	(927)	-	-	-	(927)
Total carrying amount	**10 845 844**	**-**	**-**	**-**	**10 845 844**

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As at 31 December 2020	Stage 1	Stage 2	Stage 3	POCI	TOTAL
Loans and advances to customers at amortised cost					
1	8 716 384	190 471	-	-	8 906 855
2	32 006 502	1 801 489	-	3 969	33 811 960
3	7 910 982	732 235	-	3 510	8 646 727
4	21 179 975	2 468 960	-	4 455	23 653 390
5	3 865 104	2 205 424	-	7 748	6 078 276
6	109 284	245 649	-	49	354 982
7	133 727	997 295	-	8 406	1 139 428
8	635 710	-	-	-	635 710
default	-	-	3 537 273	260 544	3 797 817
Total gross carrying amount	**74 557 668**	**8 641 523**	**3 537 273**	**288 681**	**87 025 145**
Total accumulated impairment	(274 423)	(332 339)	(2 371 638)	(53 047)	(3 031 447)
Total carrying amount	**74 283 245**	**8 309 184**	**1 165 635**	**235 634**	**83 993 698**

As at 31 December 2019	Stage 1	Stage 2	Stage 3	POCI	TOTAL
Debt securities at amortised cost					
1.0 – 1.2	11 234 952	-	-	-	11 234 952
Total gross carrying amount	**11 234 952**	**-**	**-**	**-**	**11 234 952**
Total accumulated impairment	(79)	-	-	-	(79)
Total carrying amount	**11 234 873**	**-**	**-**	**-**	**11 234 873**

As at 31 December 2020	Stage 1	Stage 2	Stage 3	POCI	TOTAL
Loans and advances to banks at amortised cost					
1	7 018 012	-	-	-	7 018 012
2	180 326	-	-	-	180 326
3	5 146	-	-	-	5 146
4	66 160	-	-	-	66 160
5	5 336	-	-	-	5 336
8	63 855	-	-	-	63 855
Total gross carrying amount	**7 338 835**	**-**	**-**	**-**	**7 338 835**
Total accumulated impairment	(1 132)	-	-	-	(1 132)
Total carrying amount	**7 337 703**	**-**	**-**	**-**	**7 337 703**

As at 31 December 2020	Stage 1	Stage 2	Stage 3	POCI	TOTAL
Loans and advances to customers at amortised cost					
1	6 992 838	36 129	-	-	7 028 967
2	34 981 121	887 929	-	4 276	35 873 326
3	9 116 150	358 130	-	807	9 475 087
4	20 834 753	1 297 305	-	75 270	22 207 328
5	3 406 403	1 216 206	-	2 446	4 625 055
6	195 944	382 585	-	371	578 900
7	414 607	1 163 879	-	15 331	1 593 817
8	690 052	17	-	-	690 069
default	-	-	3 296 627	111 950	3 408 577
Total gross carrying amount	**76 631 868**	**5 342 180**	**3 296 627**	**210 451**	**85 481 126**
Total accumulated impairment	(269 215)	(217 482)	(2 240 936)	(15 776)	(2 743 409)
Total carrying amount	**76 362 653**	**5 124 698**	**1 055 691**	**194 675**	**82 737 717**

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Movements in expected credit losses allowance

As at 31 December 2020	As at the beginning of the period	Transfer to Stage 1	Transfer to Stage 2	Transfer to Stage 3	New financial assets originated or purchased	Financial assets derecognised during the period	Changes in credit risk	Write-offs	Other movements	As at the end of the period
Debt securities	**(79)**	**-**	**-**	**-**	**(18)**	**-**	**(38)**	**-**	**-**	**(135)**
Stage 1	(79)	-	-	-	(18)	-	(38)	-	-	(135)
Loans and advances to banks	**(1 132)**	**-**	**-**	**-**	**(1 376)**	**1 527**	**54**	**-**	**-**	**(927)**
Stage 1	(1 132)	-	-	-	(1 376)	1 527	54	-	-	(927)
Loans and advances to customers	**(2 743 409)**	**-**	**-**	**-**	**(222 076)**	**227 236**	**(1 043 372)**	**711 397**	**38 777**	**(3 031 447)**
Stage 1	(269 215)	(398 156)	161 660	5 141	(107 400)	64 215	269 332	-	-	(274 423)
Stage 2	(217 482)	380 317	(192 594)	153 230	(20 480)	33 156	(468 486)	-	-	(332 339)
Stage 3	(2 240 936)	17 839	30 934	(158 371)	(75 254)	129 865	(822 581)	708 089	38 777	(2 371 638)
POCI	(15 776)	-	-	-	(18 942)	-	(21 637)	3 308	-	(53 047)
Expected credit losses allowance, total	**(2 744 620)**	**-**	**-**	**-**	**(223 470)**	**228 763**	**(1 043 356)**	**711 397**	**38 777**	**(3 032 509)**

Movements in expected credit losses resulting from changes in models are described in Note 3.3.6.2.2.

As at 31 December 2019	As at the beginning of the period	Transfer to Stage 1	Transfer to Stage 2	Transfer to Stage 3	New financial assets originated or purchased	Financial assets derecognised during the period	Changes in credit risk	Write-offs	Other movements	As at the end of the period
Debt securities	**(87)**	**-**	**-**	**-**	**-**	**-**	**8**	**-**	**-**	**(79)**
Stage 1	(87)	-	-	-	-	-	8	-	-	(79)
Loans and advances to banks	**(1 518)**	**-**	**-**	**-**	**(1 560)**	**1 529**	**417**	**-**	**-**	**(1 132)**
Stage 1	(1 518)	-	-	-	(1 560)	1 529	417	-	-	(1 132)
Loans and advances to customers	**(2 674 957)**	**-**	**-**	**-**	**(163 024)**	**142 516**	**(632 367)**	**584 423**	**-**	**(2 743 409)**
Stage 1	(179 563)	(363 283)	97 646	2 540	(108 488)	47 741	234 192	-	-	(269 215)
Stage 2	(181 969)	315 460	(123 732)	123 009	(8 243)	18 257	(360 264)	-	-	(217 482)
Stage 3	(2 299 047)	47 823	26 086	(125 549)	(46 063)	73 360	(501 969)	584 423	-	(2 240 936)
POCI	(14 378)	-	-	-	(230)	3 158	(4 326)	-	-	(15 776)
Expected credit losses allowance, total	**(2 676 562)**	**-**	**-**	**-**	**(164 584)**	**144 045**	**(631 942)**	**584 423**	**-**	**(2 744 620)**

Explanation of changes in the gross carrying amount impacting the changes on expected credit losses allowance

As at 31 December 2020	As at the beginning of the period	Transfer to Stage 1	Transfer to Stage 2	Transfer to Stage 3	New financial assets originated or purchased	Financial assets derecognised during the period	Write-offs	Other movements	As at the end of the period
Debt securities	**11 234 952**	**-**	**-**	**-**	**5 880 802**	**(1 764 212)**	**-**	**601 094**	**15 952 636**
Stage 1	11 234 952	-	-	-	5 880 802	(1 764 212)	-	601 094	15 952 636
Loans and advances to banks	**7 338 835**	**-**	**-**	**-**	**7 842 246**	**(4 535 106)**	**-**	**200 796**	**10 846 771**
Stage 1	7 338 835	-	-	-	7 842 246	(4 535 106)	-	200 796	10 846 771
Loans and advances to customers	**85 481 126**	**-**	**-**	**-**	**23 798 003**	**(17 288 829)**	**(711 397)**	**(4 253 758)**	**87 025 145**
Stage 1	76 631 868	1 414 091	(5 458 720)	(666 293)	22 275 662	(15 637 170)	-	(4 001 770)	74 557 668
Stage 2	5 342 180	(1 387 399)	5 504 087	(407 987)	1 068 965	(1 280 006)	-	(198 317)	8 641 523
Stage 3	3 296 627	(26 692)	(45 367)	970 984	440 442	(360 356)	(708 089)	(30 276)	3 537 273
POCI	210 451	-	-	103 296	12 934	(11 297)	(3 308)	(23 395)	288 681
Financial assets at amortised cost, gross	**104 054 913**	**-**	**-**	**-**	**37 521 051**	**(23 588 147)**	**(711 397)**	**(3 451 868)**	**113 824 552**

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As at 31 December 2019	As at the beginning of the period	Transfer to Stage 1	Transfer to Stage 2	Transfer to Stage 3	New financial assets originated or purchased	Financial assets derecognised during the period	Write-offs	Other movements	As at the end of the period
Debt securities	**9 000 627**	**-**	**-**	**-**	**1 952 008**	**(486 122)**	**-**	**768 439**	**11 234 952**
Stage 1	9 000 627	-	-	-	1 952 008	(486 122)	-	768 439	11 234 952
Loans and advances to banks	**5 910 859**	**-**	**-**	**-**	**3 803 238**	**(2 377 277)**	**-**	**2 015**	**7 338 835**
Stage 1	5 910 859	-	-	-	3 803 238	(2 377 277)	-	2 015	7 338 835
Loans and advances to customers	**78 876 920**	**-**	**-**	**-**	**27 361 283**	**(15 436 819)**	**(584 423)**	**(4 735 835)**	**85 481 126**
Stage 1	69 249 777	2 450 972	(2 230 509)	(463 917)	25 952 092	(13 966 476)	-	(4 360 071)	76 631 868
Stage 2	6 064 485	(2 303 093)	2 296 047	(322 931)	1 138 969	(1 228 801)	-	(302 496)	5 342 180
Stage 3	3 367 114	(147 879)	(65 538)	757 272	258 536	(234 321)	(584 423)	(54 134)	3 296 627
POCI	195 544	-	-	29 576	11 686	(7 221)	-	(19 134)	210 451
Financial assets at amortised cost, gross	**93 788 406**	**-**	**-**	**-**	**33 116 529**	**(18 300 218)**	**(584 423)**	**(3 965 381)**	**104 054 913**

Financial effect of collaterals

31.12.2020	Gross amount	Accumulated impairment	Accumulated impairment without cash flow from collaterals	Financial effect of collaterals
Balance sheet data				
Loans and advances to banks	10 846 771	(927)	(1 139)	212
Loans and advances to customers	87 025 145	(3 031 447)	(3 556 609)	525 162
Individual customers, including:	45 361 930	(1 767 362)	(1 934 229)	166 867
- housing and mortgage loans to natural persons	*24 872 476*	*(427 300)*	*(568 660)*	*141 360*
Corporate customers	41 519 132	(1 263 840)	(1 622 114)	358 274
Public sector customers	144 083	(245)	(266)	21
Total balance sheet data	**97 871 916**	**(3 032 374)**	**(3 557 748)**	**525 374**
Off-balance sheet data				
Loan commitments and other commitments	31 063 320	(89 432)	(108 622)	19 190
Guarantees, banker's acceptances, documentary and commercial letters of credit	8 072 975	(132 759)	(143 911)	11 152
Total off-balance sheet data	**39 136 295**	**(222 191)**	**(252 533)**	**30 342**

31.12.2019	Gross amount	Accumulated impairment	Accumulated impairment without cash flow from collaterals	Financial effect of collaterals
Balance sheet data				
Loans and advances to banks	7 338 835	(1 132)	(1 146)	14
Loans and advances to customers	85 481 126	(2 743 409)	(3 159 778)	416 369
Individual customers, including:	43 104 957	(1 648 833)	(1 815 534)	166 701
- housing and mortgage loans to natural persons	*23 011 901*	*(388 729)*	*(530 549)*	*141 820*
Corporate customers	42 089 961	(1 094 276)	(1 343 944)	249 668
Public sector customers	286 208	(300)	(300)	-
Total balance sheet data	**92 819 961**	**(2 744 541)**	**(3 160 924)**	**416 383**
Off-balance sheet data				
Loan commitments and other commitments	28 121 245	(62 296)	(66 500)	4 204
Guarantees, banker's acceptances, documentary and commercial letters of credit	13 956 855	(89 568)	(93 446)	3 878
Total off-balance sheet data	**42 078 100**	**(151 864)**	**(159 946)**	**8 082**

The carrying amount of loans and advances to customers as at 31 December 2020, for which the Bank has not recognized a loss allowance because of the collateral amounted to PLN 1 748 176 thousand.

23. Investments in subsidiaries

Investments in subsidiaries in the stand-alone financial statements are initially recognized at cost, and then measured using the equity method, whereby the carrying amount of investments in subsidiaries is increased or decreased in order to recognize the Bank's shares in the profit or loss of the subsidiary recorded after the date of acquisition. The Bank's share in the profit or loss of the subsidiary is recognized in the income statement under the item Share in profit (loss) of entities under the equity method. Received dividends reduce the carrying amount of the investment and are recognized under Dividend income. The Bank's share in other comprehensive income of the subsidiary the Bank recognizes in other comprehensive income of the Bank. Unrealized gains or losses on transactions with subsidiaries accounted for using the equity method (including, for example, expected credit losses recognized in relation to loans or guarantees granted) are eliminated. Balance sheet balances such as receivables and liabilities or deposits and loans granted to subsidiaries are not eliminated in the stand-alone financial statements. If the Bank's share of losses exceeds the value of shares in a subsidiary, the Bank ceases to recognize its share of further losses. At the balance sheet date the Bank assesses whether there are any triggers indicating impairment of investments made in a subsidiary.

31 December 2020 (PLN 000's)

No.	Name of the company	Country of registration	Assets	Liabilities	Revenues	Net profit / (loss)	% interest held	Carrying value
1.	**BRE Property Partner Sp. z o.o.**	Polska	1 318	15	-	(506)	100.00	1 362
2.	**Future Tech Fundusz Inwestycyjny Zamknięty**	Polska	196 188	1 736	-	(7 871)	98.04	193 193
3.	**G-Invest Sp. z o.o. (poprzednio Garbary Sp. z o.o.)**	Polska	6 655	52	72	(90)	100.00	6 602
4.	**mBank Hipoteczny S.A.**	Polska	12 889 572	11 579 669	179 816	20 262	100.00	1 276 945
5.	**mBox Sp z o.o.**	Polska	800	29	31	2	100.00	776
6.	**mElements S.A.**	Polska	18 221	3 685	7 932	(98)	100.00	14 536
7.	**mFaktoring S.A.**	Polska	2 181 807	2 053 601	44 611	7 144	100.00	129 247
8.	**mFinance France S.A.**	Francja	-	-	2 708	895	99.998	2 349
9.	**mFinanse S.A.**	Polska	410 796	231 101	89 759	24 387	100.00	64 238
10.	**mInvestment Banking S.A.**	Polska	6 321	245	855	731	100.00	2 121
11.	**mLeasing Sp. z o.o.**	Polska	13 100 655	12 619 524	300 214	4 861	100.00	490 935
12.	**mServices Sp. z o.o.**	Polska	6 355	3 378	1 307	1127	100.00	5 769
13.	**Octopus Sp. z o.o.**	Polska	442	1	19	4	99.90	50
14.	**Tele -Tech Investment Sp. z o.o.**	Polska	177 937	177 361	157	27	100.00	576
15.	**Unitop Sp. z o.o.**	Polska	142 605	127 213	14 765	5 933	100.00	16 223
								2 204 922

In November 2020, a process of liquidation of mFinance France has begun.

On 4 December 2020, the liquidation process of CSK sp. z o.o. has concluded. Bank awaits for subsidiary's removal from KRS.

31 December 2019 (PLN 000's)

No.	Name of the company	Country of registration	Assets	Liabilities	Revenues	Net profit / (loss)	% interest held	Carrying value
1.	**BRE Property Partner Sp. z o.o.**	Polska	1 828	18	7	(422)	100.00	1 536
2.	**CSK Sp. z o.o.**	Polska	11 057	46	4	(10)	100.00	11 055
3.	**Future Tech Fundusz Inwestycyjny Zamknięty**	Polska	203 607	1 763	4 718	(9 856)	98.04	201 055
4.	**Garbary Sp. z o.o.**	Polska	6 722	28	224	69	100.00	6 693
5.	**mBank Hipoteczny S.A.**	Polska	13 191 251	11 919 452	195 866	45 382	100.00	1 254 662
6.	**mBox Sp z o.o.**	Polska	7 938	7 165	391	8	100.00	773
7.	**mCentrum Operacji Sp. z o.o. w likwidacji**	Polska	-	-	116	(425)	100.00	-
8.	**mElements S.A.**	Polska	16 724	1 293	11 976	1 349	100.00	15 432
9.	**mFaktoring S.A.**	Polska	2 419 145	2 298 480	47 262	19 580	100.00	120 785
10.	**mFinance France S.A.**	Francja	5 055 588	5 054 188	3 016	1 382	99.998	1 412
11.	**mFinanse S.A.**	Polska	465 465	286 186	92 961	24 389	100.00	66 310
12.	**mInvestment Banking S.A.**	Polska	4 516	2 666	666	683	100.00	3 171
13.	**mLeasing Sp. z o.o.**	Polska	12 657 331	12 181 296	269 021	75 684	100.00	475 234
14.	**mServices Sp. z o.o.**	Polska	5 673	279	989	390	100.00	5 395
15.	**Octopus Sp. z o.o.**	Polska	440	1	20	(3)	99.90	50
16.	**Tele -Tech Investment Sp. z o.o.**	Polska	150 729	150 180	166	15	100.00	549
17.	**Unitop Sp. z o.o.**	Polska	150 493	192 372	52 066	(11 743)	100.00	-
								2 164 112

In December 2020, mCentrum Operacji Sp. z o.o. w likwidacji was liquidated and removed from KRS.

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Changes in investments in subsidiaries

	31.12.2020	31.12.2019
Investments in subsidiaries		
As at the beginning of the period	**2 164 112**	**2 300 324**
Foreign exchange differences	25	34
Increase	16 223	161 056
Decrease	(11 056)	(28 687)
Changes resulting from the application of the equity method, including:	37 261	(175 763)
- recognised in the income statement	*27 363*	*(179 013)*
- rocognised in the other components of equity	*9 898*	*3 250*
Change of valuation of investment in subsidiaries not measured at equity method	(1 643)	(1 247)
Transfer to non-current assets held for sale (Note 24)	-	(91 605)
As at the end of the period	**2 204 922**	**2 164 112**

24. Non-current assets held for sale

On 7 November 2019, as part of implementing the mBank Group plan to withdraw from development activity and focus on the main activity in the financial industry, mBank S.A. signed a conditional agreement for the sale of shares in the company BDH Development Sp. z o.o. (BDH) to Archicom Polska S.A. The conclusion of the final agreement on the sale of shares was to take place after the conditions precedent are met. The parties undertook to sign a promised agreement transferring the value of BDH shares no later than 31 December 2020.

As at 31 December 2019, in accordance with the accounting principles described in Note 2.16, Bank classified BDH as non-current assets held for sale

On 16 December 2020, the parties assigned the agreement, on the basis of which mBank sold 100% of shares in share capital of BDH, therefore the relation between BDH and mBank has ceased.

25. Intangible assets

	31.12.2020	31.12.2019
Goodwill	3 532	3 532
Patents, licences and similar assets, including:	798 819	632 536
- computer software	645 046	528 500
Other intangible assets	-	-
Intangible assets under development	211 395	187 041
Total intangible assets	**1 013 746**	**823 109**

In 2020 and 2019, the Bank performed impairment tests of intangible assets under development. As a result of the tests, impairment has been not stated.

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Movements in intangible assets

Movements in intangible assets from 1 January to 31 December 2020	Patents, licences and other similar assets		Other intangible assets	Intangible assets under development	Goodwill	Total intangible assets
		Computer software				
Gross value of intangible assets as at the beginning of the period	**1 450 505**	**1 135 011**	**9 961**	**187 041**	**3 532**	**1 651 039**
Increase (due to)	**310 666**	**201 164**	**-**	**283 201**	**-**	**593 867**
- purchase	97 047	125	-	216 577	-	313 624
- transfer from intangible assets under development	213 072	200 895	-	-	-	213 072
- development costs	-	-	-	30 946	-	30 946
- other increases	547	144	-	35 678	-	36 225
Decrease (due to)	**(214 273)**	**(125 733)**	**(9 961)**	**(258 847)**	**-**	**(483 081)**
- liquidation	(214 273)	(125 733)	(9 961)	-	-	(224 234)
- transfer to intangible assets given to use	-	-	-	(213 072)	-	(213 072)
- other decreases	-	-	-	(45 775)	-	(45 775)
Gross value of intangible assets as at the end of the period	**1 546 898**	**1 210 442**	**-**	**211 395**	**3 532**	**1 761 825**
Accumulated amortization as at the beginning of the period	**(817 969)**	**(606 511)**	**(9 961)**	**-**	**-**	**(827 930)**
Amortization for the period (due to)	**69 890**	**41 115**	**9 961**	**-**	**-**	**79 851**
- amortization	(144 167)	(84 479)	-	-	-	(144 167)
- other increases	(216)	(139)	-	-	-	(216)
- liquidation	214 273	125 733	9 961	-	-	224 234
Accumulated amortization as at the end of the period	**(748 079)**	**(565 396)**	**-**	**-**	**-**	**(748 079)**
Net value of intangible assets as at the end of the period	**798 819**	**645 046**	**-**	**211 395**	**3 532**	**1 013 746**

Movements in intangible assets from 1 January to 31 December 2019	Patents, licences and other similar assets		Other intangible assets	Intangible assets under development	Goodwill	Total intangible assets
		Computer software				
Gross value of intangible assets as at the beginning of the period	**1 203 312**	**902 335**	**9 961**	**290 085**	**3 532**	**1 506 890**
Increase (due to)	**350 010**	**265 219**	**-**	**251 075**	**-**	**601 085**
- purchase	26 466	10	-	204 664	-	231 130
- transfer from intangible assets under development	321 896	265 209	-	-	-	321 896
- development costs	-	-	-	25 830	-	25 830
- other increases	1 648	-	-	20 581	-	22 229
Decrease (due to)	**(102 817)**	**(32 543)**	**-**	**(354 119)**	**-**	**(456 936)**
- liquidation	(102 808)	(32 535)	-	-	-	(102 808)
- transfer to intangible assets given to use	-	-	-	(321 896)	-	(321 896)
- other decreases	(9)	(8)	-	(32 223)	-	(32 232)
Gross value of intangible assets as at the end of the period	**1 450 505**	**1 135 011**	**9 961**	**187 041**	**3 532**	**1 651 039**
Accumulated amortization as at the beginning of the period	**(805 629)**	**(570 907)**	**(8 051)**	**-**	**-**	**(813 680)**
Amortization for the period (due to)	**(12 340)**	**(35 604)**	**(1 910)**	**-**	**-**	**(14 250)**
- amortization	(114 427)	(68 206)	(1 910)	-	-	(116 337)
- non-current assets held for sale	102 078	32 594	-	-	-	102 078
- other decreases	9	8	-	-	-	9
Accumulated amortization as at the end of the period	**(817 969)**	**(606 511)**	**(9 961)**	**-**	**-**	**(827 930)**
Net value of intangible assets as at the end of the period	**632 536**	**528 500**	**-**	**187 041**	**3 532**	**823 109**

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26. Tangible assets

	31.12.2020	31.12.2019
Tangible assets, including:	**372 004**	**413 767**
- land	653	1 033
- buildings and structures	142 961	153 452
- equipment	146 564	167 136
- vehicles	19	30
- other fixed assets	81 807	92 116
Fixed assets under construction	**175 560**	**69 815**
Right-of-use, including:	**698 932**	**462 024**
- real estate	630 829	391 063
- perpetual usufruct of land	47 670	48 358
- vehicles	19 948	21 470
- other	485	1 133
Total tangible assets	**1 246 496**	**945 606**

Movements in tangible assets

Movements in tangible assets from 1 January to 31 December 2019	Land	Buildings and structures	Equipment	Vehicles	Other tangible assets	Tangible assets under construction	Total
Gross value of tangible assets as at the beginning of the period	**1 033**	**318 571**	**570 151**	**47**	**362 882**	**69 815**	**1 322 499**
Increase (due to)	**-**	**-**	**54 471**	**-**	**27 094**	**178 046**	**259 611**
- purchase	-	-	22 043	-	1 541	166 496	190 080
- transfer from tangible assets under construction	-	-	31 879	-	23 934	-	55 813
- other increases	-	-	549	-	1 619	11 550	13 718
Decrease (due to)	**(380)**	**(4 718)**	**(60 702)**	**-**	**(57 626)**	**(72 301)**	**(195 727)**
- sale	(380)	(4 718)	(7 878)	-	(14 528)	-	(27 504)
- liquidation	-	-	(52 824)	-	(43 088)	-	(95 912)
- transfer to tangible assets	-	-	-	-	-	(55 813)	(55 813)
- other decreases	-	-	-	-	(10)	(16 488)	(16 498)
Gross value of tangible assets as at the end of the period	**653**	**313 853**	**563 920**	**47**	**332 350**	**175 560**	**1 386 383**
Accumulated depreciation as at the beginning of the period	**-**	**(115 849)**	**(403 015)**	**(17)**	**(270 766)**	**-**	**(789 647)**
Depreciation for the period (due to)	**-**	**(5 773)**	**(14 341)**	**(11)**	**20 223**	**-**	**98**
- depreciation charge	-	(7 304)	(74 263)	(11)	(30 894)	-	(112 472)
- other increases	-	-	(400)	-	(1 222)	-	(1 622)
- sale	-	1 531	7 856	-	10 747	-	20 134
- liquidation	-	-	52 466	-	41 592	-	94 058
Accumulated depreciation as at the end of the period	**-**	**(121 622)**	**(417 356)**	**(28)**	**(250 543)**	**-**	**(789 549)**
Impairment losses as at the beginning of the period	**-**	**(49 270)**	**-**	**-**	**-**	**-**	**(49 270)**
Impairment losses as at the end of the period	**-**	**(49 270)**	**-**	**-**	**-**	**-**	**(49 270)**
Net value of tangible assets as at the end of the period	**653**	**142 961**	**146 564**	**19**	**81 807**	**175 560**	**547 564**

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Movements in tangible assets from 1 January to 31 December 2019	Land	Buildings and structures	Equipment	Vehicles	Other tangible assets	Tangible assets under construction	Total
Gross value of tangible assets as at the beginning of the period	**1 033**	**313 260**	**701 846**	**34 064**	**389 101**	**111 591**	**1 550 895**
Restatement to Right-of-use as an effect of IFRS16 implementation	-	-	-	(34 017)	-	-	(34 017)
Gross value of tangible assets as at the beginning of the period (restated)	**1 033**	**313 260**	**701 846**	**47**	**389 101**	**111 591**	**1 516 878**
Increase (due to)	**-**	**5 577**	**86 372**	**-**	**22 921**	**75 636**	**190 506**
- purchase	-	-	28 650	-	1 307	52 406	82 363
- transfer from tangible assets under construction	-	5 577	57 717	-	21 445	-	84 739
- other increases	-	-	5	-	169	23 230	23 404
Decrease (due to)	**-**	**(266)**	**(218 067)**	**-**	**(49 140)**	**(117 412)**	**(384 885)**
- sale	-	(235)	(35 612)	-	(4 319)	-	(40 166)
- liquidation	-	-	(120 918)	-	(10 139)	-	(131 057)
- transfer to tangible assets	-	-	-	-	-	(84 739)	(84 739)
- other decreases	-	(31)	(61 537)	-	(34 682)	(32 673)	(128 923)
Gross value of tangible assets as at the end of the period	**1 033**	**318 571**	**570 151**	**47**	**362 882**	**69 815**	**1 322 499**
Accumulated depreciation as at the beginning of the period	**-**	**(109 132)**	**(535 327)**	**(22 035)**	**(289 930)**	**-**	**(956 424)**
Restatement to Right-of-use as an effect of IFRS16 implementation	-	-	-	22 029	-	-	22 029
Accumulated depreciation as at the beginning of the period (restated)	**-**	**(109 132)**	**(535 327)**	**(6)**	**(289 930)**	**-**	**(934 395)**
Depreciation for the period (due to)	**-**	**(6 717)**	**132 312**	**(11)**	**19 164**	**-**	**144 748**
- depreciation charge	-	(6 976)	(76 874)	(11)	(26 455)	-	(110 316)
- sale	-	235	27 366	-	4 297	-	31 898
- liquidation	-	-	120 459	-	9 551	-	130 010
- other decreases	-	24	61 361	-	31 771	-	93 156
Accumulated depreciation as at the end of the period	**-**	**(115 849)**	**(403 015)**	**(17)**	**(270 766)**	**-**	**(789 647)**
Impairment losses as at the beginning of the period	**-**	**(49 270)**	**(8 200)**	**-**	**-**	**-**	**(57 470)**
- decrease	-	-	8 200	-	-	-	8 200
Impairment losses as at the end of the period	**-**	**(49 270)**	**-**	**-**	**-**	**-**	**(49 270)**
Net value of tangible assets as at the end of the period	**1 033**	**153 452**	**167 136**	**30**	**92 116**	**69 815**	**483 582**

The recoverable value of impaired tangible assets is the net sale price determined on the basis of market prices for similar assets.

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Movements in right-of-use assets

Movements in right-of-use from 1 January to 31 December 2020	Real estate	Perpetual usufruct of land	Vehicles	Other	Total
Gross value of right-of-use as at the beginning of the period	**504 797**	**49 046**	**32 528**	**1 930**	**588 301**
Increase (due to)	**370 198**	**-**	**9 333**	**85**	**379 616**
- new contracts	342 910	-	9 272	35	352 217
- modification of contracts	23 943	-	61	50	24 054
- other increases	3 345	-	-	-	3 345
Decrease (due to)	**(53 891)**	**-**	**(9 674)**	**-**	**(63 565)**
- termination of contracts	(47 346)	-	(9 674)	-	(57 020)
- modification of contracts	(6 545)	-	-	-	(6 545)
Gross value of right-of-use as at the end of the period	**821 104**	**49 046**	**32 187**	**2 015**	**904 352**
Accumulated depreciation as at the beginning of the period	**(113 734)**	**(688)**	**(11 058)**	**(797)**	**(126 277)**
Depreciation for the period (due to)	**(76 541)**	**(688)**	**(1 181)**	**(733)**	**(79 143)**
- depreciation charge	(122 427)	(688)	(7 790)	(727)	(131 632)
- other increases	(50)	-	-	(6)	(56)
- modification of contracts	1 234	-	-	-	1 234
- termination of contracts	44 702	-	6 609	-	51 311
Accumulated depreciation as at the end of the period	**(190 275)**	**(1 376)**	**(12 239)**	**(1 530)**	**(205 420)**
Net value of right-of-use as at the end of the period	**630 829**	**47 670**	**19 948**	**485**	**698 932**

Movements in right-of-use from 1 January to 31 December 2019	Real estate	Perpetual usufruct of land	Vehicles	Other	Total
Gross value of right-of-use as at the beginning of the period	**463 727**	**49 046**	**37 576**	**371**	**550 720**
Increase (due to)	**48 984**	**-**	**18 548**	**1 559**	**69 091**
- new contracts	-	-	18 548	-	18 548
- modification of contracts	48 984	-	-	1 559	50 543
Decrease (due to)	**(7 914)**	**-**	**(23 596)**	**-**	**(31 510)**
- termination of contracts	-	-	(23 596)	-	(23 596)
- modification of contracts	(7 914)	-	-	-	(7 914)
Gross value of right-of-use as at the end of the period	**504 797**	**49 046**	**32 528**	**1 930**	**588 301**
Accumulated depreciation as at the beginning of the period	**-**	**-**	**(22 029)**	**-**	**(22 029)**
Depreciation for the period (due to)	**(113 734)**	**(688)**	**10 971**	**(797)**	**(104 248)**
- depreciation charge	(111 041)	(688)	(5 350)	(797)	(117 876)
- other increases	(3 306)	-	-	-	(3 306)
- modification of contracts	613	-	-	-	613
- other decreases	-	-	16 321	-	16 321
Accumulated depreciation as at the end of the period	**(113 734)**	**(688)**	**(11 058)**	**(797)**	**(126 277)**
Net value of right-of-use as at the end of the period	**391 063**	**48 358**	**21 470**	**1 133**	**462 024**

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27. Other assets

	31.12.2020	31.12.2019
Other assets:	**773 253**	**491 052**
- debtors, including:	483 871	239 243
payment cards settlements	*139 391*	*110 118*
KDPW receivables under compensation scheme	*13 880*	*12 825*
- interbank balances	15 033	18 003
- settlements of securities transactions	35 014	15 518
- other accruals	142 457	154 319
- accrued income	91 485	59 821
- inventories	3 961	3 311
- other	1 432	837
Total other assets	**773 253**	**491 052**
Short-term (up to 1 year)	761 492	431 092
Long-term (over 1 year)	11 761	59 960

In 2020 and in 2019, the item "settlements of the securities transaction" relates entirely to the settlements of securities transactions in connection with the Brokerage Office activity.

As at 31 December 2020, the above note includes financial assets in amount of PLN 533 918 thousand (31 December 2019: PLN 272 764 thousand).

Other financial assets included in the note above

	31.12.2020	31.12.2019
Gross other financial assets, including:	**550 411**	**288 844**
- not past due	528 947	279 694
- past due from 1 to 90 days	7 887	2 483
- past due over 90 days	13 577	6 667
Provisions for impaired assets (negative amount)	(16 493)	(16 080)
Net other financial assets	**533 918**	**272 764**

Movements of impairment allowance for other assets

	31.12.2020	31.12.2019
As at the beginning of the period	**(16 080)**	**(16 298)**
Change in the period (due to):	**(413)**	**218**
- increase of provisions	(1 097)	(1 664)
- release of provisions	466	-
- write-offs	271	1 878
- foreign exchange differences	(53)	4
As at the end of the period	**(16 493)**	**(16 080)**

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28. Financial liabilities measured at amortised cost

Amounts due to other banks and customers

31.12.2020	Amounts due to banks	Amounts due to customers	including: Individual customers	including: Corporate customers	including: Public sector customers
Deposits	**1 988 417**	**133 073 430**	**97 862 007**	**34 765 842**	**445 581**
Current accounts	1 349 144	121 882 297	87 703 713	33 747 457	431 127
Term deposits	-	11 097 909	10 158 294	925 161	14 454
Repo or sell/buy back transactions	639 273	93 224	-	93 224	-
Loans and advances received	**-**	**3 254 591**	**-**	**3 254 591**	**-**
Other financial liabilities	**635 869**	**1 450 013**	**114 241**	**1 295 144**	**40 628**
Liabilities in respect of cash collaterals	394 290	509 222	37 881	471 341	-
Lease liabilities	-	748 497	-	707 911	40 586
Other	241 579	192 294	76 360	115 892	42
Total financial liabilities measured at amortised cost	**2 624 286**	**137 778 034**	**97 976 248**	**39 315 577**	**486 209**
Short-term (up to 1 year)	1 984 671	133 593 182			
Long-term (over 1 year)	639 615	4 184 852			

31.12.2019	Amounts due to banks	Amounts due to customers	including: Individual customers	including: Corporate customers	including: Public sector customers
Deposits	**542 360**	**112 834 953**	**77 525 267**	**34 493 637**	**816 049**
Current accounts	438 112	88 131 618	62 639 670	24 881 011	610 937
Term deposits	-	24 527 928	14 885 597	9 437 219	205 112
Repo or sell/buy back transactions	104 248	175 407	-	175 407	-
Loans and advances received	**189 900**	**2 980 294**	**-**	**2 980 294**	**-**
Other financial liabilities	**448 522**	**6 121 740**	**138 966**	**5 940 011**	**42 763**
Liabilities in respect of cash collaterals	301 021	5 476 246	43 805	5 430 829	1 612
Lease liabilities	-	465 790	-	424 930	40 860
Other	147 501	179 704	95 161	84 252	291
Total financial liabilities measured at amortised cost	**1 180 782**	**121 936 987**	**77 664 233**	**43 413 942**	**858 812**
Short-term (up to 1 year)	990 897	114 981 598			
Long-term (over 1 year)	189 885	6 955 389			

As at 31 December 2020 and 31 December 2019, there were no deposits from other banks.

As at 31 December 2020 and as at 31 December 2019, loans and advances received from banks were variable interest rate loans.

The average interest rate for loans and deposits obtained from banks in 2020 amounted to 0.23% (31 December 2019: 1.30%).

mBank did not provide collateral related to loans from other banks. The Bank did not note any violations of contractual terms related to liabilities in respect of loans received.

As at 31 December 2020 and 31 December 2019, the majority of the deposits from retail and corporate customers bore fixed interest rates. The average interest rate for amounts due to customers (excluding repos) amounted to 0.29% (31 December 2019: 0.61%).

As at 31 December 2020, loans and advances received include loans received from European Investment Bank amounting to PLN 3 254 591 thousand (31 December 2019: PLN 2 980 294 thousand). The loans with fixed interest rate are collateralized with treasury bonds, which have been disclosed as pledged assets under Note 21, Note 22 and Note 34.

As at 31 December 2019, the amount of cash collateral liabilities to corporate customers includes security deposits in the amount of PLN 5 097 329 thousand, accepted from mFinance France S.A. (mFF), in connection with guarantees granted by the Bank for amounts to be paid for debt securities issued by the mFF.

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Lease liabilities

Lease liablilities breakdown by maturity dates is presented below:

	31.12.2020	31.12.2019
Lease liabilities breakdown by maturity dates		
up to 3 months	25 337	29 642
from 3 months to 1 year	68 370	84 657
from 1 year to 5 years	325 970	216 255
over 5 years	352 465	173 105
Total	**772 142**	**503 659**

Debt securities issued

31 December 2020 Debt securities by type:	Nominal value (currency of issue)	Carrying amount of the liability by maturity date				Total carrying amount
		up to 3 months	from 3 to 12 months	from 1 to 5 years	more than 5 years	
Bonds, including:		**35 267**	**1 988 566**	**4 276 316**	**-**	**6 300 149**
- EUR	887 145	28 727	1 977 495	2 122 946	-	4 129 168
- CHF	504 293	6 540	11 071	2 153 370	-	2 170 981
Deposit certificates		**16**	**20 000**	**15 000**	**-**	**35 016**
- PLN	35 000	16	20 000	15 000	-	35 016
Total		**35 283**	**2 008 566**	**4 291 316**	**-**	**6 335 165**

31 December 2019 Debt securities by type:	Nominal value (currency of issue)	Carrying amount of the liability by maturity date				Total carrying amount
		up to 3 months	from 3 to 12 months	from 1 to 5 years	more than 5 years	
Bonds, including:		**-**	**-**	**3 361 997**	**-**	**3 361 997**
- EUR	500 000	-	-	2 158 296	-	2 158 296
- CHF	305 000	-	-	1 203 701	-	1 203 701
Total		**-**	**-**	**3 361 997**	**-**	**3 361 997**

Bank has not registered any contractual conditions infringement related to liabilities due to debt security issuance.

Movements in debt securities issued

	31.12.2020	31.12.2019
As at the beginning of the period	**3 361 997**	**2 857 724**
Additions (issue)	35 000	476 036
Disposals (redemptions)	(178 042)	-
Substitution with mFinance France	2 773 866	-
Exchange differences	313 437	11 184
Other changes	28 907	17 053
Debt securities issued as at the end of the period	**6 335 165**	**3 361 997**

Issues in 2020

- mBank issued certificates of deposits with a nominal value of PLN 35 000 thousand.
- Substitution from mFinance France S.A.

On 1 October 2020, the substitution came into force. As the result, the financial liabilities of the mFinance France towards the bondholders expired, and the corresponding liabilities towards the bondholders arose on the Bank's side. The substitution covers two series of bonds issued by the mFF as part of the established program for the issue of debt securities with a total nominal value of up to EUR 3 000 000 thousand:

a) bonds with a total nominal value of EUR 500 000 thousand, issued on 26 November 2014, with a fixed interest rate, maturing on 26 November 2021 and listed on the regulated market operated by the Luxembourg Stock Exchange. The current face value of these outstanding bonds is EUR 427 583 thousand (the equivalent of PLN 1 930 666 thousand according to the average NBP exchange rate as of 1 October 2020) and

b) bonds with a total nominal value of CHF 200 000 thousand, issued on 28 March 2017, with a fixed interest rate, maturing on 28 March 2023 and listed on the regulated market operated by the Swiss stock exchange (the equivalent of PLN 837 680 thousand according to the average NBP exchange rate of 1 October 2020).

Redemptions in 2020

- On 29 May 2020, the Bank addressed to holders of outstanding bonds issued by mFF; (a) with a total nominal value of EUR 500 000 thousand, with maturity date on 26 September 2020; (b) with a total nominal value of EUR 500 000 thousand, with maturity date on 26 November 2021, and (c) issued by the Bank with a total nominal value of EUR 500 000 thousand with a maturity date on 5 September 2022, invitations to submit these bonds for redemption by the Bank.

  As a result of the announced redemption offer, Bank accepted for purchase all correctly issued bonds with nominal value, respectively: (a) EUR 35 178 thousand, (b) EUR 72 417 thousand, (c) EUR 39 970 thousand. The redemption offer was settled on 10 June 2020.

  The detailed information on the redemption offer and the results of this offer were provided in current reports published by mBank S.A. on 29 May 2020 and on 8 June 2020.

Issues in 2019

- On 5 April 2019, under the new Euro Medium Term Note Program (EMTN Program), mBank issued unsecured bonds with a nominal value of CHF 125 000 thousand (equivalent of PLN 477 775 thousand at the average NBP exchange rate of 5 April 2019), with maturity on 4 October 2024.

Subordinated liabilities

31.12.2020	Nominal value	Currency	Terms of interest rate (%)	Effective interest rate (%)	Redemption date	As at the end of the period (in PLN '000)
- Commerzbank AG	250 000	CHF	3M LIBOR + 2.75%	2.02	21.03.2028	1 066 605
- Investors not associated with mBank S.A	550 000	PLN	6M WIBOR + 1.8%	2.06	10.10.2028 [1)]	552 545
- Investors not associated with mBank S.A	200 000	PLN	6M WIBOR + 1.95%	2.21	10.10.2030 [1)]	200 992
- Investors not associated with mBank S.A	750 000	PLN	6M WIBOR + 2.1%	2.38	17.01.2025	758 185
						2 578 327

31.12.2019	Nominal value	Currency	Terms of interest rate (%)	Effective interest rate (%)	Redemption date	As at the end of the period (in PLN '000)
- Commerzbank AG	250 000	CHF	3M LIBOR + 2.75%	2.04	21.03.2028	980 771
- Investors not associated with mBank S.A	550 000	PLN	6M WIBOR + 1.8%	3.59	10.10.2028 [1)]	554 418
- Investors not associated with mBank S.A	200 000	PLN	6M WIBOR + 1.95%	3.74	10.10.2030 [1)]	201 674
- Investors not associated with mBank S.A	750 000	PLN	6M WIBOR + 2.1%	3.89	17.01.2025	763 354
						2 500 217

1) *The issue conditions assume the possibility of early redemption of bonds with a nominal value of PLN 550 000 thousand on 10 October 2023, and bonds with a nominal value of PLN 200 000 thousand on 10 October 2025.*

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The effective interest rate specified in the tables above means the interest rate at the inception day of the last interest period.

Movements in subordinated liabilities

	31.12.2020	31.12.2019
As at the beginning of the period	**2 500 217**	**2 474 163**
- exchange differences	85 700	26 175
- other changes	(7 590)	(121)
Subordinated liabilities as at the end of the period	**2 578 327**	**2 500 217**
Short-term (up to 1 year)	12 302	19 892
Long-term (over 1 year)	2 566 025	2 480 325

On 29 March 2018, the Polish Financial Supervision Authority gave consent for qualifying funds from subordinated loan in the amount of CHF 250 000 thousand as instrument in the Bank's Tier 2 capital. The amount of CHF 250 000 thousand according to the average exchange rate of the National Bank of Poland of 29 March 2019 is the equivalent of PLN 893 200 thousand.

On 9 October 2018, mBank S.A. issued two series of subordinated bonds with a total nominal value of PLN 750 000 thousand. 1 100 pieces of 10-year subordinated bonds with a nominal value of PLN 500 thousand each were issued, with maturity on 10 October 2028, and 400 pieces of 12-year subordinated bonds with a nominal value of PLN 500 thousand each, with maturity on 10 October 2030.

The Bank applied to the Polish Financial Supervision Authority for permission to include in the supplementary capital of the Bank, in accordance with art. 127 para. 3 point 2 letter b) of the Banking Law Act, a monetary liability in the amount of PLN 750 000 thousand obtained by the Bank for the above-mentioned subordinated bond issue. The Bank obtained such consent on 28 November 2019.

According to the decision dated 8 January 2015 mBank obtained permission of the PFSA to include in Tier 2 capital the amount of PLN 750 000 thousand constituting subordinated liability from the bonds issue dated 17 December 2014 on total nominal value of PLN 750 000 thousand with redemption date on 17 January 2025 on terms that meet the requirements arising from the CRR Regulation.

In 2020 and 2019, the Bank did not note any delays in repayments of interest instalments and was not in default of any other contractual provisions related to its subordinated liabilities.

29. Other liabilities

	31.12.2020	31.12.2019
Other liabilities, including		
- tax liabilities	209 674	219 179
- interbank settlements	935 581	848 300
- creditors, including:	1 019 740	568 225
settlements due to payment cards	*219 201*	*167 642*
liabilities payable to Bank Guarantee Fund	*249 181*	*175 632*
- accrued expenses	182 689	182 944
- deferred income	248 896	217 174
- provisions for post-employment employee benefits	31 797	23 701
- provisions for holiday equivalents	17 367	26 683
- provisions for other liabilities to employees	95 489	169 962
- other	5 943	938
Total other liabilities	**2 747 176**	**2 257 106**

As at 31 December 2020, the note presented above includes financial liabilities in the amount of PLN 2 138 010 thousand (31 December 2019: PLN 1 599 469 thousand), the maturity of which has been presented under Note 3.8.1. The other components of presented liabilities, except for part of provisions for post-employment benefits that were calculated on actuarial basis as a rule, are short-term liabilities.

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Movements in provisions for post-employment employee benefits

Period from 1 January to 31 December 2020	Pension and disability provisions	Provisions for death severance	Provisions for the Social Benefit Fund	Total
Provisions for post-employment employee benefits				
As at the beginning of the period	**11 463**	**4 671**	**7 567**	**23 701**
Change in the period (due to)	**2 617**	**892**	**4 587**	**8 096**
Provisions created	626	113	335	**1 074**
Interest expense	215	93	151	**459**
Actuarial gains and losses recognised in other comprehensive income (Note 17), due to:	2 237	847	4 614	**7 698**
- Change in financing assumptions	*662*	*266*	*1 803*	***2 731***
- Change in demographic assumptions	*181*	*(31)*	*166*	***316***
- Other changes	*1 394*	*612*	*2 645*	***4 651***
Benefits paid	(461)	(161)	(513)	**(1 135)**
As at the end of the period (by type)	**14 080**	**5 563**	**12 154**	**31 797**
Short-term (up to 1 year)	1 948	313	102	**2 363**
Long-term (over 1 year)	12 132	5 250	12 052	**29 434**

Period from 1 January to 31 December 2019	Pension and disability provisions	Provisions for death severance	Provisions for the Social Benefit Fund	Total
Provisions for post-employment employee benefits				
As at the beginning of the period	**10 421**	**4 216**	**6 007**	**20 644**
Change in the period (due to)	**1 042**	**455**	**1 560**	**3 057**
Provisions created	603	113	269	**985**
Interest expense	275	118	169	**562**
Actuarial gains and losses recognised in other comprehensive income (Note 17), due to:	560	227	1 657	**2 444**
- Change in financing assumptions	*846*	*354*	*1 286*	***2 486***
- Change in demographic assumptions	*176*	*84*	*65*	***325***
- Other changes	*(462)*	*(211)*	*306*	***(367)***
Benefits paid	(396)	(3)	(535)	**(934)**
As at the end of the period (by type)	**11 463**	**4 671**	**7 567**	**23 701**
Short-term (up to 1 year)	1 514	278	83	**1 875**
Long-term (over 1 year)	9 949	4 393	7 484	**21 826**

The discount rate is one of the key assumptions used in the actuarial valuation of provisions for post-employment benefits. If the discount rate used in the calculation of these provisions as at 31 December 2020 was decreased by 0.5 p.p., the value of the provisions would increase by PLN 1 031 thousand, and in the case of an increase of the discount rate by 0.5 p.p. the value of the provisions would fall by PLN 950 thousand (31 December 2019, respectively: PLN 1 777 thousand and PLN 1 573 thousand).

30. Provisions

	31.12.2020	31.12.2019
Provisions for legal proceedings, including:	1 465 103	484 672
- *provisions for individual cases concerning indexation clauses in mortgage and housing loans in CHF*	*1 426 563*	*417 653*
- *provisions for other legal proceedings relating to loans in foreign currencies*	*26 581*	*61 103*
- *provisions for remaining legal proceedings*	*11 959*	*5 916*
Off-balance commitments and guarantees given	222 191	151 864
Other provisions	92 594	100 631
Provisions, total	**1 779 888**	**737 167**

Estimated dates of granted contingent liabilities realisation are presented in Note 33.

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Estimated cash flows due to created provisions for legal proceedings and other provisions are expected to occur over 1 year period.

The description regarding individual cases concerning indexation clauses in mortgage and housing loans in CHF is presented in Note 32.

The methodology of the measurement of provisions for legal risk regarding individual court cases concerning indexation clauses in mortgage and housing loans in CHF is presented in Note 4.

The item Other provisions includes provisions recognized in relation to the judgment of the CJEU regarding reimbursement of commissions in case of earlier loan repayments, which is described in detail in Note 4.

Movements in provisions

Change from 1 January to 31 December	2020			
	provisions for individual cases concerning indexation clauses in mortgage and housing loans in CHF	provisions for other legal proceedings relating to loans in foreign currencies	other provisions for remaining legal proceedings	other provisions
Provisions as at the beginning of the period	**417 653**	**61 103**	**5 916**	**100 631**
Change in the period, due to:	1 008 910	(34 522)	6 043	(8 037)
- increase of provisions	1 033 637	8 782	7 742	36 905
- release of provisions	-	(20 705)	(453)	(8 000)
- utilization	(24 727)	(22 599)	(1 246)	(34 568)
- reclassification to other positions	-	-	-	(3 040)
- foreign exchange differences	-	-	-	666
Provisions as at the end of the period (by type)	**1 426 563**	**26 581**	**11 959**	**92 594**

Change from 1 January to 31 December	2019			
	provisions for individual cases concerning indexation clauses in mortgage and housing loans in CHF	provisions for other legal proceedings relating to loans in foreign currencies	other provisions for remaining legal proceedings	other provisions
Provisions as at the beginning of the period	**30 565**	**67 258**	**8 410**	**42 554**
Change in the period, due to:	**387 088**	**(6 155)**	**(2 494)**	**58 077**
- increase of provisions	387 855	3 776	2 114	135 705
- release of provisions	(339)	(3 506)	(2 894)	(5 947)
- utilization	(428)	(6 425)	(1 714)	(71 985)
- reclassification to other positions	-	-	-	302
- foreign exchange differences	-	-	-	2
Provisions as at the end of the period (by type)	**417 653**	**61 103**	**5 916**	**100 631**

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Movements in provisions for loan commitments, guarantees and other financial facilities and other commitments

Change in the period from 1 January to 31 December 2020	As at the beginning of the period	Transfer to Stage 1	Transfer to Stage 2	Transfer to Stage 3	Increases due to granting and takeover	Reductions caused by deletion from the balance sheet	Changes in credit risk	As at the end of the period
Loan commitments	**62 296**	**-**	**-**	**-**	**48 176**	**(55 430)**	**34 390**	**89 432**
Stage 1	34 290	38 907	(5 912)	(5)	23 299	(17 059)	(28 922)	44 598
Stage 2	23 489	(38 907)	5 953	(317)	12 956	(13 877)	47 532	36 829
Stage 3	2 136	-	(41)	322	10 835	(23 358)	15 616	5 510
POCI	2 381	-	-	-	1 086	(1 136)	164	2 495
Guarantees and other financial facilities	**89 568**	**-**	**-**	**-**	**100 323**	**(77 788)**	**20 656**	**132 759**
Stage 1	4 781	1 425	(764)	-	33 308	(17 124)	(996)	20 630
Stage 2	4 713	(1 425)	764	(278)	2 526	(3 719)	3 553	6 134
Stage 3	79 684	-	-	278	38 317	(56 229)	18 005	80 055
POCI	390	-	-	-	26 172	(716)	94	25 940
Provisions on off-balance sheet items	**151 864**	**-**	**-**	**-**	**148 499**	**(133 218)**	**55 046**	**222 191**

Change in the period from 1 January to 31 December 2019	As at the beginning of the period	Transfer to Stage 1	Transfer to Stage 2	Transfer to Stage 3	Increases due to granting and takeover	Reductions caused by deletion from the balance sheet	Changes in credit risk	As at the end of the period
Loan commitments	**55 600**	**-**	**-**	**-**	**34 356**	**(43 090)**	**15 430**	**62 296**
Stage 1	30 265	32 226	(4 584)	(112)	20 756	(12 320)	(31 941)	34 290
Stage 2	18 243	(32 226)	4 656	(145)	10 730	(11 234)	33 465	23 489
Stage 3	6 231	-	(72)	257	1 695	(19 479)	13 504	2 136
POCI	861	-	-	-	1 175	(57)	402	2 381
Guarantees and other financial facilities	**51 495**	**-**	**-**	**-**	**60 502**	**(28 484)**	**6 055**	**89 568**
Stage 1	2 784	1 484	(674)	(3)	13 852	(7 847)	(4 815)	4 781
Stage 2	4 994	(1 484)	674	(189)	2 773	(1 755)	(300)	4 713
Stage 3	47 154	-	-	192	43 877	(20 477)	8 938	79 684
POCI	(3 437)	-	-	-	-	1 595	2 232	390
Other commitments	**-**	**-**	**-**	**-**	**109**	**(109)**	**-**	**-**
Stage 1	-	-	-	-	109	(109)	-	-
Provisions on off-balance sheet items	**107 095**	**-**	**-**	**-**	**94 967**	**(71 683)**	**21 485**	**151 864**

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31. Deferred income tax assets and liabilities

Assets and liabilities for deferred income tax are calculated for all temporary differences in accordance with the balance sheet method, using an effective income tax rate of 19% in 2020 and 2019.

Assets and liabilities for deferred income tax are not recognized as short term assets and liabilities.

Changes in assets and liabilities for deferred income tax are presented below:

Deferred income tax assets	As at 01.01.2020	Recognised in the income statement	Recognised in other comprehensive income	Other changes	As at 31.12.2020
Interest accured	31 232	(19 386)	-	-	11 846
Valuation of securities	50 214	61 708	(1 172)	-	110 750
Provisions for impairment of loans and advances	415 642	88 063	-	-	503 705
Provisions for employee benefits	39 245	(17 189)	1 463	-	23 519
Other provisions	21 822	(10 414)	-	-	11 408
Prepayments/accruals	32 150	(600)	-	-	31 550
Difference between tax and book value of tangible and intangible assets	91 601	63 066	-	-	154 667
Other negative temporary differences	41 902	2 271	-	101	44 274
Total deferred income tax assets	**723 808**	**167 519**	**291**	**101**	**891 719**

Deferred income tax liabilities	As at 01.01.2020	Recognised in the income statement	Recognised in other comprehensive income	Other changes	As at 31.12.2020
Interest accured	(56 332)	9 554	-	-	(46 778)
Valuation of derivative financial instruments	(65 091)	(43 237)	(66 507)	-	(174 835)
Valuation of investment securities	(134 925)	(28 334)	(33 728)	-	(196 987)
Interest and fees received in advance	(16 413)	(9 604)	-	-	(26 017)
Difference between tax and book value of tangible and intangible assets	(121 293)	(65 035)	-	-	(186 328)
Prepayments regarding amortization of applied investment relief	(18 657)	-	-	-	(18 657)
Other positive temporary differences	(37 922)	2 640	-	-	(35 282)
Total deferred income tax liabilities	**(450 633)**	**(134 016)**	**(100 235)**	**-**	**(684 884)**

Deferred income tax assets	As at 01.01.2019	Recognised in the income statement	Recognised in other comprehensive income	Other changes	As at 31.12.2019
Interest accured	43 658	(12 426)	-	-	31 232
Valuation of securities	39 831	10 802	(419)	-	50 214
Provisions for impairment of loans and advances	409 662	5 980	-	-	415 642
Provisions for employee benefits	37 618	1 163	464	-	39 245
Other provisions	5 410	16 412	-	-	21 822
Prepayments/accruals	35 350	(3 200)	-	-	32 150
Difference between tax and book value of tangible and intangible assets	-	91 601	-	-	91 601
Other negative temporary differences	41 224	674	-	4	41 902
Total deferred income tax assets	**612 753**	**111 006**	**45**	**4**	**723 808**

Deferred income tax liabilities	As at 01.01.2019	Recognised in the income statement	Recognised in other comprehensive income	Other changes	As at 31.12.2019
Interest accured	(48 254)	(8 078)	-	-	(56 332)
Valuation of derivative financial instruments	(44 754)	(11 305)	(9 032)	-	(65 091)
Valuation of investment securities	(111 765)	(20 439)	(2 721)	-	(134 925)
Interest and fees received in advance	(6 962)	(9 451)	-	-	(16 413)
Difference between tax and book value of tangible and intangible assets	(42 100)	(79 193)	-	-	(121 293)
Prepayments regarding amortization of applied investment relief	(18 657)	-	-	-	(18 657)
Other positive temporary differences	(44 997)	7 075	-	-	(37 922)
Total deferred income tax liabilities	**(317 489)**	**(121 391)**	**(11 753)**	**-**	**(450 633)**

The item "Difference between tax and book value of tangible and intangible assets" includes the impact of IFRS16 on the deferred tax.

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The item "Other positive temporary differences" includes the impact of the creation of deferred tax provision in the amount of PLN 15 019 thousand resulting from the implementation of IFRS 9 in respect of recognized in previous years tax-deductible costs from the provision for incurred undocumented credit risk (in 2019: PLN 18 774 thousand). According to art. 12 para. 4 of the Act of 27 October 2017 on amendments to the Personal Income Tax Act, the Corporate Income Tax Act and the Act on Flat Rate Income Tax on Certain Revenue Earned by Natural Persons, in the event that the bank included IBNR to the tax-deductible costs before 1 January 2018, after the entry into force of the amendment the bank is obliged to recognize income up to the amount previously recognized as tax cost. The Bank recognizes revenues on this account pro rata for a period of 7 consecutive tax years.

	31.12.2020	31.12.2019
Interest accured	(9 832)	(20 504)
Valuation of derivative financial instruments	(43 237)	(11 305)
Valuation of securities	33 374	(9 637)
Provisions for impairment of loans and advances	88 063	5 980
Provisions for employee benefits	(17 189)	1 163
Other provisions	(10 414)	16 412
Prepayments/accruals	(600)	(3 200)
Interest and fees received in advance	(9 604)	(9 451)
Difference between tax and book value of tangible and intangible assets	(1 969)	12 408
Other temporary differences	4 911	7 749
Total deferred income tax included in the profit and loss account	**33 503**	**(10 385)**

Bank evaluated the recoverability of deferred tax assets. Following the rules of IAS 12 paragraph 28 and 29 the Bank recognised deferred tax assets to the extent that it is probable that the Bank will have sufficient taxable profits in the future periods or tax planning opportunities are available that will create taxable profit in future periods.

A level of deferred tax asset for the year 2020 and 2019 does not include tax losses of the foreign branch in Slovakia in the amount of: EUR 1 997 thousand (equivalent of PLN 9 216 thousand at the average exchange rate of the National Bank of Poland as of 31 December 2020) and EUR 1 986 thousand (equivalent of PLN 8 457 thousand at the average exchange rate of the National Bank of Poland as of 31 December 2019). Potential inclusion of the tax losses into deferred tax asset in years to come will depend upon an assessment of the corporate income tax base level in a future (including the periods scheduled for settlement of tax losses). Right to tax losses' settlement expires between 2021 and 2024 year.

Bank recognizes deferred tax liabilities or assets related to temporary differences arising from investments in subsidiaries and associates except that the implementation of the temporary differences is controlled by Bank and it is probable that in the foreseeable future, these differences will not be reversed. At the end of 2020 Bank did not include settlements on temporary differences in the total amount of PLN 1 490 835 thousand incurred due to investments in subsidiaries and affiliated companies in deferred tax calculation (at the end of 2019: PLN 1 449 790 thousand).

32. Proceedings before court, arbitration body or public administration authority

The Bank monitors the status of all court cases brought against entities of the Bank, including the status of court rulings regarding loans in foreign currencies in terms of shaping of and possible changes in the line of verdicts of the courts, as well as the level of required provisions for legal proceedings.

The Bank creates provisions for litigations, which as a result of the risk assessment involve a probable outflow of funds from fulfilling the liability and when a reliable estimate of the amount of the liability can be made. The amount of provisions is determined taking into account the amounts of outflow of funds calculated on the basis of scenarios of potential settlements of disputable issues and their probability estimated by the Bank based on the previous decisions of courts in similar cases and the experience of the Bank.

The value of provisions for litigations as at 31 December 2020 amounted to PLN 1 465 103 thousand (PLN 484 672 thousand as at 31 December 2019). A potential outflow of funds due to the fulfilment of the obligation takes place at the moment of the final resolution of the cases by the courts, which is beyond the control of the Bank.

<u>Information on the most important court proceedings relating to the issuer's contingent liabilities</u>

1. Claims of Interbrok's clients

   Since 2008, Nine compensation lawsuits were filed against the Bank in relation to activities of Interbrok Investment E. Dróżdż i Spółka Sp. jawna (hereinafter "Interbrok"). Eight of the nine lawsuits were filed by former clients of Interbrok for the total amount of PLN 800 thousand with the provison that the claims may be extended up to the total amount of PLN 5 950 thousand. The plaintiffs alleged that the Bank had aided in Interbrok's illegal activities, which caused damage to them. With regard to seven of the afore-mentioned cases, legal proceedings against the Bank were dismissed and the cases were finally concluded. In the eighth case, a plaintiff withdrew their suit waiving the claim and the Regional Court dismissed the action. As far as the ninth suit is concerned, the amount in dispute is PLN 276 499 thousand, including statutory interest and costs of proceedings. According to the claims brought in the suit, this amount comprises the receivables, acquired by the plaintiff by way of assignment, due to the parties aggrieved by Interbrok on account of a reduction (as a result of Interbrok's bankruptcy) of the receivables by a return of the deposits paid by the aggrieved for making investments on the forex market. The plaintiff claims i.a. the Bank's liability on the grounds of the Bank's aid in committing the illicit act of Interbrok, consisting in unlicensed brokerage operations. On 7 November 2017, the Regional Court in Warsaw dismissed the action in its entirety. The plaintiff appealed. On 25 January 2021, the Court of Appeal in Warsaw dismissed the Plantiff's appelation in its entirety. The ruling of the Regional Court in Warsaw, as well as the ruling of the Court of Appeal are binding.

2. A lawsuit filed by LPP S.A.

   On 17 May 2018, mBank S.A. received a lawsuit filed by LPP S.A. with its registered office in Gdańsk seeking damages amounting to PLN 96 307 thousand on account of interchange fee. In the lawsuit, LPP S.A. petitioned the court for awarding the damages jointly from mBank S.A. and from other domestic bank.

   The plaintiff accuses the two sued banks as well as other banks operating in Poland of taking part in a collusion breaching the Competition and Consumer Protection Act and the Treaty on the Functioning of the European Union. In the plaintiff's opinion, the collusion took the form of an agreement in restriction of competition in the market of acquiring services connected with settling clients' liabilities towards the plaintiff on account of payments for goods purchased by them with payment cards in the territory of Poland.

   On 16 August 2018 mBank S.A. has submitted its statement of defence and requested that the action be dismissed. The court accepted the Defendants' requests to summon sixteen banks to join the proceedings and ordered that the banks be served with the summons. Two banks have notified of their intention to intervene in the case as an indirect intervener.

3. A lawsuit filed by Polski Koncern Naftowy ORLEN S.A.

   On 7 February 2020, mBank S.A. received a lawsuit filed by Polski Koncern Naftowy ORLEN S.A. (Orlen) with its registered office in Płock seeking damages amounting to PLN 635 681 thousand on account of interchange fee. In the lawsuit, Orlen petitioned the court for awarding the damages jointly from mBank S.A. and other domestic bank and also from Master Card Europe and VISA Europe Management Services.

   The plaintiff accuses the two sued banks as well as other banks operating in Poland of taking part in a collusion breaching the Competition and Consumer Protection Act and the Treaty on the Functioning of the European Union, i.e. a collusion restricting competition in the market of acquiring services connected with settling clients' liabilities towards the plaintiff on account of card payments for goods and services purchased by clients on the territory of Poland.

   On 28 May 2020, mBank S.A. filed a response to the lawsuit.

4. Class action against mBank S.A. concerning the clause on changing interest rate

   On 4 February 2011, a class action filed with the Regional Court in Łódź on 20 December 2010 by the Municipal Consumer Ombudsman representing a group of 835 individuals, the Bank's retail banking clients, was served on the Bank. The class action was filed to determine the Bank's liability for the improper performance of mortgage loan agreements. It was in particular claimed that the Bank had improperly applied provisions of agreements on changing interest rate, namely that the Bank had not lowered interest on loans, despite the fact that, according to the Plaintiff, it was obliged to do so. The Bank does not agree with the above-mentioned allegations. On 18 February 2011, the Bank responded to the lawsuit filing for its dismissal in whole.

   As at 17 October 2012, the group of class members consisted of 1,247 individuals. On 3 July 2013, the Court announced its judgment allowing the claim in full. According to the Court, the Bank did not properly execute the agreements concluded with consumers, as a result of which they suffered losses. On 30 April 2014, the Court of Appeal in Łódź dismissed the appeal of mBank S.A., upholding the stance adopted by the Regional Court expressed in the judgment. On 14 May 2015, the Supreme Court revoked the ruling of the Court of Appeal in Łódź and referred the case back to that court for re-examination. By the decision of 24 September 2015, the Court of Appeal in Łódź admitted the expert opinion evidence in order to verify the legality of mBank's actions connected with changing the interest rates on the mortgage loans covered by the class action in the period from 1 January 2009 to 28 February 2010. On Hearing which took place on 15 July 2020 mBank S.A. withdrew its appeal against the ruling of 9 September 2013. In consequence the Appeal Court decided to dismissed proceedings what means that the ruling of the District Court in Łódź dated 3 July 2013 is final and non-appealable. The ruling dated 3 July 2013 does not question the validity of the concluded credit agreements. Once the ruling becomes final and non-appealable:

- interest on the loans covered by the class action will be charged at the fixed interest rate applicable on the date the loans were granted;
- a claim of the class members will arise for reimbursement of amounts potentially paid in excess of the fixed interest in the period covered by the class action.

The total value of claims in this class action amounted to PLN 5.2 million.

This case has already been validly closed. Up to now mBank has made most of the transfers to consumers taking part in these proceedings and adjusted the interest rate in all the loan contracts included in the proceeding until the sentence.

5. Class action against mBank S.A. concerning indexation clauses

On 4 April 2016, the Municipal Consumer Ombudsman representing a group of 390 individuals, retail clients of mBank, who concluded agreements on CHF-indexed mortgage loans with mBank, filed a class action with the Regional Court in Łódź against the Bank.

The class action includes alternative claims for declaring invalidity of the loan agreements in part i.e. in the scope of the provisions related to indexation, or in whole; or for finding that the indexation provisions are invalid as they permit indexation of over 20% and below 20% at the CHF exchange rate from the table of exchange rates of mBank S.A. applicable as at the date of conclusion of each of the loan agreements.

As decided by the Court on 13 March 2018, the group is composed of 1,731 persons. The said decision was appealed against by both parties. On 19 October 2018 the court issued a judgment in which it dismissed all claim of the plaintiff. In the oral justification, the court stated that the Plaintiff had not shown that he had a legal interest in bringing the claim in question, and also referred to the validity of loan agreements indexed by CHF, stressing that both the contract itself and the indexation clause are in compliance with both applicable regulations and rules of social coexistence. On 11 January 2019, the appeal of the plaintiff was flied to which the Bank submitted a response. On 27 February 2020, a hearing was held at the Court of Appeal in Łódź. On 9 March 2020, a verdict was passed in a case in which the Court of Appeal referred the case for re-examination to the Regional Court. On 9 June 2020, the Court of Appeal agreed to the plaintiff's motion to secure the plaintiff's claims by suspending the obligation to repay principal and interest instalments and prohibiting the bank from issuing calls for payment and terminating credit agreements. The Bank lodged a complaint about this decision, which the court decided to reject. On 24 July 2020, the Court also rejected the Bank's complaint against the decision to reject the complaint lodged on 13 July 2020 against the decision to grant security. The hearing is scheduled for 12 March 2021. As at 31 December 2020 the total value of claims in this class actions amounted to PLN 377 million.

6. Individual court proceedings concerning indexation clauses in CHF

Apart from the class action proceedings there are also individual court proceedings initiated against the Bank by its customers in connection with CHF loan agreements. As at 31 December 2020 – 7 508 individual court proceedings (31 December 2019: 3 715 proceedings) were initiated against the Bank by its customers in connection with CHF loan agreements with the total value of claims amounting to PLN 1 454.2 million (31 December 2019: PLN 443.2 million).

Out of the individual proceedings 6 870 proceedings (31 December 2019: 2 902 proceedings) with the total value of claims amounting to PLN 1 442.2 million (31 December 2019: PLN 430.1 million) related to indexation clauses in CHF loan agreements and include claims for declaring ineffectiveness or invalidity in part (i.e. to the extent that the agreement contains contractual provisions related to indexation) or invalidity in whole of the loan agreements.

The carrying amount of mortgage and housing loans granted to individual customers in CHF as at 31 December 2020 amounted to PLN 13.6 billion (i.e. CHF 3.2 billion) compared to PLN 13.6 billion (i.e. CHF 3.5 billion) as at the end of 2019. Additionally the volume of the portfolio of loans granted in

CHF that were already fully repaid as of 31 December 2020 amounted to PLN 6.8 billion (31 December 2019: PLN 6.3 billion).

Bank's approach to the measurement of provisions for legal risk associated with this portfolio of loans has been described in the Note 4.

Ruling of the Court of Justice of the European Union regarding a CHF mortgage

On 3 October 2019 the Court of Justice of the European Union issued the ruling in the prejudicial mode regarding a mortgage linked to the Swiss franc granted by a Polish bank. The submitted prejudicial questions were to determine, among other things, if a generally applicable custom can be used where there is no provision in domestic law that could replace an abusive exchange rate clause. In accordance with CJEU's ruling, the question of abusiveness will be decided by Polish courts. CJEU did not refer to this issue. In addition, CJEU did not make a clear-cut decision regarding the consequences of an exchange rate clause being considered abusive by a domestic court. However, the possibility of a credit agreement being performed further in PLN and with interest calculated according to LIBOR was found doubtful by the Court. If an exchange rate clause is found abusive, a domestic court must decide whether the agreement in question can be performed further or should be declared invalid, taking into account the client's will and the consequences of invalidity for the client. CJEU approved the application of a disposable norm (in the bank's opinion article 358 of the Polish Civil Code referring to the NBP fixing rate can be considered to be a disposable norm), if the invalidity of the agreement would be unfavourable for the client. CJEU rejected the application of general provisions referring to a custom or equity principles.

In October 2020, prejudicial questions were referred to CJEU in two individual cases against mBank. The question referred in first case aims at determining the starting point for the limitation period in the case of consumer claims for undue performance. The question referred in the second case aims at determining whether, in the event of declaring the exchange rate clause abusive, it is possible to apply in its place the provision of the Civil Code referring to the average NBP exchange rate.

The Bank expects decisions on both these matters at the turn of 2021 and 2022.

Supreme Court resolution on loans in CHF

On 29 January 2021 the motion for adopting a resolution has been submitted to the Supreme Court by the First President of the Supreme Court. The Supreme Court will decide whether abusive provisions can be replaced with provisions of civil law or common practice, whether it is possible to maintain indexed/denominate loan as a PLN loan with an interest rate based on LIBOR, whether the theory of balance or the theory of two conditionalities will apply on the event of the CHF loan invalidity, the starting point of the limitation period in the case of the bank's claim for reimbursement of the amounts paid under the loan and whether banks and consumers can receive a remuneration from for using use of their funds by the other party.

The Supreme Court will hold a non-public seating on 25 March 2021. The bank will analyse the content of the resolution after its publication, in particular its expected impact on further jurisprudence and the parameters used in the calculation of legal risk provisions.

PFSA's Chairman proposal

The general assumptions of the PFSA's Chairman proposal to convert FX loans to PLN have been announced in December 2020. As at the date of approval of these financial statements the details of the proposal have not been specified, including the legal and tax framework of the conversion and the population of clients to be addressed with conversion settlements.

The PFSA's Chairman proposal assumes that indexed to / denominated in foreign currency loan (CHF / EUR / USD) would be converted as it was from beginning a PLN loan with an interest rate of WIBOR 3M increased by a margin used historically for such loans.

The Bank analyzed the costs it would have to incur in the indicated scenario, as the sum of the differences between the current balances of loans indexed to / denominated in a foreign currency (CHF / EUR / USD) and the corresponding hypothetical loan balances in PLN based on the 3M WIBOR rate increased by the loan margin in PLN granted at the same time and for the same period as the loan indexed to / denominated in foreign currencies (CHF / EUR / USD).

Hypothetical PLN loan balances include in their schedule differences from the actual repayments of loans indexed to / denominated in foreign currencies (CHF / EUR / USD) by adjusting the value of the outstanding principal according to the scheme provided by the PFSA.

The estimated potential impact of implementation of the conversion plan on mBank, according to the calculation based on the PFSA's questionnaire dated 27 January 2021, would be:

- PLN 6.6 billion if 100% of active and repaid portfolio was converted (data unaudited),

- PLN 5.5 billion if only active portfolio was converted (data unaudited).

The above potential impact was calculated based on the data as of 31 December 2020 and based on granular assumptions provided by PFSA in that questionnaire. The PFSA's Chairman proposal assumes that only active portfolio would be converted.

As stated in Note 44 Capital adequacy, as of 31 December 2020 the Bank maintained capital adequacy ratios above the required levels. The amounts of excess capital, both related to Tier I ratio and total capital ratio, were higher than the potential impact of implementation of the PFSA's Chairman proposal on the Bank, according to the calculation based on the PFSA's questionnaire.

As at the date of approval these financial statements mBank has not made any decisions on offering settlements according to the PFSA's Chairman proposal nor has taken any steps to acquire any corporate consents in that matter. It will be a subject of further analysis and discussions with financial authorities. The PFSA's proposal has not been taken into consideration when calculating provision for legal risk related to indexed loans.

As part of the analysis of the proposal, the banks participating in the working group – including mBank - submitted a letter to the NBP initiating dialogue to better understand the central bank's potential readiness to conduct transactions that may be necessary in the process. The preliminary nature of this dialogue needs to be underscored.

The President of the National Bank of Poland in his press conference on 5 February 2021 referred to the PFSA's proposal stating that there was no specific proposal that the NBP could comment on and that the NBP was ready to familiarize itself with the details of the proposal once they were elaborated. He also added that the final solution should eliminate all risks related to FX loans. The President of the NBP supported the usage of an average NBP FX rate as a solution and advocated for compensation for the usage of capital. He also underlined that FX rate tables are allowed by the banking law and are a common market practice. At the same time the President of the NBP took a critical view of possibility of converting the CHF loans into "PLN + LIBOR" since such construction has no economic grounds.

Tax inspections

The tax authorities may inspect at any time the books and records within 5 years subsequent to the reported tax year and may impose additional tax assessments and penalties. In the opinion of the Management Board there are no circumstances, which would indicate that crystallising of material tax liabilities in this respect is probable.

Inspection by the Office of the Polish Financial Supervision Authority (PFSA Office)

In the period from October till December 2018 the PFSA Office employees carried out an inspection in the Bank in order to investigate whether the activities of mBank S.A. in the area of fulfilling its duties as the depositary were in conformity with the law and agreements on the performance of functions of the depositary, in particular in conformity with the Act of 27 May 2004 on Investment Funds and Management of Alternative Investment Funds (Journal of Laws of 2018, item 1355, as later amended).

The detailed findings of the inspection were presented in the protocol delivered to the Bank on 11 February 2019. On 25 February 2019 the Bank delivered to the PFSA office its objections to the protocol as well as additional explanations related to the issues being the subject of the inspection.

On 1 April 209 the Bank received PFSA response to the objections to the inspection protocol as well as PFSA recommendations in regard to the adjustment of Bank's activity as a depositary bank for investment funds to the applicable law. All objections of the Bank have been rejected by the regulator.

On 25 April 2019, Bank submitted to PFSA Office a declaration of actions taken as realization of post-inspection recommendations. PFSA by letter dated 4 September 2019 objected to the implementation of selected recommendations. On 11 October 2019 Bank submitted to PFSA the response addressing given objections, in which the description of taken actions was further specified as well as some new solutions for implementation were presented. On 5 December 2019, the PFSA Office sent to the Bank a reply to the letter containing the acceptance of some of the Bank's activities aimed at implementing post-audit recommendations and clarifications of other expectations that are being implemented. On 14 May 2020, Bank formally confirmed the realisation of all PFSA recommendations.

On 27 February 2020, the Bank received the decision of PFSA Office dated 25 February 2020 to initiate administrative proceedings regarding the imposition of an administrative penalty on the Bank, pursuant to the provisions of the Act dated 27 May 2004 on investment funds and management of alternative investment funds.

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Proceedings initiated by the Office of Competition and Consumer Protection (UOKiK)

Proceedings for considering provisions of a template agreement as abusive instituted ex officio on 12 April 2019. The proceedings concern amendment clauses stipulating under which circumstances the bank is authorised to amend the terms and conditions of the agreement, including the amount of fees and commissions. In the opinion of the President of the Office of Competition and Consumer Protection (UOKiK), the amendment clauses used by the bank give it an unlimited right to unilaterally and freely change the manner of performing the agreement. As a consequence, the UOKiK President represents the view that the clauses used by the bank define the rights and obligations of consumers contrary to good morals and grossly violate their interest and, thus, are abusive. mBank does not agree with this stance. mBank responded to the decision on instituting the proceedings in letters dated 28 May 2019 and 10 January 2020. As at the date of approval these financial statements, the UOKiK President did not take any further actions in the case in question, did not take a stance, and did not respond to mBank's letters.

33. Off-balance sheet liabilities

Off-balance sheet liabilities of the Bank comprise:

- Loan commitments

The amounts and dates by which the Bank will be obliged to realise its off-balance sheet financial liabilities by granting loans or other monetary services are presented in the table below,

- Guarantees and other financial facilities,
- Other liabilities.

Loan commitments, guarantees and other financial facilities and other commitments

31.12.2020	Nominal amount of off-balance sheet commitments and financial guarantees under IFRS 9 impairment				Provisions on off-balance sheet commitments and financial guarantees under IFRS 9 impairment			
	Stage 1	Stage 2	Stage 3	POCI	Stage 1	Stage 2	Stage 3	POCI
Loan commitments	29 733 554	1 278 390	23 064	5 523	44 598	36 829	5 510	2 495
Guarantees and other financial facilities	6 996 852	918 829	121 128	36 166	20 630	6 134	80 055	25 940
Other commitments	22 789	-	-	-	-	-	-	-

31.12.2019	Nominal amount of off-balance sheet commitments and financial guarantees under IFRS 9 impairment				Provisions on off-balance sheet commitments and financial guarantees under IFRS 9 impairment			
	Stage 1	Stage 2	Stage 3	POCI	Stage 1	Stage 2	Stage 3	POCI
Loan commitments	26 965 277	1 139 112	14 041	2 815	34 290	23 489	2 136	2 381
Guarantees and other financial facilities	12 803 973	963 174	186 466	3 242	4 781	4 713	79 684	390
Other commitments	-	-	-	-	-	-	-	-

The following table presents the Bank's off-balance sheet commitments granted and received as well as nominal value of open positions of derivative transactions of the Bank as at 31 December 2020 and as at 31 December 2019.

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Guarantees are presented in the table below based on the earliest contractual maturity date.

31.12.2020	up to 1 year	from 1 to 5 years	more than 5 years	Total
1. Contingent liabilities granted and received	**27 310 390**	**12 374 467**	**6 067 654**	**45 752 511**
Commitments granted	**24 230 279**	**9 242 902**	**5 663 114**	**39 136 295**
1. Financing	21 087 057	6 723 710	3 229 764	**31 040 531**
a) Loan commitments	21 087 057	6 723 710	3 229 764	**31 040 531**
2. Guarantees and other financial facilities	3 120 433	2 519 192	2 433 350	**8 072 975**
a) Guarantees and standby letters of credit	3 120 433	2 519 192	2 433 350	**8 072 975**
3. Other commitments	22 789	-	-	**22 789**
Commitments received	**3 080 111**	**3 131 565**	**404 540**	**6 616 216**
- Financial commitments received	33 019	426 410	-	**459 429**
- Guarantees received	3 047 092	2 705 155	404 540	**6 156 787**
2. Derivative financial instruments (nominal value of contracts)	**210 863 420**	**405 382 233**	**41 776 440**	**658 022 093**
Interest rate derivatives	107 207 677	379 885 595	40 212 220	**527 305 492**
Currency derivatives	100 016 459	25 451 079	919 765	**126 387 303**
Market risk derivatives	3 639 284	45 559	644 455	**4 329 298**
Total off-balance sheet items	**238 173 810**	**417 756 700**	**47 844 094**	**703 774 604**

31.12.2019	up to 1 year	from 1 to 5 years	more than 5 years	Total
1. Contingent liabilities granted and received	**33 528 882**	**9 127 453**	**3 416 420**	**46 072 755**
Commitments granted	**31 132 784**	**7 970 988**	**2 974 328**	**42 078 100**
1. Financing	23 559 675	3 025 421	1 536 149	**28 121 245**
a) Loan commitments	23 559 675	3 025 421	1 536 149	**28 121 245**
2. Guarantees and other financial facilities	7 573 109	4 945 567	1 438 179	**13 956 855**
a) Guarantees and standby letters of credit	7 573 109	4 945 567	1 438 179	**13 956 855**
Commitments received	**2 396 098**	**1 156 465**	**442 092**	**3 994 655**
a) Financial commitments received	392 130	-	-	**392 130**
b) Guarantees received	2 003 968	1 156 465	442 092	**3 602 525**
2. Derivative financial instruments (nominal value of contracts)	**197 922 663**	**351 961 915**	**39 155 308**	**589 039 886**
Interest rate derivatives	130 836 704	325 103 183	36 136 923	**492 076 810**
Currency derivatives	63 299 194	25 661 914	2 529 415	**91 490 523**
Market risk derivatives	3 786 765	1 196 818	488 970	**5 472 553**
Total off-balance sheet items	**231 451 545**	**361 089 368**	**42 571 728**	**635 112 641**

The nominal values of derivatives are presented in the Note 19.

As at 31 December 2020, commitments received by the Bank in the amount of PLN 6 616 216 thousand (31 December 2019: PLN 3 994 655 thousand), related mainly to guarantees received as collateral of loans and advances granted.

On 5 July 2019, mBank S.A. concluded a lease agreement for space in the Mennica Legacy Tower building, located at 18 Prosta street in Warsaw, to which the Bank's Warsaw headquarters was moved. Partially, the building was released for use in October 2020. The other part of the bulding will be released in March 2021. The approximate amount of liability related to the upcoming release will probably amount to about PLN 224 466 thousand.

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34. Pledged assets

Assets may be pledged as collateral for repo or sell/buy back transactions, derivative contracts with other banks. Collateral may be also placed due to stock market derivatives such as futures, options and participation in stock market.

Collateral may be placed in different form (e.g. cash, securities and pledged assets).

Similarly, customers establish collateral on their assets to secure the transaction with the Bank. If securities are subject to collateral (in buy/sell back transaction) they can be re-pledged in the opposite transaction (sell/buy back).

Moreover the Bank accepts collaterals in the form of properties (esp. real estates) related to credit type transactions like mortgage loans, credit lines, banking guarantees.

The table below presents the breakdown of the measures possible to pledge by the main items of the statement of financial position of mBank, as at 31 December 2020 and 31 December 2019. Treasury securities are the main component of the Banks's liquidity collateral that can be eligible to pledge.

31.12.2020	Assets			Collateral received in kind of securities related with buy/sell back transactions			Assets available for pledge (3+6)
	Total assets	Pledged assets	Eligible for pledge assets	Received	Reused	Available for pledge	
	1	2	3	4	5	6	7
Debt securities (Note 19, 20, 21 and 22), including:	**51 944 836**	**3 967 830**	**46 094 707**	**6 357 913**	**474 210**	**5 883 703**	**51 978 410**
- NBP bills	149 997	-	149 997	-	-	-	149 997
- Government bonds	44 082 273	3 967 830	40 114 443	6 357 913	474 210	5 883 703	45 998 146
- Mortgage bonds	550 331	-	-	-	-	-	-
- Other non-treasury securities	7 162 235	-	5 830 267	-	-	-	5 830 267
Cash collaterals (due to derivatives transactions) (Note 22)	785 131	785 131	-	-	-	-	-
Other assets	119 279 717	-	-	-	-	-	-
Total	**172 009 684**	**4 752 961**	**46 094 707**	**6 357 913**	**474 210**	**5 883 703**	**51 978 410**

31.12.2019	Assets			Collateral received in kind of securities related with buy/sell back transactions			Assets available for pledge (3+6)
	Total assets	Pledged assets	Eligible for pledge assets	Received	Reused	Available for pledge	
	1	2	3	4	5	6	7
Debt securities (Note 19, 20, 21 and 22), including:	**35 036 336**	**3 323 282**	**29 787 956**	**3 362 331**	**-**	**3 362 331**	**33 150 287**
- NBP bills	2 999 645	-	2 999 645	-	-	-	2 999 645
- Government bonds	27 746 572	3 193 568	24 553 004	3 362 331	-	3 362 331	27 915 335
- Mortgage bonds	493 861	129 714	-	-	-	-	-
- Other non-treasury securities	3 796 258	-	2 235 307	-	-	-	2 235 307
Cash collaterals (due to derivatives transactions) (Note 22)	417 698	417 698	-	-	-	-	-
Other assets	113 774 239	-	-	-	-	-	-
Total	**149 228 273**	**3 740 980**	**29 787 956**	**3 362 331**	**-**	**3 362 331**	**33 150 287**

The value of treasury securities presented as pledged assets, except for collaterals due to sell/buy back transactions, includes Bank's collateral of liabilities due to the fixed interest rate loans received from the EIB, collateral for the guaranteed deposits fund under the Bank Guarantee Fund (BFG) and collateral for the payment commitment to the BFG guarantee fund and forced restructuring fund.

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35. Registered share capital

The total number of ordinary shares as at 31 December 2020 was 42 367 040 shares (31 December 2019: 42 350 367 shares) of PLN 4 nominal value each. All issued shares were fully paid up.

REGISTERED SHARE CAPITAL (THE STRUCTURE) AS AT 31 DECEMBER 2020						
Share type	**Type of privilege**	**Type of limitation**	**Number of shares**	**Series / face value of issue in PLN**	**Paid up**	**Registered on**
ordinary bearer*	-	-	9 988 000	39 952 000	fully paid in cash	1986
ordinary registered*	-	-	12 000	48 000	fully paid in cash	1986
ordinary bearer	-	-	2 500 000	10 000 000	fully paid in cash	1994
ordinary bearer	-	-	2 000 000	8 000 000	fully paid in cash	1995
ordinary bearer	-	-	4 500 000	18 000 000	fully paid in cash	1997
ordinary bearer	-	-	3 800 000	15 200 000	fully paid in cash	1998
ordinary bearer	-	-	170 500	682 000	fully paid in cash	2000
ordinary bearer	-	-	5 742 625	22 970 500	fully paid in cash	2004
ordinary bearer	-	-	270 847	1 083 388	fully paid in cash	2005
ordinary bearer	-	-	532 063	2 128 252	fully paid in cash	2006
ordinary bearer	-	-	144 633	578 532	fully paid in cash	2007
ordinary bearer	-	-	30 214	120 856	fully paid in cash	2008
ordinary bearer	-	-	12 395 792	49 583 168	fully paid in cash	2010
ordinary bearer	-	-	16 072	64 288	fully paid in cash	2011
ordinary bearer	-	-	36 230	144 920	fully paid in cash	2012
ordinary bearer	-	-	35 037	140 148	fully paid in cash	2013
ordinary bearer	-	-	36 044	144 176	fully paid in cash	2014
ordinary bearer	-	-	28 867	115 468	fully paid in cash	2015
ordinary bearer	-	-	41 203	164 812	fully paid in cash	2016
ordinary bearer	-	-	31 995	127 980	fully paid in cash	2017
ordinary bearer	-	-	24 860	99 440	fully paid in cash	2018
ordinary bearer	-	-	13 385	53 540	fully paid in cash	2019
ordinary bearer	-	-	16 673	66 692	fully paid in cash	2020
Total number of shares			**42 367 040**			
Total registered share capital				**169 468 160**		
Nominal value per share (PLN)	**4**					

*As at the end of the reporting period

In 2020, the National Depository of Securities (KDPW) has registered 16 673 shares of mBank, which were issued as part of the conditional increase in the share capital of the Bank by issuance of shares with no subscription rights for the existing shareholders in order to enable beneficiaries of the incentive programmes to take up shares in mBank. As a result of the above registration, in 2020 mBank's share capital increased by PLN 66 692.

Commerzbank AG is a shareholder holding over 5% of the share capital and votes at the General Meeting and as at 31 December 2020 it held 69.28% of the share capital and votes at the General Meeting of mBank S.A.

- The changes in the ownership structure of Bank's material shares packages

On 20 November 2020 mBank S.A. was notified by Nationale-Nederlanden Powszechne Towarzystwo Emerytalne S.A. (Nationale-Nederlanden PTE) about increasing in the share of funds managed by Nationale-Nederlanden PTE in the total number of votes at the General Meeting of mBank S.A. above 5% resulting from the purchase of mBanks' shares at the WSE, settled on 12 November 2020. As a result of this transaction, the funds managed by Nationale-Nederlanden PTE together have 2 125 162 shares of mBank S.A., which represents 5.02% of the share capital of mBank S.A. and entitles to 2 125 162 votes at the General Meeting of mBank S.A.

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Before the acquisition of mBank S.A. shares, the funds managed by Nationale-Nederlanden PTE together held 2 099 331 shares of mBank S.A., which represented 4.96% of the share capital of mBank S.A. and entitled to 2 099 331 votes at the General Meeting of mBank S.A.

Moreover, on 8 December 2020 mBank S.A. was notified by Nationale-Nederlanden PTE about increasing in the share by Nationale-Nederlanden Otwarty Fundusz Emerytalny (Nationale-Nederlanden OFE) in the total number of votes at the General Meeting of mBank S.A. above 5% resulting from the purchase of mBanks' shares at the WSE, settled on 30 November 2020. After settlement of abovementioned transactions the funds managed by Nationale-Nederlanden OFE together have 2 145 215 shares of mBank S.A., which represents 5.06% of the share capital of mBank S.A. and entitles to 2 145 215 votes at the General Meeting of mBank S.A.

Before the acquisition of mBank S.A. shares, the funds managed by Nationale-Nederlanden OFE together held 2 107 691 shares of mBank S.A., which represented 4.97% of the share capital of mBank S.A. and entitled to 2 107 691 votes at the General Meeting of mBank S.A.

According to the information received from Nationale-Nederlanden PTE, the funds managed by Nationale-Nederlanden PTE held a total of 2 178 642 shares of mBank S.A..

36. Share premium

Share premium is formed from the share premium obtained from the issue of shares reduced by the direct costs incurred with that issue. This capital is intended to cover all losses that may result from the business activity of the Bank.

The increase of share premium in 2020 and 2019 results from the issue of shares under incentive programmes described under Note 41.

37. Retained earnings

Retained earnings include: other supplementary capital, other reserve capital, general banking risk reserve, profit (loss) from the previous years and profit for the current year.

Other supplementary capital, other reserve capital and general banking risk reserve are created from profit for the current year and their aim is described in the by-laws or in other regulations of the law.

	31.12.2020	31.12.2019
Other supplementary capital	9 216 652	9 216 652
Other reserve capital	30 329	27 320
General banking risk reserve	1 115 143	1 115 143
Profit from the previous year	2 005 435	1 024 455
Profit for the current year	93 047	980 980
Total retained earnings	**12 460 606**	**12 364 550**

According to the Polish legislation, each bank is required to allocate 8% of its net profit to a statutory undistributable other supplementary capital until this supplementary capital reaches 1/3 of the share capital.

In addition, the Bank transfers some of its net profit to the general banking risk reserve to cover unexpected risks and future losses. The general banking risk reserve can be distributed only on consent of shareholders at a general meeting.

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38. Other components of equity

	31.12.2020	31.12.2019
Exchange differences on translating foreign operations	**(2 297)**	**(5 151)**
Unrealized gains (foreign exchange gains)	30 841	1 275
Unrealized losses (foreign exchange losses)	(33 138)	(6 426)
Valuation of debt instruments at fair value through other comprehensive income	**17 728**	**58 363**
Unrealized gains on debt instruments	254 555	115 567
Unrealized losses on debt instruments	(166 538)	(21 815)
Deferred income tax	(70 289)	(35 389)
Cash flow hedges	**405 680**	**122 150**
Unrealized gains	500 839	150 802
Deferred income tax	(95 159)	(28 652)
Actuarial gains and losses relating to post-employment benefits	**(17 328)**	**(11 093)**
Actuarial (losses)	(21 393)	(13 695)
Deferred income tax	4 065	2 602
Share of other comprehensive income of entities under the equity method	**16 268**	**6 370**
Share of other comprehensive income of subsidiaries and associates	16 268	6 370
Total other components of equity	**420 051**	**170 639**

39. Dividend per share

On 27 March 2020, the 33rd Annual General Meeting of mBank S.A. adopted a resolution regarding the distribution of the net profit for 2019. The net profit of mBank S.A. in the amount of PLN 980 980 thousand was left undivided.

40. Explanatory notes to the statement of cash flows

Cash and cash equivalents

For the purposes of the cash flow statement cash and cash equivalents include the following balances with maturities of less than three months.

	31.12.2020	31.12.2019
Cash and balances with the Central Bank (Note 18)	3 939 298	7 861 776
Loans and advances to banks (Note 22)	265 834	342 454
Total cash and cash equivalents	**4 205 132**	**8 204 230**

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Supplementary information to the cash flow statement

Explanation of differences between the change in the balances resulting from the balance sheet and the change disclosed in the cash flows from operating activities

	Year ended 31 December 2020	Year ended 31 December 2019
Loans and advances to banks - change in the balance of the statement of financial position	**(3 508 141)**	**(1 428 362)**
Exclusion of a change in the balance of cash and cash equivalents	(76 620)	(323 951)
Total change in loans and advances to banks	**(3 584 761)**	**(1 752 313)**
Financial assets held for trading and hedging derivatives - change in the balance of the statement of financial position	**914 143**	**(793 479)**
The difference between the interest accrued and paid in cash in the period	61 817	81 353
Valuation included in other comprehensive income	350 037	47 539
Total change in financial assets held for trading and hedging derivatives	**1 325 997**	**(664 587)**
Loans and advances to customers change in the balance of the statement of financial position	**(4 907 967)**	**(9 695 978)**
The difference between the interest accrued and paid in cash in the period	(241 856)	(138 938)
Total change in loans and advances to customers	**(5 149 823)**	**(9 834 916)**
Debt securities at fair value through other comprehensive income - change in the balance of the statement of financial position	**(13 339 642)**	**1 717 843**
Valuation included in other comprehensive income	(5 735)	(42 789)
The difference between the interest accrued and paid in cash in the period	(587 030)	(292 679)
Total change in debt securities at fair value through other comprehensive income	**(13 932 407)**	**1 382 375**
Debt securities measured at amortised cost - change in the balance of the statement of financial position	**(4 717 628)**	**(2 234 333)**
The difference between the interest accrued and paid in cash in the period	-	-
Total change in debt securities measured at amortised cost	**(4 717 628)**	**(2 234 333)**
Other assets - change in the balance of the statement of financial position	**(282 201)**	**161 533**
Balances unrealised in cash recognised in the income statement	3 042	(14 788)
Exclusion of change in cash flows from financing activity	(91 047)	-
Total change of other assets	**(370 206)**	**146 745**
Amounts due to other banks - change in the balance of the statement of financial position	**1 443 504**	**(1 986 428)**
The difference between the interest accrued and paid in cash in the reporting period	14 358	18 745
Exclusion of change in cash flows from financing activity	193 144	557 100
Total change in amounts due to other banks	**1 651 006**	**(1 410 583)**
Amounts due to customers - change in the balance of the statement of financial position	**15 841 047**	**12 063 601**
The difference between the interest accrued and paid in cash in the reporting period	(375 510)	(384 665)
Exclusion of change in cash flows from financing activity, including payments due to lease agreements	591 117	663 972
Total change in amounts due to customers	**16 056 654**	**12 342 908**
Debt securities issued - change in the balance of the statement of financial position	**2 973 168**	**504 273**
The difference between the interest accrued and paid in cash in the reporting period	(343 746)	(5 558)
Exclusion of change in cash flows from financing activity	143 042	(488 378)
Total change in debt securities issued	**2 772 464**	**10 337**
Changes in other liabilities - change in the balance of the statement of financial position	**1 532 791**	**78 003**
Valuation of incentive programmes recognised in income statement (Note 12)	10 159	9 947
Exclusion of tax liabilities of certain financial institutions	(10 943)	(40 470)
Actuarial gains and losses relating to post-employment benefits recognised in other comprehensive income	(7 698)	(2 444)
Total change in other liabilities	**1 524 309**	**45 036**

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Interests received and paid from operating activities

	Year ended 31 December	
	2020	**2019**
Interest income, including:		
Loans and advances to banks	120 540	184 808
Loans and advances to customers	3 222 396	3 391 809
Debt securities	973 437	1 019 467
Interest income on derivatives classified into banking book	61 011	92 580
Interest income on derivatives concluded under hedge accounting	216 971	100 276
Other interest income	275 355	5 059
Total interest income	**4 869 710**	**4 793 999**

	Year ended 31 December	
	2020	**2019**
Interest expense, including:		
Settlements with banks due to deposits received	(17 596)	(18 480)
Settlements with customers due to deposits received	(547 535)	(824 184)
Security deposit received in relation with the guarantee granted to secure underwriting of securities	(59 417)	(93 338)
Issuance of debt securities in issue	(16 157)	(26 847)
Other interest expense	(32 029)	(23 844)
Total interest expense	**(672 734)**	**(986 693)**

Cash flows from investing activities

In 2020 and 2019, cash flows from investing activities were related to the acquisition, sale and increase of shares in subsidiaries as well as dividends received by the Bank. In 2020, cash flows from investing activities includes the inflow related to the reduction of BDH Development Sp. z o.o. (BDH) share capital related to the redemption of shares and the proceeds from the sale of shares in BDH (Note 24). Other cash flows from this activity relate to settlements in connection with the purchase of intangible assets and fixed assets.

Cash flows from financing activities

Cash flows from financing activities mainly relate to the inflows from issue of debt securities issued by the Bank, inflows from the issue of subordinated liabilities and settlements due to long-term loans received from other banks (Note 28) and the European Investment Bank (Note 28).

The following table presents the change in liabilities as part of financial activities.

	As at 31.12.2019	Cash flows	Change not connected with cash fows	As at 31.12.2020
Loans and advances to banks (Note 28)	189 900	(199 137)	9 237	-
Loans and advances to other customers (Note 28)	2 980 294	(5 591)	279 888	3 254 591
Lease liabilities (Note 28)	465 790	(111 846)	394 553	748 497
Debt securities in issue (Note 28)	3 361 997	(143 042)	3 116 210	6 335 165
Subordinated liabilities (Note 28)	2 500 217	(76 145)	154 255	2 578 327
Liabilities due to the deposit related to guarantee of eurobonds issue (Note 28)	5 097 329	(479 271)	(4 618 058)	-
Total liabilities from financing activities	**14 595 527**	**(1 015 032)**	**(663 915)**	**12 916 580**

	As at 31.12.2018	Cash flows	Change not connected with cash fows	As at 31.12.2019
Loans and advances to banks (Note 28)	747 334	(567 863)	10 429	189 900
Loans and advances to other customers (Note 28)	3 457 264	(519 145)	42 175	2 980 294
Lease liabilities (Note 28)	-	(109 846)	575 636	465 790
Debt securities in issue (Note 28)	2 857 724	476 036	28 237	3 361 997
Subordinated liabilities (Note 28)	2 474 163	(76 627)	102 681	2 500 217
Total liabilities from financing activities	**9 536 485**	**(797 445)**	**759 158**	**9 498 198**

In the change not related to cash flows exchange differences and accrued interest were included.

The total cash outflow from leases (including cash flow related to short-term lease contracts, low-value asset lease contracts that are not short-term contracts and variable components of lease liabilities that are disclosed in cash flows from operating activities) amounted to PLN 114 519 thousand (in 2019: PLN 117 670 thousand).

41. Share-based incentive programmes

2014 Incentive Programme for the Management Board Members of the Bank

On 31 March 2014 the Supervisory Board in accordance with the recommendation of Remuneration Committee of the Supervisory Board adopted a Regulation of the Incentive Programme in mBank S.A., which replaced the Regulation of the Incentive Programme in mBank S.A. dated at 7 December 2012.

On 2 March 2015 the Supervisory Board extended the duration of the program from 31 December 2018 to 31 December 2021.

Under the program the Management Board Members have the right to bonus, including non-cash bonus paid in Bank's shares.

The net ROE of mBank Group and the monthly remuneration of the member of the Board as at 31 December form the basis for acquisition by Members of the Management Board of the right to bonus and for calculation of the amount of bonus for a given financial year. Equivalent of 50% of the base amount calculated based on ROE constitutes the so-called first part of the bonus. In regard to the remaining 50% of the base amount, the Remuneration Committee of the Supervisory Board can grant the second part of the bonus if it decides that a given Member of the Management Board achieved the annual/multi-year business and development objective. The decision of granting the second part of the bonus is the sole responsibility of Remuneration Committee of the Supervisory Board, which according to its own judgement and decision confirm MBO achievement taking into account the situation on financial markets in the last/previous financial period. The sum of the first and the second part of bonus is the base bonus of the member of the Board for a given financial period. 40% of the base bonus constitutes non-deferred bonus and is paid in the year of determination of base bonus as follows: 50% in form of cash payment and 50% in Bank's shares or bonds with pre-emptive rights to acquire shares. 60% of the base bonus is deferred bonus and is paid in three equal tranches in the next three consecutive years after the year of determining the base bonus as follows: 50% of each of the deferred tranches in form of cash payment and 50% of each of the deferred tranches in form of non-cash payment in Bank's shares or bonds with pre-emptive rights to acquire shares.

The Supervisory Board on the basis of recommendation of Remuneration Committee can make a decision to suspend in whole or reduce the amount of deferred tranche due to the later assessment of the performance of the Member of the Management Board over a period of time longer than one financial year (i.e. for the period of at least 3 years), which takes into account the business cycle of the Bank as well as the risk related to the bank's operations, but only when the actions or omissions of the Member of the Management Board had a direct and adverse impact on the Bank's financial result and market position within the assessment period and when at least one of the elements included in the assessment card was not fulfilled.

Remuneration Committee of the Supervisory Board can make a decision on suspending in whole or decreasing the non-deferred and deferred bonus amount for a given financial year, including deferred tranches not paid out yet, in a situation where one of the conditions of Article 142, paragraph 1 of the Banking Law Act, in particular in paragraph 2. Suspending in whole or decreasing the non-deferred and deferred bonus, as well as any deferred tranche by the Remuneration Committee of the Supervisory Board can also apply to the non-deferred and deferred bonus, including deferred tranche not paid out yet after expiry or termination of the management contract. Under the program described above, the for 2017 was awarded for the last time. The last settlements fall on 2021.

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The table below presents change in the number and weighted average exercise prices of share options related to the 2014 incentive programme for the Management Board of mBank.

	31.12.2020		31.12.2019	
	Number of options	Weighed average exercise price (in PLN)	Number of options	Weighed average exercise price (in PLN)
Outstanding at the beginning of the period	**6 210**	**-**	**12 229**	**-**
Granted during the period	-	-	-	-
Forfeited during the period	-	-	-	-
Exercised during the period*	4 608	4	6 019	4
Expired during the period	-	-	-	-
Outstanding at the end of the period	**1 602**	**-**	**6 210**	**-**
Exercisable at the end of the period	**-**	**-**	**-**	**-**

* In 2020, the weighted average price of the shares was PLN 190.77 (in 2019: PLN 388.23).

Cash Part of the Bonus

50% of the base amount constitutes bonus cash payment. It is recognised as a liability to employees and charged to the income statement in the correspondence to liability to employees.

Share-Based Payments Settled in mBank S.A. Shares

50% of the base amount constitutes bonus payment settled in mBank S.A. shares. The cost of payments settled in shares is recognised in the income statement in the correspondence with other reserve capital.

This is equity-settled share-based program.

Employee programme for key management staff of mBank Group of 2014

On 31 March 2014, the Supervisory Board of mBank adopted on the basis of recommendation of Remuneration Committee a resolution amending the rules of the employee programme, which replaced the incentive programme for key management staff of mBank Group from 2013.

The aim of the programme is to ensure growth in the value of a subsidiary's shares by linking the interest of the key staff of mBank Group with the interest of the subsidiary and its shareholders and implementing an mBank Group policy of variable components of remuneration of persons holding managerial positions in mBank Group. On 2 March 2015, the Supervisory Board of mBank extended the duration of the program from 31 December 2020 to 31 December 2022 in accordance with the recommendation of the Remuneration Committee.

As part of the programme, bonds in tranche III, IV, V and VI were allocated to and acquired by the eligible persons. The last settlements of the above-mentioned Tranches were realized in 2017.

Beginning with Tranche VII the right to purchase bonds granted to the entitled person was divided into four parts, which may be realized respectively: I part – non-deferred bonds representing 50% of the 60% of the amount of discretionary bonus granted for a given financial year in the year of granting the right, and then another three equal parts – deferred bonds constituting 50% of the 40% of the amount of discretionary bonus granted for a given financial year on the lapse of 12, 24 and 36 months from the date of granting the rights. Beginning with Tranche VII the bonus for 2014 – 2017 was awarded. The last settlements are in 2021. The Management Board of mBank/the Supervisory Board of a subsidiary in which the programme has been launched may decide to suspend in whole or reduce the number of bonds in a deferred but not yet paid tranche for an eligible person, if one of the cases referred to in Article 142 of the Banking Law Act occurs, in particular the case referred to in section 2, i.e. the occurrence or risk of a balance-sheet loss, risk of insolvency or bankruptcy, conditions laid down in agreements with programme participants under which work or other services are provided to the Bank and the subsidiaries.

Cash Part of the Bonus

The bonus in the amount of 50% of the base amount for the year is cash payment. It is recognised as a liability to employees and charged to the income statement in the correspondence to the liability to employees.

Share-Based Payments settled in mBank S.A. shares

The bonus in the amount of 50% of the base amount constitutes a payment settled in mBank S.A. shares.

The cost of payments settled in shares is recognised in the income statement in the correspondence with other reserve capital.

This is equity-settled share-based program.

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The table below presents change in the number and weighted average exercise prices of share options related to the 2014 incentive programme for key managers of mBank Group.

	31.12.2020		31.12.2019	
	Number of options	Weighed average exercise price (in PLN)	Number of options	Weighed average exercise price (in PLN)
Outstanding at the beginning of the period	**5 585**	**-**	**13 293**	**-**
Granted during the period	-	-	-	-
Forfeited during the period	-	-	342	-
Exercised during the period*	4 067	4	7 366	4
Expired during the period	-	-	-	-
Outstanding at the end of the period	**1 518**	**-**	**5 585**	**-**
Exercisable at the end of the period	**-**	**-**	**-**	**-**

* In 2020, the weighted average price of the shares was PLN 190.77 (in 2019: PLN 388.23).

<u>2018 incentive programme for the Management Board Members and key staff of mBank Group – mBank Risk Takers</u>

On 7 June 2018, the Supervisory Board, acting in line with the recommendation of the Remuneration Committee of the Supervisory Board and the decision of the Annual General Meeting of mBank S.A. of 9 May 2018, adopted the mBank S.A. Incentive Programme Rules.

The Programme replaced the existing programmes, that is the employee programme introduced by the resolution of the Extraordinary General Meeting of mBank S.A. of 27 October 2008, as amended, and the programme for the Management Board Members, introduced by the resolution of the Annual General Meeting of mBank S.A. of 14 March 2008, as amended. At the same time, the rights arising from bonds acquired under the replaced programmes are exercised under the rules of those programmes.

The new programme will be implemented from 1 January 2018 to 31 December 2028. Eligible persons under the programme include persons holding positions identified as having a material impact on the bank's risk profile pursuant to the Risk Takers Identification Policy, referred to as Risk Takers I or Risk Takers II, excluding Risk Takers II – Members of the Management Board of mBank Hipoteczny S.A., in which a different incentive programme is implemented.

Risk Taker I means a Member of the Management Board of the bank. Risk Taker II means a person holding a position identified as having a material impact on the bank's risk profile pursuant to the Risk Takers Identification Policy, including a person holding a position of a Management Board Member in an mBank Group subsidiary.

On the terms and conditions stipulated in the Rules and the Risk Takers Remuneration Policy, Risk Takers will be able to acquire warrants free of charge, and, by way of exercising the rights arising from the warrants, to acquire shares.

Bonus for Risk Takers I

The Supervisory Board determines the bonus amount for a given calendar year for each Management Board Member individually, based on the assessment of MBO achievement with respect to the period of at least 3 years, with the proviso that the bonus amount depends on the bonus pool. The bonus pool is a total of base amounts calculated for each Management Board Member. The base amount is calculated a a multiple of the base salary, which depends on the Economic Profit (EP); EP is calculated for the period of 3 years pursuant to the rules specified in the Risk Takers Remuneration Policy.

The bonus consists of the non-deferred part (40% of the bonus) and the deferred part (60% of the bonus).

Both the deferred part and the non-deferred part, are divided into equal portions: 50% paid in cash and 50% paid in subscription warrants. The non-deferred part in cash is paid in the year when the bonus is granted. The other half of the non-deferred part (50%) is paid in the form of subscription warrants, not earlier than after the lapse of 12 months from the date of the Annual General Meeting of mBank S.A.

The deferred part, both the cash portion and the subscription warrant portion, is paid in 5 equal annual tranches. In each tranche, the cash portion is paid once the consolidated financial statements of mBank Group for the previous calendar year have been approved, and the subscription warrant portion is paid not earlier than after the lapse of 12 months from the date on which the consolidated financial statements are approved.

Bonus for Risk Takers II

The bonus amount for a given calendar year is determined by the bank's Management Board for Risk Takers II (the bank's employees) or by a subsidiary's Supervisory Board for Risk Takers II (Members of the Management Board of an mBank Group subsidiary) on the basis of: assessment of MbO achievement for the period of the last three calendar years, the Economic Profit of mBank Group and the result of a business line/subsidiary/organisational unit.

The bonus consists of the non-deferred part (60% of the bonus) and the deferred part (40% of the bonus).

Both, the deferred part and the non-deferred part are divided into equal portions: 50% paid in cash and 50% paid in subscription warrants.

The non-deferred part in cash is paid in the year when the bonus is granted. The other half of the non-deferred part (50%) is paid in the form of subscription warrants, not earlier than after the lapse of 12 months from the date of the Annual General Meeting of mBank S.A.

The deferred part, both the cash portion and the subscription warrant portion, is paid in 3 equal annual tranches. In each tranche, the cash portion is paid once the consolidated financial statements of mBank Group for the previous calendar year have been approved, and the subscription warrant portion is paid not earlier than after the lapse of 12 months from the date on which the consolidated financial statements are approved.

In case the bonus amount determined for a Risk Taker II for a given calendar year does not exceed one-third of their total annual remuneration or PLN 200 000, the bonus may be paid in cash in a non-deferred form based on a decision of mBank's Management Board with regard to Risk Takers II (employees of the Bank) or by the Supervisory Board of a subsidiary with regard to Risk Takers II (members of the management boards of mBank Group subsidiaries).

The deferred bonus part for Risk Takers I and Risk Takers II is assessed in terms of its determination and payment. The Supervisory Board of mBank (with respect to Risk Takers I), the Management Board of mBank (with respect to Risk Takers II – the bank's employees) or the Supervisory Board of an mBank Group subsidiary (with respect to Risk Takers II – Members of the subsidiary's Management Board) may decide to withhold the full amount or to reduce the amount of a deferred tranche if it concludes that in a time horizon longer than one financial year, i.e. a period of at least 3 years, the Risk Taker had a direct and negative impact on the financial result or the market position of the bank/subsidiary/group, violated the rules and standards adopted in mBank Group or directly contributed to significant financial losses, where at least one of the scorecard components has not been met or any of the premises stipulated in Article 142 especially (2) of the Banking Law Act has occurred.

If the circumstances referred to above occur at the stage of determining the Risk Taker bonus amount, the Supervisory Board of mBank/the Supervisory Board of the subsidiary/the Management Board of mBank may decide not to grant a bonus for a given calendar year or to reduce it.

Moreover, a Risk Taker I or Risk Taker II may be obliged, under the rules and within the time limit determined by the decision of the Supervisory Board of mBank/the Supervisory Board of the subsidiary/the Management Board of mBank, to return the bonus granted and paid for a given calendar year (i.e. the non-deferred part and all deferred parts) if he/she has violated rules and standards adopted in mBank Group, has materially violated the generally applicable law or has directly contributed to significant financial losses being the consequence of his/her deliberate adverse actions to the detriment of mBank Group/the subsidiary or has contributed to financial sanctions being imposed on the bank/subsidiary by supervisory bodies under a final and non-appealable decision.

The decision determining the occurrence of the said events may be taken by the end of the calendar year when the last tranche of the deferred part of the bonus granted for the year in which the event occurred is paid.

In the case of a resolution of the General Meeting of mBank S.A. on payment of dividend for a given year, a Risk Taker I and a Risk Taker II to whom the bonus has been granted within the deferred or non-deferred part is entitled to a cash equivalent, regardless of the bonus, pursuant to the rules specified in the Risk Takers Remuneration Policy, in connection with the deferral of the portion paid in subscription warrants.

The bonus under the aforesaid programme was granted to Risk Takers I and Risk Takers II for 2018 and 2019.

On 17 December 2020 the Supervisory Board, in accordance with a recommendation of the Remuneration Committee of the Supervisory Board, decided to amend the Risk Takers Remuneration Policy, bearing in mind the need to align the Policy with new Directive (EU) 2019/878 of the European Parliament and of the Council of 20 May 2019 amending Directive 2013/36/EU as well as the recommendation of the Polish Financial Supervision Authority on variable remuneration components at banks communicated in the letter dated 17 April 2020 regarding measures expected to be taken by banks in response to the Covid-19 pandemic outbreak. In particularly justified cases when there is a need to mitigate the risk connected with maintaining a sound capital base of the bank, enabling it to effectively respond to the economic situation in Poland arising from, for example, the Covid-19 pandemic, the Supervisory Board with regard to Risk Takers I and mBank's Management Board with regard to Risk Takers II may adopt a resolution to pay the cash tranche in whole or in part (both the non-deferred and deferred tranche) in the form of subscription warrants, starting from the bonus for 2020. Subscription warrants will be awarded in the acquisition periods set by the Supervisory Board, not earlier than 12 months after the date of the Annual General Meeting of mBank S.A. approving the consolidated financial statements of mBank Group for the previous calendar year.

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Starting from the bonus for 2021, the deferral period for the cash tranche and the tranche awarded in the form of subscription warrants will be extended: from three to five years for Risk Takers II being members of senior management (applicable to Managing Directors and members of the management boards of mBank Group subsidiaries) and from three to four years for the remaining Risk Takers.

In case the bonus amount determined for a Risk Taker II (excluding Risk Takers II being members of senior management: Managing Directors and members of the management boards of mBank Group subsidiaries) for a given calendar year does not exceed one-third of their total annual remuneration or PLN equivalent of EUR 50 000 (as at the date of the decision awarding the bonus), the bonus may be paid in whole in cash in a non-deferred form based on a decision of mBank's Management Board.

The table below presents changes in the number of warrants for shares in relation to 2018 incentive programme for Management Board and key managers of mBank Group – mBank's Risk Takers.

	31.12.2020		31.12.2019	
	Number of warrants	Weighed average exercise price (in PLN)	Number of warrants	Weighed average exercise price (in PLN)
Outstanding at the beginning of the period	**17 067**	**-**	**-**	**-**
Granted during the period	24 195	-	17 870	-
Forfeited during the period	-	-	803	-
Exercised during the period*	7 998	4	-	-
Expired during the period	-	-	-	-
Outstanding at the end of the period	**33 264**	**-**	**17 067**	**-**
Exercisable at the end of the period	**-**	**-**	**-**	**-**

* In 2020, the weighted average price of the shares was PLN 190.77 (in 2019: PLN 388.23).

Summary of the Impact of the Programmes on the Bank's balance sheet and income statement

Share-Based Payments Settled in Shares

The table below presents changes in other reserve capital generated by the above mentioned incentive programmes for share-based payments settled in mBank S.A. shares.

	31.12.2020	31.12.2019
Incentive programs		
As at the beginning of the period	**27 320**	**22 452**
- value of services provided by the employees	10 159	9 947
- settlement of exercised options	(7 150)	(5 079)
As at the end of the period	**30 329**	**27 320**

Cash Payments

The cost of the cash part of the programmes is presented in Note 12.

42. Transactions with related entities

mBank S.A. is the parent entity of mBank S.A. Group and Commerzbank AG is the ultimate parent of the Group as well as the direct parent of mBank S.A.

All transactions between the Bank and related entities were typical and routine transactions concluded on terms, which not differ from arm's length terms, and their nature, terms and conditions resulted from the current operating activities conducted by the Bank. Transactions concluded with related entities as a part of regular operating activities include loans, deposits and foreign currency transactions.

The Bank provides standard financial services to the Bank's key management personnel, Members of the Supervisory Board of the Bank and close members of their families, which include maintaining bank accounts, taking deposits, granting loans or other financial services. In the Bank's opinion, these transactions are concluded on market terms.

Pursuant the Banking Law, the extension of a loan, cash advance, bank guarantee or other guarantee to the Members of the Management Board and Supervisory Board of the Bank, persons holding managerial positions at the Bank as well as at entities related financially or organisationally therewith, is governed by the by-laws adopted by the Supervisory Board of mBank S.A.

The by-laws set out detailed rules and debt limits for loans, cash advances, bank guarantees, and other guarantees in relation to aforementioned persons and entities which are consistent with the Bank's internal regulations defining the competences of granting credit decisions concerning retail and corporate clients of the Bank. A decision to grant a loan, cash advances, bank guarantee or other guarantee to a Member of the Management Board and Supervisory Board of the Bank, person holding managerial position at the Bank or an entity related financially or organisationally therewith in excess of the limits set by the Banking Law is taken by the resolution of the Management Board and by the resolution of the Supervisory Board.

The terms and conditions of such loans, cash advances, bank guarantees or other guarantees, including in particular those related to interest rates as well as fees and commissions, cannot be more advantageous than the terms and conditions offered by the Bank to its retail or corporate clients, respectively.

The table below presents the values of transactions between the Bank and Members of the Supervisory Board and the Management Board of mBank, key executive management of mBank, Members of the Supervisory Board and the Management Board of Commerzbank and other related persons and entities, as well as with transactions with other Commerzbank AG Group entities. The amounts of transactions include assets, liabilities and related costs and income as at 31 December 2020 and 31 December 2019 and for the respective periods then ended are as follows:

(in PLN 000's)	Members of Supervisory Board, Management Board and key management personnel of mBank as well as Supervisory Board and Management Board of Commerzbank AG		Other related persons *		mBank's subsidiaries		Commerzbank AG		Other companies of the Commerzbank AG Group excluding mBank subsidiaries	
As at the end of the period	**31.12.2020**	**31.12.2019**	**31.12.2020**	**31.12.2019**	**31.12.2020**	**31.12.2019**	**31.12.2020**	**31.12.2019**	**31.12.2020**	**31.12.2019**
Statement of Financial Position										
Assets	2 104	2 040	748	2 058	17 964 178	16 967 391	773 702	457 033	2 806	19
Liabilities	10 214	23 422	5 829	1 484	801 682	5 613 881	2 590 735	1 817 780	69 810	67 848
Income Statement										
Interest income	42	53	32	70	232 490	363 564	49 832	59 928	400	698
Interest expense	(89)	(158)	(1)	(3)	(70 986)	(104 091)	(36 916)	(23 709)	(197)	(480)
Commission income	38	46	10	11	17 382	19 736	6 025	4 353	49	49
Commission expense	-	-	-	-	(177 850)	(243 129)	-	(1 030)	-	-
Other operating income	-	-	-	-	7 798	13 331	1 578	1 468	-	-
Overhead costs amortisation and other operating expenses	(22)	-	-	-	(6 304)	(13 511)	(6 488)	(7 076)	-	-
Contingent liabilities granted and received										
Commitments granted	743	957	234	407	2 791 357	7 005 347	1 721 547	2 124 709	7 409	3 502
Commitments received	-	-	-	-	-	-	1 911 651	1 816 577	-	-

** Other related persons and entities include: close family members of Members of the Supervisory and the Management Board of mBank, key executive management of mBank, Members of the Supervisory Board and the Management Board of Commerzbank, entities controlled or jointly controlled by above mentioned persons.*

The item Contingent liabilities – Commitments granted includes the guarantee granted to subsidiary mBank Hipoteczny S.A in the amount of PLN 609 909 thousand, which secures the risk of repayment of the credit proftolio granted by the subsidiary to the clients of commerial real estate sector. Additionally, in the assets Bank recognises also the submitted deposit in the same amount, related to the aforementioned guarantee.

In 2019, Bank created provisions for credits and guarantees granted to related parties on a common basis, except for consolidated subsidiaries. Since 2020, Bank creates provisions on a common basis, including consolidated subsidiaries.

As at the end of 2020 the Management Board functioned with the following composition:

1. Cezary Stypułkowski – President of the Management Board,
2. Andreas Böger – Vice-President of the Management Board, Chief Financial Officer,
3. Frank Bock – Vice-President of the Management Board,
4. Krzysztof Dąbrowski – Vice-President of the Management Board, Head of Operations and IT,
5. Cezary Kocik – Vice-President of the Management Board, Head of Retail Banking,
6. Marek Lusztyn – Vice-President of the Management Board,
7. Adam Pers – Vice-President of the Management Board, Head of Corporate and Investment Banking.

The responibilities regarding supervision of Bank's risk management, which is reserved for a Member of a Management Board approved by KNF, were temporarily assigned to the whole Management Board operating collectively.

- Change in the composition of the Management Board of mBank S.A.

On 25 June 2020, Supervisory Board of mBank S.A. adopted a resolution to dismiss Mr. Frank Bock from the function of the Vice President of the Management Board for Financial Markets mBank S.A. as of 31 December 2020.

The termination of the agreement with Mr. Frank Bock on 31 December 2020 is associated with the reorganization of the financial markets area within other business areas of the Bank, in order to increase the efficiency of the organizational and process structure, and its effect will be a reduction in the number of positions on the Bank's Management Board. Mr. Frank Bock was involved in the reorganization of the area by the end of 2020.

On 22 October 2020, Mrs. Lidia Jabłonowska-Luba, Vice-President of the Management Board for Risk Management at mBank S.A., resigned from the position of a member of the Management Board of mBank S.A., from the position of Vice-President of the Management Board for Risk Management at mBank S.A., with the effective on 22 October 2020.

On 22 October 2020, the Supervisory Board of mBank S.A. adopted a resolution to appoint, on 22 October 2020, Mr. Marek Lusztyn to the Management Board of mBank S.A., for the period until the end of the current term of office of the Management Board of mBank S.A.

From the date of the approval by the Polish Financial Supervision Authority to appoint Mr. Marek Lusztyn as a Member of the Management Board supervising the management of risk relevant to the Bank's operations, Mr. Marek Lusztyn will take the position of Vice President of the Management Board of mBank S.A. for Risk Management at mBank S.A. (overseeing the management of risks relevant to mBank S.A. operations).

- Changes in the composition of the Supervisory Board of mBank S.A.

On 28 September 2020, Supervisory Board of mBank S.A., received the resignation of Mr. Michael Mandel, effective from 23 October 2020, from membership in the Bank's Supervisory Board as well as from the Executive and Nomination Committee and the Remuneration Committee. Mr. Michael Mandel resigned in connection with the planned departure from Commerzbank.

By a resolution of the Supervisory Board of mBank S.A. of 22 October 2020, Mrs. Sabine Schmittroth was appointed as a member of the Supervisory Board of mBank S.A. on 23 October 2020 for the period until the end of the current term of the Supervisory Board.

Supervisory Board and Management Board Remuneration

Information on the salaries, bonuses and benefits paid and due to the Members of the Management Board of the Bank who were performing their functions at the end of 2020 and at the end of 2019, remuneration of the former Management Board Members and remuneration of Supervisory Board Members.

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Renumeration paid (in PLN)	2020	2019
mBank Management Board		
Basic salary	12 291 821	13 570 816
Other benefits	1 561 942	1 891 377
Bonus for previous year	1 560 000	1 560 000
Deferred bonus	1 380 230	1 762 899
Remuneration of the former Management Board Members		
Bonus for previous year	1 359 355	-
Other benefits	185 897	-
Bonus for previous year	200 000	-
Deferred bonus	774 834	980 834
Compensation (no competition)	309 951	-
mBank Supervisory Board		
Basic salary	1 381 624	2 066 528

The total compensation of members of the Management Board consists of: basic salary, bonuses, termination payments of management agreement, prohibition of competitiveness payment, insurance costs and accommodation costs.

The above mentioned benefits are short-term employee benefits.

The total remuneration received in 2020 by Bank's Management Board members was PLN 19 101 thousand (2019: PLN 18 785 thousand).

In accordance with the Bank's remuneration system, the members of the Management Board of the Bank may be eligible to receive bonuses for the year 2020, which would be paid out in 2021. Therefore, a provision was created for the payment of a cash bonus for 2020 for the members of the Management Board, which amounted to PLN 1 714 thousand as of 31 December 2020 (31 December 2019: PLN 4 113 thousand). The final decision concerning the level of the bonus will be taken by the Remuneration Committee of the Supervisory Board by 2 March 2021.

In 2020 and 2019, the members of the Management Board of mBank S.A. did not receive compensation for their role as members of the management boards and supervisory boards of the Bank's related companies.

The total compensation of Members of the Supervisory Board, the Management Board and other key executive management of the Bank that perform their duties in 2020 amounted to PLN 26 888 thousand (2019: PLN 27 411 thousand).

Detailed information on the remuneration of individual Members of the Management Board and the Supervisory Board, as well as the composition of the Management Board and the Supervisory Board was presented in the Management Board Report on the Performance of mBank S.A. Group in 2020 in item 14.7. "Composition, powers and procedures of the Management Board and the Supervisory Board".

<u>Information regarding proprietary position in Bank shares by Members of the Management Board and by Members of the Supervisory Board</u>

As at 31 December 2020, the Bank shares were held by six Members of the Management Board: Mr. Cezary Stypułkowski – 23 250 shares, Mr. Andreas Böger – 819 shares, Mr. Frank Bock – 766 shares, Mr. Krzysztof Dąbrowski – 1 682 shares and Mr. Cezary Kocik – 2 161 shares and Mr. Adam Pers – 158 shares.

As at 31 December 2019, the Bank shares were held by five Members of the Management Board: Mr. Cezary Stypułkowski – 21 249 shares, Mr. Frank Bock – 334 shares, Mr. Andreas Böger – 270 shares, Mr. Krzysztof Dąbrowski – 1 000 shares and Mr. Cezary Kocik – 1 040 shares.

As at 31 December 2020 and as at 31 December 2019, the Bank shares were held by one Member of the Supervisory Board of mBank S.A., Mr. Jörg Hessenmüller: 7 958 shares and 7 175 shares, respectively. As at 31 December 2020 and as at 31 December 2019, no other Member of the Supervisory Board of the Bank had any Bank's shares.

43. Acquisitions and disposals

- The liquidation of mFinance France S.A.

In relation to substitution of the liabilities of mFinance France S.A. to mBank S.A., described in detail in the Note 28, starting from December 2020, mBank ceased to consolidate this company. The substitution process was completed in October 2020. On 4 November 2020, the Extraoridinary General Meeting of shareholder of mFinance France S.A., adopted a resolution to open the liquidation process of the company and to appoint the liquidator.

- Sale of BDH Development Sp. z o.o.

On 7 November 2019, as part of implementing the mBank Group plan to withdraw from development activity and focus on the main activity in the financial industry, mBank S.A. signed a conditional agreement for the sale of shares in the company BDH Development Sp. z o.o. (BDH) to Archicom Polska S.A. On 16 December 2020, the parties finalised the agreement, on the basis of which mBank sold 100% of shares in share capital of BDH, therefore the relation between BDH and mBank has ceased.

44. Capital adequacy

One of the bank's main tasks is to ensure an adequate level of capital. As part of the capital management policy, the bank creates a framework and guidelines for the most effective planning and use of the capital base, which:

- are compliant with external and internal regulations in force,
- guarantee a continuity of financial targets achievement, ensuring an appropriate rate of return for shareholders,
- ensure the maintenance of a strong capital basis being a fundamental support for business development.

The capital management policy in mBank is based on:

- maintenance of an optimal level and structure of own funds with the application of available methods and means, like, among others, retention of net profit, subordinated loan or issue of shares,
- effective use of existing capital, among others through application of a set of measures of effectiveness of use of the capital, limitation of activities that do not provide an expected rate of return and development of products with lower capital absorption.

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. This enables to maintain the Common Equity Tier 1 capital ratio (calculated as a quotient of Common Equity Tier 1 capital to the total risk exposure amount), the Tier 1 ratio (calculated as a quotient of Tier 1 capital to the total risk exposure amount) and the total capital ratio (calculated as a quotient of own funds and the total risk exposure amount) at least on the level required by the supervision authority.

The strategic goals of mBank are aimed at maintaining the total capital ratio as well as the Tier 1 ration and the Common Equity Tier 1 capital ratio above the level required by the supervision authority. This allows to maintain business development while meeting the supervisory requirements in the long perspective

Capital ratios

The adequacy assessment of the capital base, including among others: the calculation of capital ratios and the leverage ratio, the own funds and the total capital requirement in mBank was made according to the following regulations:

- the 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 (CRR Regulation);
- the Commission Implementing Regulation (EU) No 680/2014 of 16 April 2014 laying down implementing technical standards with regard to supervisory reporting of institutions according to Regulation (EU) No 575/2013 of the European Parliament and of the Council with further amendments (ITS Regulation);
- the Banking Act of 29 August 1997 (Dz.U. from year 2002 No 72, item 665) with further amendments;
- the Act on Macroprudential Supervision of the Financial System and Crisis Management of 5 August 2015 (Dz.U. 2015 item 1513);
- the Regulation of the Minister of Development and Finance of 25 May 2017 on the higher risk weight for exposures secured by mortgages on real estate,
- Regulation of the Minister of Development and Finance of 1 September 2017 regarding the systemic risk buffer.

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As a result of the Act on Macro-prudential Supervision over the Financial System and Crisis Management in the Financial System (the Act) that entered into force in 2015 and transposed the CRD IV provisions to the Polish prudential regulations, as of 31 December 2020 Bank was obliged to ensure adequate own funds to meet conservation buffer of 2.5% of total risk exposure amount.

As of the end of 2020 and 2019 the countercyclical capital buffer rate set for relevant exposures in Poland according with the article 83 of the Act amounted to 0%. mBank specific countercyclical capital buffer calculated 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 Bank are located, amounted to 4 b.p. as of 31 December 2020 (31 December 2019: 7 b.p.). The value of the indicator was predominantly affected by the exposures of mBank's foreign branches in the Czech Republic and Slovakia, where the countercyclical buffer rates at the end of 2020 were 0.5% and 1.0% (31 December 2020: 1.5% and 1.5%, respectively).

In 2016 the Bank received an administrative decision of the PFSA that identified mBank as other systemically important institutions (O-SII) and imposed a capital buffer of the total risk exposure amount. Pursuant to the PFSA decision of 29 October 2020 the Bank was obliged to maintain the capital buffer of 0.50% of the total risk exposure, calculated in accordance with article 92(3) of the Regulation, to be maintained on individual and consolidated levels. The value of the buffer specified in the administrative decision applies as of 31 December 2020.

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 arose after the outbreak of the global COVID-19 pandemic, this requirement was lifted 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 as at the end of 2020 amounted to 3.04% of the total risk exposure amount (at the end of 2019: 6.13%).

Additionally, as a result of 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, the Bank received an individual recommendation to maintain own funds on the individual level to cover additional capital requirement of 3.24% for total capital ratio and 2.43% (2019: 3.62% and 2.71%, respectively) for Tier 1 capital. Additional capital requirement set by PFSA in 2020 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 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 Bank portfolio, the following factors were taken into account:

- the share of loans with LTV >100% in the portfolio;
- the level of the Bank margin from the foreign exchange retail mortgage loans portfolio;
- sensitivity of the Bank's total capital ratio to exchange rates and interest rate changes;
- the Bank preparation for loan portfolio conversion.

During 2020 and 2019 capital ratios on the individual level were above the required values taking into account the abovementioned components.

mBank	31.12.2020		31.12.2019	
Capital ratio	**Required level**	**Reported level**	**Required level**	**Reported level**
Total capital ratio	14.28%	22.95%	17.75%	22.84%
Tier 1 ratio	11.47%	19.59%	14.84%	19.42%

The stand-alone leverage ratio, calculated in accordance with the provisions of the CRR Regulation and 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, including transitional definition of Tier 1 capital, at the end of 2020 amounted to 8.20% (at the end of 2019: 8.60%).

Own Funds

In accordance with the CRR Regulation, own funds consist of Common Equity Tier 1 capital, Additional Tier 1 capital and Tier 2 capital, however items that could be treated as Additional Tier 1 capital are not identified within mBank.

<u>Common Equity Tier 1 capital of mBank contains:</u>

- paid up capital instruments and the related share premium accounts,
- previous years retained earnings,
- independently reviewed interim profits,
- accumulated other comprehensive income,
- other reserves,
- funds for general banking risk,
- items deducted from a Common Equity Tier 1 capital (fair value gains and losses arising from the institution's own credit risk related to derivative liabilities, value adjustments due to the requirements for prudent valuation, intangible assets, AIRB shortfall of credit risk adjustments to expected losses, own CET1 instruments, regulatory adjustments relating to accumulated other comprehensive income and net impairment losses).

<u>Tier 2 capital of mBank contains:</u> capital instruments and the related share premium accounts (subordinated liabilities with specified maturity and excess of provisions over the expected AIRB recogniesed losses).

The own funds of mBank as of 31 December 2020 amounted to PLN 17 633 169 thousand (31 December 2019: PLN 16 533 792 thousand). Additionally the Common Equity Tier 1 capital of mBank amounted to PLN 15 049 829 thousand (31 December 2019: PLN 14 053 467 thousand).

<u>Total risk exposure amount (TREA)</u>

The total risk exposure amount contains:

- risk weighted exposure amounts for credit risk, counterparty credit risk, dilution risk and free deliveries,
- risk exposure amount for market risk, containing position risk, foreign exchange risk and commodities risk,
- risk exposure amount for operational risk,
- risk exposure amount for credit valuation adjustment,
- other risk exposure amounts containing amounts resulted from application of supervisory floor.

As at 31 December 2020 the AIRB approach was applied to the calculation of own funds requirements for credit and counterparty credit risk for the following portfolios:

- mBank corporate portfolio,
- mBank retail mortgage loan portfolio,
- mBank real estate-related specialized lending exposure (IRB slotting approach),
- mBank retail non-mortgage exposures (conditional consent),
- mBank retail microenterprises mortgage loan portfolio (conditional consent),
- bank exposures (conditional consent).

In case of portfolios with conditional consent to the application of AIRB approach, mBank applies supervisory floor, which means that where the 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 for credit risk calculated under standardised approach.

With regard to retail mortgage exposures (microenterprises) and portfolio of commercial bank exposures, high significance conditions specified by the banking supervision have been met, and the Bank is waiting for formal confirmation by the banking supervision.

The total risk exposure amount of mBank as of 31 December 2020 amounted to PLN 76 829 190 thousand (31 December 2019: PLN 72 383 689 thousand), including PLN 67 650 959 thousand of risk-weighted exposure amount for credit risk, counterparty credit risk and supervisory floor (31 December 2019: PLN 64 160 136 thousand).

<u>Internal capital</u>

The ICAAP (Internal Capital Adequacy Assessment Process) implemented in mBank aims at adjusting own funds to the level and the profile of risk arising from mBank's and mBank Group's operations.

These resources are at safe level. The value of Bank's internal funds in regulatory approach is substantially higher than value required to cover the total Bank's capital requirement calculated in line with CRR regulation. Similary, in the economic approach, the capital resources in a form of risk coverage potential, are substantially higher that internal capital estimated for Bank in line with Regulation of the Minister for

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Development and Finance of 6 March 2017 on the risk management system and internal control system, remuneration policy and the detailed way of estimating internal capital in banks.

The internal capital of Bank as at 31 December 2020 amounted to PLN 6 331 147 thousand (31 December 2019: PLN 5 258 374 thousand).

Capital adequacy	**31.12.2020**	**31.12.2019**
Common Equity Tier 1 Capital	**15 049 829**	**14 053 467**
Total Own Funds	**17 633 169**	**16 533 792**
Risk weighted exposure amounts for credit, counterparty credit, dilution risk and free deliveries:	67 615 425	63 989 925
- under standardised approach	17 460 813	16 407 944
- under AIRB approach	50 146 497	47 579 507
- risk exposure amount for contributions to the default fund of a CCP	8 115	2 474
Total risk exposure amount for position, foreign exchange and commodities risks	881 925	909 567
Total risk exposure amount for operational risks	8 052 824	7 129 641
Total risk exposure amount for credit valuation adjustments	243 482	184 345
Other risk exposure amounts	35 534	170 211
Total risk exposure amount	**76 829 190**	**72 383 689**
Comon Equity Tier 1 capital ratio	**19.59%**	**19.42%**
Total capital ratio	**22.95%**	**22.84%**
Internal capital	**6 331 147**	**5 258 374**

OWN FUNDS	**31.12.2020**	**31.12.2019**
Own funds	**17 633 169**	**16 533 792**
TIER 1 CAPITAL	**15 049 829**	**14 053 467**
Common Equity Tier 1 Capital	**15 049 829**	**14 053 467**
Capital instruments eligible as CET1 Capital	3 586 897	3 579 747
Paid up capital instruments	169 330	169 330
Share premium	3 417 567	3 410 417
Retained earnings	2 051 957	1 250 228
Previous years retained earnings	2 005 433	1 024 454
Profit or loss eligible	46 524	225 774
Accumulated other comprehensive income	420 050	170 639
Other reserves	9 246 982	9 243 973
Funds for general banking risk	1 115 143	1 115 143
Adjustments to CET1 due to prudential filters	(57 062)	(40 665)
Fair value gains and losses arising from the institution's own credit risk related to derivative liabilities	(2 496)	(2 166)
(-) Value adjustments due to the requirements for prudent valuation	(54 566)	(38 499)
(-) Intangible assets	(481 264)	(795 458)
(-) Other intangible assets gross amount	(503 931)	(823 110)
Deferred tax liabilities associated to other intangible assets	22 667	27 652
(-) IRB shortfall of credit risk adjustments to expected losses	-	(8 559)
Provision for cash flow hedging instruments	(405 680)	(122 150)
CET1 capital elements or deductions - other	(427 194)	(339 431)
Additional Tier 1 capital	**-**	**-**
TIER 2 CAPITAL	**2 583 340**	**2 480 325**
Capital instruments and subordinated loans eligible as T2 capital	2 422 757	2 480 325
AIRB Excess of provisions over expected losses eligible	160 583	-
Tier 2 capital elements or deductions - other	-	-

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Credit risk	31.12.2020	31.12.2019
Risk weighted exposure amounts for credit risk, counterparty credit risk, dilution risk and free deliveries	**67 615 425**	**63 989 924**
Standardised approach	**17 460 813**	**16 407 945**
SA exposure classes excluding securitisation positions	17 460 813	16 407 945
Central governments or central banks	573 464	729 282
Regional governments or local authorities	25 942	51 800
Public sector entities	9 280	15 553
Institutions	196 323	241 509
Corporates	5 950 546	6 143 713
Retail	2 924 798	1 532 911
Secured by mortgages on immovable property	1 214 778	1 102 194
Exposures in default	375 174	238 331
Items associated with particular high risk	71 129	29 747
Equity	6 052 244	6 269 843
Other items	67 135	53 062
AIRB approach	**50 146 497**	**47 579 505**
AIRB approaches when own estimates of LGD and/or Conversion Factors are used	47 329 005	45 506 855
Institutions	887 040	741 377
Corporates - SME	5 965 598	5 676 168
Corporates - Specialised Lending	5 668 264	3 276 443
Corporates - Other	16 841 422	17 508 048
Retail - Secured by real estate SME	1 104 980	1 002 315
Retail - Secured by real estate non-SME	5 186 155	5 294 470
Retail - Other SME	3 131 975	2 945 128
Retail - Other non-SME	8 543 571	9 062 906
Other non credit-obligation assets	2 817 492	2 072 650
Risk exposure amount for contributions to the default fund of a CCP	**8 115**	**2 474**

45. Other information

- Establishment of the subsidiary mTowarzystwo Funduszy Inwestycyjnych Spółka Akcyjna.

On 22 December 2020 the Management Board of mBank S.A. decided to establish its own investment fund company by way of founding a company under the name of mTowarzystwo Funduszy Inwestycyjnych Spółka Akcyjna (mTFI S.A.). mTFI S.A. will be a wholly owned subsidiary of the Bank. The operations of mTFI may have in the future a material impact on the Group's results.

The Bank will start a formal, legal and regulatory process aimed at registration of mTFI S.A. in the National Court Register and applying for a consent of Polish Financial Supervision Authority to conduct operations of an investment funds management company.

46. Events after the balance sheet date

Since 31 December 2020 until the date of approval of these financial statements no events, which would require additional disclosure in these financial statements, have occured.