Financial Statements of mBank Hipoteczny S.A. according to the International Financial Reporting Standards (IFRS) for 2021

Official Financial Statements of mBank Hipoteczny SA for 2021 was prepared in accordance with the requirements of the ESEF. This document is not the official version of the Financial Statements of mBank Hipoteczny SA for 2021, but was prepared on the basis of the original prepared in the ESEF format and is a copy of it. 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 presented below are supplementary information to the Financial Statements of mBank Hipoteczny S.A. for 2021.

Selected financial data		in PLN `000		in EUR `000	
		Period from 01.01.2021 to 31.12.2021	Period from 01.01.2020 to 31.12.2020	Period from 01.01.2021 to 31.12.2021	Period from 01.01.2020 to 31.12.2020
I.	Interest income	277 001	363 027	60 514	81 138
II.	Fee and commission income	1 090	1 183	238	264
III.	Net trading income	(145)	327	(32)	73
IV.	Operating result	61 235	53 704	13 377	12 003
V.	Profit before income tax	30 172	22 355	6 591	4 996
VI.	Net profit attributable to shareholders of mBank Hipoteczny S.A.	18 802	4 878	4 107	1 090
VII.	Net cash flows from operating activities	367 945	2 934 255	80 381	655 817
VIII.	Net cash flows from investing activities	(5 041)	(13 399)	(1 101)	(2 995)
IX.	Net cash flows from financing activities	(483 103)	(2 802 459)	(105 539)	(626 360)
X.	Total net cash flows	(120 199)	118 397	(26 259)	26 462
XI.	Basic earnings per ordinary share / Diluted earnings per ordinary share (in PLN/EUR)	5,60	1,45	1,22	0,32

Selected financial data		in PLN `000		in EUR `000	
		as at		as at	
		31.12.2021	31.12.2020	31.12.2021	31.12.2020
I.	Total assets	12 981 822	12 869 308	2 822 503	2 788 703
II.	Amounts due to other banks	3 981 015	3 500 673	865 551	758 575
III.	Amounts due to customers	1 933	3 477	420	753
IV.	Equity attributable to shareholders of mBank Hipoteczny S.A.	1 264 290	1 290 240	274 882	279 587
V.	Share capital	336 000	336 000	73 053	72 809
VI.	Number of shares	3 360 000	3 360 000	3 360 000	3 360 000
VII.	Book value per share / Diluted book value per share (in PLN/EUR)	376,28	384,00	81,81	83,21
VIII.	Total capital ratio (%)	18,73	19,22	18,73	19,22

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 2021: EUR 1 = PLN 4.5994 and obligated for 31 December 2020: EUR 1 = PLN 4.6148,
- for items of the income statement and statement of cash flow – 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 2021 and 2020: 1 EUR = 4.5775 PLN i 1 EUR = 4.4742 PLN.

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Income statement

	Note	Year ended 31 December	
		2021	**2020**
Interest income, including:	7	277 001	363 027
Interest income calculated using the effective interest rate method		248 272	*330 863*
Income similar to interest - financial assets measured at fair value through profit or loss		28 729	*32 164*
Interest expense	7	(137 278)	*(195 447)*
Net interest income		**139 723**	**167 580**
Fee and commission income	8	1 090	1183
Fee and commission expenses	8	(8 880)	(7595)
Net fee and commission income		**(7 790)**	**(6 412)**
Net trading income	9	(145)	327
Net income on modification	10	(2 796)	(2 793)
Net income on derecognition of financial instruments not measured at fair value through proft and loss	11	5	3 226
Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss	12	864	2 168
Other operating income	13	385	813
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss	16	(2 401)	(42 320)
Overhead costs	14	(51 445)	(52 852)
Amortisation and depreciation	25, 26	(13 264)	(9 770)
Other operating expenses	15	(1 901)	(1 927)
Operating result		**61 235**	**53 704**
Taxes on the Bank balance sheet items		(31 063)	(31 349)
Profit before income tax		**30 172**	**22 355**
Income tax	17	(11 370)	(17 477)
Net profit		**18 802**	**4 878**

Net profit attributable to shareholders of the mBank Hipoteczny S.A.		**18 802**	**4 878**
Weighted average number of ordinary shares / Diluted weighted average number of ordinary shares	18	**3 360 000**	**3 360 000**
Earnings per ordinary share / Diluted earnings per ordinary share (in PLN)	18	**5,60**	**1,45**

The entire profit of mBank Hipoteczny S.A. for the 2021 and 2020 pertains to the performance of continuing operations.

Notes presented on pages 9 to 125 constitute an integral part of these Financial Statements.

for 2021 (in PLN thousand)

Statement of comprehensive incomes

	Note	Year ended 31 December 2021	2020
Net profit		**18 802**	**4 878**
Other comprehensive income net of tax including:	19	**(44 752)**	**17 842**
Items that may be reclassified to the income statement		**(44 762)**	**17 840**
Change in the valuation of debt financial instruments measured at fair value through other comprehensive income (net)		(27 075)	1 382
Net cash flow hedge		(17 687)	16 458
Items that will not be reclassified to the income statement		**10**	**2**
Actuarial gains and losses on post-employment benefits (net)		10	2
Total comprehensive income net of tax		**(25 950)**	**22 720**
Net total comprehensive income attributable to shareholders of the mBank Hipoteczny S.A.		**(25 950)**	**22 720**

Notes presented on pages 9 to 125 constitute an integral part of these Financial Statements.

for 2021 (in PLN thousand)

Statement of financial position

ASSETS	Note	31.12.2021	31.12.2020
Cash and balances with the Central Bank	20	114 658	29 393
Financial assets held for trading and derivatives held for hedges	21	125 837	196 917
Non-trading financial assets mandatorily at fair value through profit or loss, including:	22	120 205	133 838
Loans and advances to customers		120 205	133 838
Financial assets at fair value through other comprehensive income	23	732 393	791 045
Financial assets at amortised cost, including:	24	11 760 943	11 640 889
Loans and advances to banks		152 668	*323 133*
Loans and advances to customers		11 608 275	*11 317 756*
Intangible assets	25	52 488	53 936
Tangible assets	26	29 434	13 818
Current income tax assets		-	112
Deferred income tax assets	31	19 960	4 011
Other assets	27	25 904	5 349
TOTAL ASSETS		**12 981 822**	**12 869 308**

LIABILITIES AND EQUITY			
Liabilities			
Financial liabilities held for trading and derivatives held for hedges	21	7 053	4 719
Financial liabilities measured at amortised cost, including:	28	11 686 843	11 555 229
Amounts due to banks		*3 981 015*	*3 500 673*
Amounts due to customers		*1 933*	*3 477*
Debt securities issued		*7 603 677*	*7 950 930*
Subordinated liabilities		*100 218*	*100 149*
Provisions	29	5 382	3 392
Current income tax liabilities		2 551	-
Other liabilities	30	15 703	15 728
TOTAL LIABILITIES		**11 717 532**	**11 579 068**
Equity			
Share capital:		**884 631**	**884 631**
- Registered share capital	31	336 000	336 000
- Share premium	36	548 631	548 631
Retained earnings:	37	**406 512**	**387 710**
- Profit from the previous years		387 710	382 832
- Profit for the current period		18 802	4 878
Other components of equity	**38**	**(26 853)**	**17 899**
TOTAL EQUITY		**1 264 290**	**1 290 240**
TOTAL LIABILITIES AND EQUITY		**12 981 822**	**12 869 308**

Notes presented on pages 9 to 125 constitute an integral part of these Financial Statements.

for 2020 (in PLN thousand)

Statement of changes in equity

Changes in equity from 1 January 2021 to 31 December 2021

	Share capital		Retained earnings				Total comprehensive income net of tax			Total
	Registered share capital	Share premium	Other supplementary capital	General banking risk reserve	Retained profit from the previous years	Profit for the current period	Valuation of financial assets at fair value through other comprehensive income	Cash flow hedge	Actuarial gains and losses relating to post-employment benefits	
As at 1 January 2021	**336 000**	**548 631**	**338 032**	**44 800**	**4 878**	**-**	**4 423**	**13 450**	**26**	**1 290 240**
Net profit	-	-	-	-	-	18 802	-	-	-	18 802
Other comprehensive income (gross)	-	-	-	-	-	-	(33 426)	(21 836)	12	(55 250)
Deferred tax on other comprehensive income	-	-	-	-	-	-	6 351	4 149	(2)	10 498
Total comprehensive income	**-**	**-**	**-**	**-**	**-**	**18 802**	**(27 075)**	**(17 687)**	**10**	**(25 950)**
Transfer to supplementary capital	-	-	4 878	-	(4 878)	-	-	-	-	-
As at 31 December 2021	**336 000**	**548 631**	**342 910**	**44 800**	**-**	**18 802**	**(22 652)**	**(4 237)**	**36**	**1 264 290**

Changes in equity from 1 January 2020 to 31 December 2020

	Share capital		Retained earnings				Total comprehensive income net of tax			Total
	Registered share capital	Share premium	Other supplementary capital	General banking risk reserve	Retained profit from the previous years	Profit for the current period	Valuation of financial assets at fair value through other comprehensive income	Cash flow hedge	Actuarial gains and losses relating to post-employment benefits	
As at 1 January 2020	**336 000**	**548 631**	**300 948**	**44 800**	**37 084**	**-**	**3 041**	**(3 008)**	**24**	**1 267 520**
Net profit	-	-	-	-	-	4 878	-	-	-	4 878
Other comprehensive income (gross)	-	-	-	-	-	-	1 707	20 319	2	22 028
Deferred tax on other comprehensive income	-	-	-	-	-	-	(325)	(3 861)	-	(4 186)
Total comprehensive income	**-**	**-**	**-**	**-**	**-**	**4 878**	**1 382**	**16 458**	**2**	**22 720**
Transfer to supplementary capital	-	-	37 084	-	(37 084)	-	-	-	-	-
As at 31 December 2020	**336 000**	**548 631**	**338 032**	**44 800**	**-**	**4 878**	**4 423**	**13 450**	**26**	**1 290 240**

Notes presented on pages 9 to 125 constitute an integral part of these Financial Statements

for 2021 (in PLN thousand)

Statement of cash flows

	Note	Year ended 31 December	
		2021	2020
A. Cash flows from operating activities		**367 945**	**2 934 255**
Profit before income tax		**30 172**	**22 355**
Adjustments:		**337 773**	**2 911 900**
Income tax paid		(14 157)	(24 081)
Amortization and depreciation	25, 26	13 264	9 770
Foreign exchange (gains) losses related to financing activities		(13 042)	319 565
(Profits) losses on investing activities	11	-	(4 243)
Interest income (income statement)	7	(277 001)	(363 027)
Interest expenses (income statement)	7	137 278	195 447
Interest received		266 897	359 527
Interest paid		(18 432)	(25 895)
Change in assets and liabilities on derivative financial instruments		69 269	(109 838)
Change in loans and advances to customers		(301 994)	315 072
Change in the balance of financial assets at fair value through other comprehensive income		(10 149)	249 530
Adjustments to intangible assets and property, plant and equipment		(22 697)	797
Change in other assets	27	(20 246)	2 271
Change in amounts due to banks		615 918	1 990 984
Change in amounts due to customers		(138)	(2 821)
Change in debt securities in issue		(88 821)	937
Change in subordinated liabilities		(150)	(434)
Change in provisions	29	2 002	1 116
Change in other liabilities	30	(28)	(2 777)
Net cash from operating activities		**367 945**	**2 934 255**
B. Cash flows from investing activities		**(5 041)**	**(13 399)**
Investing activity inflows		**6 288**	**36**
Due to the disposal of intangible assets and tangible fixed assets		6 288	36
Investing activity outflows		**11 329**	**13 435**
Due to the purchase of intangible assets and tangible fixed assets	25, 26	11 329	13 435
Net cash from investing activities		**(5 041)**	**(13 399)**
C. Cash flow from financing activites		**(483 103)**	**(2 802 459)**
Financing activity inflows		**1 954 693**	**723 759**
Due to the loans and advances from banks		1 350 000	625 000
Due to the issue of debt securities	28	600 000	95 000
Interest received from hedging derivative financial instruments		4 693	3 759
Financing activities outflows		**2 437 796**	**3 526 218**
Due to the repayment of loans and advances from banks		1 489 136	1 935 240
Due to the issue of debt securities	28	882 210	1 354 621
Due to repayment a subordinated loan	28	-	100 000
Payments of leasing liabilities	40	3 219	3 151
Interest paid on loans received, debt securities in issue, subordinated loan		63 231	133 206
Net cash from financing activities		**(483 103)**	**(2 802 459)**
Net increase / decrease in cash and cash equivalents, total (A+B+C)		**(120 199)**	**118 397**
Cash and cash equivalents as at the beginning of the reporting period	**40**	**387 525**	**269 128**
Cash and cash equivalents as at the end of the reporting period	**40**	**267 326**	**387 525**

Notes presented on pages 9 to 125 constitute an integral part of these Financial Statements.

Explanatory notes to the standalone financial statements

1. Information on mBank Hipoteczny S.A.

By the decision of the District Court for the Capital City of Warsaw 16th Commercial Department on 16 April 1999 mBank Hipoteczny S.A. (hereinafter referred to as the "Bank") was entered into the Commercial Register under registration number 56623.

On 27 March 2001 the District Court in Warsaw issued a decision to enter the Bank in the National Court Register (KRS) under KRS No. 0000003753.

As per the Polish Classification of Activities the Bank business is designated as 64.19.Z "Other monetary intermediation".

On 29 November 2013 District Court for the Capital City of Warsaw, 12th Commercial Department of the National Court Register registered the change of the Bank's Articles of Association resulting from resolution no. 1 of the Extraordinary General Meeting of BRE Bank Hipoteczny S.A. dated 30 October 2013. Together with the registration of the change in the Articles of Association the name of the Bank has been changed from BRE Bank Hipoteczny Spółka Akcyjna to mBank Hipoteczny Spółka Akcyjna. The Bank can use the following abbreviation: mBank Hipoteczny S.A.

According to the Bank's Articles of Association, the Bank's scope of activity is provision of banking services to natural and legal persons, as well as to unincorporated organisational units both in PLN and foreign currencies.

The Bank operates in the territory of the Republic of Poland.

Registered office of the Bank is located in Warsaw, at 18 Prosta St.

The Bank was established for an indefinite period of time.

mBank Hipoteczny S.A. is a specialised mortgage bank of which primary purpose is to issue mortgage bonds, which are intended to constitute the main source of long-term financing for loans secured with real estate property. There are two business lines in the Bank:

- retail line, focusing on the purchase of receivables from housing mortgage loans from mBank S.A.,
- commercial line, covering the financing of income-generating real property such as office buildings, shopping centres, hotels, warehouses and distribution premises, as well as financing of residential property (apartments and houses), carried out by housing developers.

Activities of mBank Hipoteczny S.A. are carried out in the segments described in detail in Note 6.

mBank Hipoteczny S.A. is not a parent company and a significant investor for associates and jointly controlled entities, both as at December 31, 2021 and December 31, 2020 mBank Hipoteczny S.A. did not have any subsidiary.

mBank Hipoteczny S.A. is not a parent company or a major investor to associate companies nor jointly controlled companies. Therefore, mBank Hipoteczny S.A. does not prepare consolidated financial statements. The parent company of mBank Hipoteczny S.A. is mBank S.A., which prepares consolidated financial statements of mBank Capital Group.

As at December 31, 2021 the employment in the mBank Hipoteczny S.A. was 121 FTEs and 129 persons (December 31, 2020: 124 FTEs; 133 persons).

Average employment in 2021 was 130 employees, in 2020 it was 138 employees.

These financial statements were approved by the Management Board of mBank Hipoteczny S.A. on March 7, 2022.

2. Description of the relevant accounting policies

The most important accounting principles applied by the Bank in the preparation of these financial statements are presented below. The accounting principles adopted by the Bank were applied in a continuous manner to all the periods presented in the financial statements.

2.1. Accounting basis

Financial Statements of mBank Hipoteczny S.A. have been prepared for the 12-month period ended 31 December 2021. Comparative data presented in these financial statements relate to the period of 12 months ended on 31 December 2020. Presented financial statements are standalone financial statements.

As at 31 December 2021 and as at 31 December 2020 mBank Hipoteczny S.A. had no subsidiaries.

The Financial statements of mBank Hipoteczny S.A. has been prepared in accordance with the International Financial Reporting Standards adopted for use in the European Union (IFRS EU), according to the historical cost principle, except for derivative contracts and financial instruments held for trading, financial assets that do not meet the SPPI test, financial assets assigned to a business model that does not assumes holding them in order to obtain contractual cash flows, equity instruments and liabilities related to cash-settled share-based payments that are carried at fair value through profit or loss, and except for financial instruments at fair value through other comprehensive income and equity instruments with the fair value through other comprehensive income option.

The preparation of the financial statements in compliance with IFRS requires the application of specific accounting estimates. It also requires the Management Board of the Bank 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 5.
The financial statements of mBank Hipoteczny S.A. were prepared under the going concern assumption. There are no circumstances indicating any risks associated with the going concern in the foreseeable future, i.e. in the period of at least 12 months following the balance sheet date. As at the date of approval of these financial statements, there are no circumstances implying any threats to the continuation of the Bank's operations.

Due to the current situation with regard to COVID-19, on the basis of the analyzes performed at that moment, no significant uncertainty for the continuation of operations has been identified. In the Bank's opinion, the following areas of the epidemic's negative impact on business processes can be identified: credit risk, liquidity risk, financial stability risk and operational risk. In the opinion of the Management Board, the Bank, based on internal analyzes of current liquidity and stress scenarios related to the future development of the Bank's regulatory ratios, does not identify any significant uncertainties related to the going concern assumption in the foreseeable future.
The financial statements are prepared in accordance with the principle of materiality. Omissions or distortions of items in the financial statements are material if they could, individually or collectively, affect the economic decisions made by users of the Bank's financial statements. Materiality depends on the size and nature of the omission or misstatement of items in the financial statements, and a combination of both. Each material category of similar items is presented separately by the Bank. Items different in terms of their nature or function are presented by the Bank separately, unless they are immaterial.

2.2. Interest income and expenses

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

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 and points 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.

In case of reclassification to the stage 3 of a financial asset or a group of similar financial assets, the interest income is calculated on the net value of financial assets 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.

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 Bank does not conduct commercial activity, all transactions on derivatives are classified in the banking book.

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

Interest expenses include paid and accrued interests as well as commissions settled over time using effective interest rate from received loans, other financial liabilities with deferred payment term, subordinated loans, debt securities issued (legal costs, rating costs and audit costs) and cash collateral and leasing and commissions in connection with the judgment of the CJEU C / 383/18.

2.3. Fee and commission income and expenses

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

Step 2: Identifying performance obligations in the contract

Step 3: Determining the transaction price

Step 4: Allocating the transaction price to the preformance obligation

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

Revenues recognized in accordance with IFRS 15 do not constitute a significant part of the revenues generated by the bank

Loans and commissions are recognized in the effective interest rate account and classified as interest income. Commissions for contracts that have not been disbursed as at the date of collection or payment of the commission, adjust the value of the effective interest rate on the date of disbursement of funds. Commissions for loan agreements that have not been started are recognized once in the profit and loss account on the expiry date of the loan agreement. Commissions for the loan tranches made available to the customer (for commitment) are calculated evenly over the period of service provision. The commission amount is settled over the period of the commission transaction on a straight-line basis.

Commission income also includes fees and commissions settled over time using the straight-line method, received on loans and advances granted with undetermined schedules of future cash flows, for which the effective interest rate cannot be determined. The linear method for this type of service provides a fair picture of the transfer of goods and services as these services are provided evenly over time.

Accounting policies regarding the recognition of commission income from the sale of insurance products related to loans and borrowings are described in Note 2.4

Commission costs related to amounts paid on loans taken, securities issued, adjust the value of the effective interest rate on the date of disbursement of funds or on the date of payment, if it occurred after the date of disbursement of funds, and are presented in the line of interest expense. Commission costs on other operations, including costs related to the after-sale service of portfolios under outsourcing agreements, as well as costs related to the issue of covered bonds, among others legal costs, costs of ratings and audit costs are charged to the profit and loss account once.

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 loans, i.e. it is not possible to purchase from the Bank the insurance product which is identical in a legal form, content and economic conditions without purchasing the loan.

The Bank does not offer insurance products which are not 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 interest income is recognised over time as part of effective interest rate calculation for the bundled loan. The remuneration included in 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.

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.

For insurance products considered as bundled with loans 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 case of related products, when the premium is charged on a monthly basis, and a client may join insurance or discontinue it on a regular basis, revenue is recognised monthly on a cash basis in commission income.

For the purpose of recognition of interest income in terms of insurance associated with a mortgage loan, the income from a one-off premium charged for a period of the first two years is recognized by the Bank on a linear basis within the interest income, on a level that equals the level of subsequent consideration it receives from a regular premium charged on a monthly basis after the second year of insurance protection.

Since 31 March 2015, due to the termination on this date of agreement on cash bonus, which was concluded on 7 January 2014 between the Bank and BRE Ubezpieczenia Sp. z.o.o. (currently mFinanse S.A.) the Bank does not receive remuneration for offered insurance products associated with a loan product.

2.5. Segment reporting

An operating segment is a component of the entity:

- which engages in business activities and in connection with which revenues may be earned and costs incurred (including revenues and costs relating to transactions with other components of the same entity),
- whose operating results are regularly reviewed by the chief operating decision maker in the entity and using those results to make decisions on resources allocated to a given segment and assessing the results of operations of the segment, and
- in respect of which separate financial information is available.

Operating segments are reported on the same basis as that used for internal reporting (reporting to management). The management is a function that allocates resources to the operating segments and assesses the performance thereof. As defined in IFRS 8, the Bank has determined the Management Board of the Bank as its "management".

In accordance with IFRS 8, the Bank distinguished the following operating segments: „Corporate Banking Segment", „Retail Banking Segment", „Treasury Segment", described in detail in Note 6.

2.6. Financial assets/financial liabilities

The Bank classifies its financial assets to the following categories:

- financial assets measured at fair value through profit or loss,

- financial assets measured at fair value through other comprehensive income with the option of reclassifying gains and losses on the instrument to the profit and loss account when the asset is derecognised,
- financial assets measured at fair value through other comprehensive income without the possibility of reclassifying gains and losses on the instrument to profit or loss when the asset is derecognised, and
- financial assets measured at amortized cost.

A debt financial asset is classified into one of the categories upon its initial recognition based on the Bank's business model for financial asset management and the contractual cash flow characteristics of the financial asset. An equity financial asset is classified as a financial asset measured at fair value through profit or loss unless, upon initial recognition, the Bank made an irrevocable choice with respect to certain investments in equity instruments to recognize subsequent changes in fair value through other comprehensive income.

Standardized purchase and sale transactions of financial assets measured at fair value through profit or loss and measured at fair value through other comprehensive income are recognized on the transaction settlement date - the date on which the Bank delivers or receives a given asset. Changes in the fair value between the trade date and the settlement date in the case of assets measured at fair value are recognized in the profit and loss account or in other items of equity. Loans are recognized when funds are withdrawn or made available to the borrower's account. Derivative financial instruments are recognized starting from the transaction date.

Financial liabilities as at the date of their acquisition or creation are classified into the following categories:

- financial liabilities valued at fair value through profit or loss,
- other financial liabilities valued at amortized cost.

A financial liability is classified into one of the categories at the time of its acquisition in accordance with the Bank's intention as to its intended use.

As financial assets at fair value through profit or loss, the Bank classifies derivative financial instruments and financial assets (loans and advances granted by the Bank) whose contractual terms and conditions result in cash flows which are not merely repayment of the principal and interest on the outstanding principal (loans that do not meet the SPPI criterion in the category of non-recourse assets). These assets are presented in the statement of financial position under "Non-trading financial assets at fair value through profit or loss".

<u>Financial instruments valued at fair value through profit or loss</u>

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.

The Bank, at the initial recognition, irrevocably designate the financial assets/financial liabilities at fair value through profit or loss when doing so results in more relevant information, because either:

- 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; or
- a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the entity's key management personnel.

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

Interest income/expense on financial assets/financial liabilities designated at fair value, of which interest profit or loss on derivatives, is recognized in net interest income. The valuation and result on disposal of financial assets/financial liabilities valued at fair value through profit or loss are included as follows:

- on trading income, in case of financial derivatives,

- in the item profits or losses on non-trading financial assets mandatorily measured at fair value through profit or loss.

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

Financial assets measured 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 the time of disbursement of cash to the borrower.

Financial assets measured at amortized cost are recognized at adjusted purchase price (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.

In the reporting periods presented in these financial statements, the Bank classified investments in debt securities as financial assets at fair value through other comprehensive investment income.

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 as a result of investment securities.

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. Financial assets measured at amortized cost, are measured at adjusted cost of acquisition (amortised cost), applying the effective interest rate method. Gains and losses resulting from changes in the fair value of financial assets measured at fair value through profit or loss are recognized in the income statement in the period in which they arise.

Gains and losses arising from changes in the fair value of financial assets measured at fair value through other comprehensive income are recognized in other comprehensive income until the derecognition of the respective debt instrument in the statement of financial position or until its impairment: 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. If the fair value of a debt instrument measured at fair value through other comprehensive income increases in a subsequent period, and such increase can be objectively related to an event occurring after the recording of the impairment loss in the income statement, then the respective impairment loss is reversed in the income statement.

Capital instrument

Dividends on equity instruments are recognized in the income statement when the entity's right to receive payment is established.

The fair value of quoted investments in active markets is based on current market prices.

In reporting periods presented in these financial statements, there were no equity instruments at the Bank.

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,
- currency conversion that was not provided for in the terms of the contract. Wherein in order for the currency conversion to be considered as provided for in the terms of the contract, it would have to define both the rate at which it would take place as well as the interest rate on the loan after the conversion,
- change of the borrower – only if the current borrower is exempted from the debt,
- change of the cash flow criterion from 'SPPI compliance',
- change of the financed asset in the case of object finance and project finance,
- change of legal form / type of financial instrument.

In the event of substantial modification the deferred income and expense related to this assets is recognized 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. 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 significant modifications are recognized as related to credit risk. In the event of a significant modification of the exposures in the second basket, for which, as a result of the modification, a transfer to the first basket was made, the adjustment to fair value of such an exposure, as at the initial recognition date, adjusts the net interest income in subsequent periods.

Where the contractual terms are modified as a result of a market-wide reform of the interest rate benchmark, including the replacement of the interest rate benchmark with an alternative benchmark, where:

- in the contract the basis has changed for determining the cash flows resulting from the contract and the new basis has been recognized economically equivalent to the old one and such change is accounted for by a change in the effective interest rate;
- changes concern other areas, or have not been considered economically equivalent, so such changes are recognized on general principles, in particular they are assessed in terms of a significant modification.

<u>Purchased or originated credit impaired financial assets (POCI assets)</u>

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.

<u>Reclassification of financial assets</u>

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.

<u>Reclassification of financial liabilities</u>

Financial liabilities are not subject to reclassification by the Bank.

2.7. Offsetting 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 only assets and liabilities that the Bank compensates for are those related to hedge accounting.

2.8. Impairment of financial assets

Financial instruments subject to estimation of allowance and provision 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 assets measured at amortized cost – rules for classifying exposures to stages

The transfer logic is an algorithm used to classify exposures to one of the four Stages: 1, 2, 3, POCI. Stage POCI contains assets identified as credit-impaired at initial recognition. Other loans and advances can be classified up to stage 1, 2 or 3. Stage 1 includes exposures for which provisions/write-downs 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 – provisions/write-downs are calculated on a lifetime period. Stage 3 contains exposures identified as credit-impaired. 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. The exposure may also be transferred from Stage 3 to Stage 2 and from Stage 3 to Stage 1 (when no longer credit-impaired).

In the case of the retail portfolio acquired in cooperation with mBank S.A., there is no grace period and the exposure leaves basket 3 to basket 1 or 2 after the impairment premise ceases. There is also no grace period when switching from basket 2 to basket 1.

In the case of the commercial portfolio, the transfer from Cart 3 is preceded by a minimum 90-day quarantine period.
The transfer from Cart 2 to Cart 1 is possible after the appropriate period:

- for the Forborne flag (customer's status indicating his difficulties in paying off the credit obligation in accordance with the Forborne definition used in the Bank) - after a minimum of two years;
- for the Watch flag (the Bank's internal process indicating corporate customers subject to special observation with respect to changes in their credit quality, in accordance with the rules of classification into the Watch List adopted by the Bank) - after meeting the conditions for exit from the WL;
- for overdue receivables by more than 30 days - immediately after the condition is fulfilled.

Retail portfolio obtained in cooperation with mBank S.A.

In the area of impairment allowances and provisions calculation for the portfolio acquired in cooperation with mBank, group credit risk models are used, of which the Bank is a local user.

An impairment indication with respect to credit exposures of a given debtor is a credit risk event as a result of which, based on information held, the Bank recognizes that the debtor is unlikely to repay a given credit obligation in full, without fulfilling the accepted collateral.

In case of the retail portfolio obtained in cooperation with mBank S.A., it is assumed that there is an evidence of loss of value of a retail exposure, when a natural person obliged due to a given product is in default state, which means:

- that the overdue of at least one loan liability of the debtor is maintained for a period exceeding 90 days and the total amount of overdue on all loan exposures of the debtor (overdue by over 31 days) exceeds PLN 500,
- one of the client’s transactions is subject to restructuring,

- loan claim is sold with significant economic credit loss,
- the Bank submits a motion to commence execution proceedings, bankruptcy or recovery proceedings (resulting with possible omission or delay in repayment) by the debtor,
- loss impairment was made as a result of significant deterioration of the client's creditworthiness.

A credit exposure provides indication of impairment where:

- recovery actions are taken at the court stage or the contract is prepared for write-off,
- a payment of a benefit on account of low own contribution insurance was made by the insurance company,
- the transaction was deemed fraudulent (there was a case of falsification or of providing false data in documents establishing the identity of the debtor or in documents relating to collateral accepted).

<u>Significant deterioration of credit quality</u>

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.

<u>Qualitative criteria</u>

Qualitative criteria are:

- where an amount is more than 30 days past due (days past due, with an activation threshold – the number of days for which the longest overdue amount of the exposure concerned is greater than or equal to 31 days),
- 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).

<u>Quantitative criteria</u>

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. Where a relative change in long-term PD exceeds "the transition threshold", the exposure is moved to Stage 2. 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.

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

Valuation allowances and provisions are measured at the level of a single contract by measuring expected credit losses (ECL). 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. If on the reporting date the exposure credit risk did not increase significantly since the initial recognition, the Bank calculates impairment provisions in the amount equal to 12-month expected credit losses (12m ECL). If the exposure credit risk increased significantly since the initial recognition (exposure is in the stage 2), the Bank calculates impairment provisions in the amount equal to life-time expected credit losses (Lt ECL). 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 the balance- and off-balance-sheet part of the exposure. 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.

The long-term PD parameter is generated based on the customer's rating derived from the AIRB PD model, in line with the customer's belonging to a given class determined in the rating cross-section and product. In order to estimate the long-term PD parameter, estimation was used based on the Weibull function with exponential adjustment, in which the dependent variable is the cumulative DR value (cDR). Additionally, the obtained estimates are converted in the above manner to the values corresponding to the expected macroeconomic conditions (PIT). The curves obtained on the basis of the Weibull distribution allow to obtain estimates that correspond to the frequency of default events in each of the annual periods from the reporting date to the maturity date.

The long-term LGD parameter is determined at the exposure level and defined as the quotient of the economic loss and the EAD value, where the economic loss is defined as the difference between the outstanding amount at default (EAD) plus all direct costs related to the recovery process discounted as at default and all recoveries made during the default period, discounted at the default.

The long-term EAD parameter for mortgage contracts is calculated on the basis of future scheduled cash flows corrected by the prepayment ratios observed in the portfolio history in a given portfolio to which the loan product belongs.

<u>Use of macroeconomics scenarios in ECL estimation</u>

The bank is required to calculate the expected credit loss in a way that reflects the expectations regarding various scenarios for the future macroeconomic situation. In the case of portfolio ECL estimation, the Bank determines the NLF (non-linearity factor) parameter, which is to adjust the value of the expected credit loss (determined every month). The value of the NLF is determined at least annually, separately for each segment of the retail portfolio. The values of the NLF ratio are used as scaling factors for individual ECL values determined at the level of individual exposures in individual segments on the basis of the results of 3 simulation conversions of the expected credit loss value to the identical reporting date, resulting from the adopted macroeconomic scenarios. In particular, the NLF parameter for a given segment is defined as the quotient of:

1. weighted by the probability of the scenario realization, the average value of the expected loss from 3 macroeconomic scenarios (the so-called average estimate), which includes: the baseline, optimistic, pessimistic scenario. The weights of these scenarios correspond to the probability of realization of each of them and are respectively 60% for the base one, 20% for the optimistic one and 20% for the pessimistic one.

2. the expected loss value determined in the baseline scenario (reference estimate).

Simulation processing, the results of which are used to calculate the NLF, are performed on the basis of the same input data for exposure characteristics, but with different risk parameter vectors, where the macroeconomic expectations defined in the scenarios influence the values 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 (LtPD, LtEAD, LtLGD). The data relating to the future is used to determine the values of parameters over a period from 12 months to 6 years. In its estimates, the Bank uses, inter alia, generally available macroeconomic indicators (employment in the enterprise sector, unemployment rate, export / import level, wages, bond profitability, monetary receivables of financial institutions from households), expectations regarding the development of interest rates and exchange rates, as well as changes in real estate prices.

In the case of individual ECL estimation, the assumed recovery scenarios take into account different conditions of the macroeconomic environment.

<u>Impairment corporate portfolio</u>

Corporate exposures, i.e. all non-retail credit exposures of the Bank (specialist loan portfolio, housing developers, local government units portfolio and other commercial exposures), are deemed to be credit-impaired where the results of an impairment test demonstrate the need to establish valuation allowances/provisions. A client is reclassified as in default when one or more of the following criteria are met:

a) deterioration of counterparty/transaction loan quality. The Bank recognises that the debtor probably will not fully fulfil its loan obligations against the Bank, parent entity of the Bank without actions of the Bank, such as implementation of collateral, if such exists,

b) delay in payments for over 90 days. Any of the exposures of a nature of debtor loan obligation against the Bank, parent entity of the Bank is overdue for more than 90 days, provided that the overdue amount exceeds PLN 3 000,

c) qualification of an entity to a default situation by the Bank’s parent entity.

The following elements constitute "hard" evidence of failure to fulfil obligation and indicate deterioration of loan quality of a client/transaction in accordance with the above definition:

a) The bank stopped charging interest on the credit exposure to the profit and loss account
b) The bank determines the expected credit losses (ECL) as a result of a significant deterioration of creditworthiness after the liability to the Bank arises
c) disposal by the Bank of an exposure with a significant economic loss related to a change in its creditworthiness,
d) the Bank's authorization for a forced restructuring of the credit obligation provided that it may result in a reduction of financial liabilities by writing off a significant part of the liability or deferring the repayment of the principal amount, interest or - if applicable - commission
e) the Bank submits a petition to declare the debtor bankrupt or a similar petition with regard to the debtor's credit obligations towards the Bank, the parent entity of the Bank or a subsidiary of the Bank,
f) bankruptcy of the debtor or obtaining by him similar legal protection, resulting in the avoidance or delay of repayment of credit obligations towards the Bank, the parent entity of the Bank or a subsidiary of the Bank.

Moreover, the Bank defined additional hard premises for the occurrence of a default event for individual sub-portfolios within the corporate portfolio, allowing for a better reflection of the specificity of a given sub-portfolio.

Apart from hard evidence, which determine occurrence of default event, the Bank identifies soft evidence. Occurrence of a soft evidence does not automatically cause necessity for classification as a default event. Soft evidences have supplementary nature. These are issues which Bank should additionally consider during analysis of the situation of the borrower and which may indicate its deterioration. If in the Bank's assessment identified soft evidence have significant meaning for a particular case, the Bank should proceed with an assessment whether a default event occurred regardless of lack of hard evidence.

<u>Significant deterrioration</u>

A significant deterioration in credit quality is recognised for the asset concerned on the basis of qualitative criteria.

Qualitative criteria are:

- where an amount is more than 30 days past due and exceeds PLN 3 000 (days past due, with an activation threshold – the number of days for which the longest overdue amount of the exposure concerned is greater than or equal to 31 days),
- 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 Transfer Logic quantitative criterion uses a measure of significant credit deterioration based on the absolute change in the PD value determined for the exposure at the reporting date compared to the PD measure of the exposure determined at the initial recognition date.

If, during the life of the exposure, the value of the PD change exceeds the so-called the transition threshold, then the exposure is transferred to Basket 2. Another initial recognition date is determined for the exposures for which the contractual terms have been significantly modified.

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

The determination of the expected credit loss (ECL) is done at the level of a single contract. 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, the element of discounting expected losses determined for subsequent periods is included in the EAD parameter. If on the reporting date the exposure credit risk did not increase significantly since the initial recognition, the Bank calculates impairment provisions in the amount equal to 12-month expected credit losses (12m ECL). If the exposure credit risk increased significantly since the initial recognition (exposure is in the stage 2), the Bank calculates impairment provisions in the amount equal to life-time expected credit losses (Lt ECL). 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 the balance- and off-balance-sheet part of the exposure. 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.

In the individual approach (all balance sheet and off-balance sheet credit exposures with an impairment in the corporate loan portfolio are treated as individually significant), 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, the scenarios considered assume a significant share of recoveries from the customer's own payments. In case of vindication strategy, the scenarios are based on collateral recoveries.

Determining the long-term PD parameter for the majority of the corporate portfolio (94%) is made on the basis of generating income from the lease of various areas, taking into account 5 models of risk factor dynamics (exchange rate model, interest rate, rental prices, occupancy level, level of the price index on the market) real estate) affecting the amount of these revenues.

As part of the modeling, both specific market data (exchange rates, interest rates) and specific real estate data (forecasts of expected revenues, schedule liabilities) are subjected to stress in order to determine the value of revenues, liabilities, property value, LTV ratios in the horizon until the loan maturity.

Based on a set of default conditions (independent of the regulatory definition of default), the Monte Carlo simulation determines the probability of an unfavorable economic situation that may lead to or contribute to default, which allows the mPD curve to be determined.

For a part of the portfolio, i.e. for exposures without individual estimates of risk parameters, the estimation based on the Weibull function with exponential adjustment was used, in which the cumulative DR (cDR) is the dependent variable.

For the purpose of determining the long-term LGD parameter, the bank determines the components of this parameter, ie ZLGD, RR and BD. ZLGD (Zero Loss Given Default) determines the share of loans that have entered the default state and left this state without taking any debt collection measures in relation to the total defaults. The indicator is quantified based on historical observations as well as for unfinished default cases based on expected recovery scenarios. RR (Recovery Rate) determines the expected recovery rate that the Bank is able to recover. The indicator is quantified based on the weighted average of the number of historical observations as well as for unfinished default cases based on the expected recovery scenarios.

BD (Bad Debt) defines the share of contracts in relation to which the realization of the security turned out to be impossible, ended with a total loss. Due to the fact that there are no such cases, the ratio is determined by experts, taking into account the impact of the expected changes in the legal and economic environment on the possibility of selling the real estate being the subject of collateral.

With regard to the long-term EAD parameter, due to the fact that all credit exposures are exposures with a repayment schedule, the bank, for the purposes of estimating the LtEAD value, uses the information on the gross carrying amount of the exposure, future principal and interest installments from the schedule available as at the reporting date and the effective amount interest rate. For the purpose of estimating the LtEAD value, the bank also uses information on the observed prepayment ratio in a given portfolio to which the loan product belongs.

<u>Use of macroeconomics scenarios in ECL estimation</u>

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 for corporate portfolio, this element is considered in the process of determining PD and LGD.

Determination of the risk of corporate client's insolvency within the credit maturity horizon is based on generation of income from lease of various properties, taking into account models of risk factors influencing changes in the amount of such income. As part of the modelling process, both specific market data (exchange rates, interest rates) as well as specific property data (expected revenue forecasts, schedule liabilities) are subject to distortions in order to determine the value of revenues, liabilities, property value and LTV ratios over the loan maturity horizon. The likelihood of an adverse economic situation, which may lead to or contribute to default, is modelled on the basis of a set of default conditions (independent of the regulatory definition of default), in a Monte Carlo simulation, which ensures that a wide range of scenarios for possible future macroeconomic developments considered.

Determination of the LGD level for a corporate client in the horizon up to the loan maturity is made on the basis of forecasted LtV levels, which in turn are affected by forecasted rental price levels, vacancy levels and exchange rates.

Significant model changes

In 2021, the Bank made the following significant changes to the models used to calculate expected credit risk losses:

updating the macroeconomic indicators used in the models along with recalibration of long-run PD models and a quantitative model of allocation to baskets, taking into account selected guidelines of the new recommendation R Polish Financial Supervision Authority (which came into force on January 1, 2022).
Total impact of the above-mentioned changes on the level of expected credit loss amounted to approximately PLN 1.2 million (positive impact on the result).

Loan receivable write-off

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. The lack or exhaustion of recovery capacity, in particular:
   a. the discontinuance of enforcement proceedings due to its ineffectiveness,
   b. rejection of the application for bankruptcy or closure of bankruptcy proceedings on the grounds that the debtor's assets are insufficient to cover the costs of the proceedings,
   c. the recognition of the claim as irrecoverable - the costs of recovery exceed the potential recovery.

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, loans and, amounts due from other banks and government securities acquired for the purpose of short-term resale.

2.10. 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 in note

Derivative instruments, which are designated and constitute effective hedging instruments, are subject to the principles of hedge accounting.

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 Group 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)

Derivative instruments designated as hedges against positions maintained by the Bank are recorded by means of hedge accounting, subject to the fulfillment 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 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 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.

Fair value hedges

Changes in the fair value of derivative instruments designated and qualifying as fair value hedges are recognized in the income statement together with any changes in the fair value of the hedged liability that are attributable to the hedged risk. The Bank presents the adjustment of balance sheet value of the hedged instrument as the separate line of the statement of financial position. The gain or loss on hedging a 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 forecast transaction being the subject of the hedge must be highly probable and must be subject to the threat of changes in cash flows, which could affect the profit and loss account.

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.

All derivative transactions are concluded to hedge against currency risk and interest rate risk. The bank does not conduct trading activities, all derivative transactions are included in the banking portfolio.

2.11. 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.

If the Bank determines that the fair value on initial recognition differs from the transaction price, it recognises the difference between the two values on that date as follows:

- as a gain or loss if the fair value is evidenced by the price quoted in an active market for an identical or identical asset or is based on a valuation technique that uses only data from observable markets,

- in other cases, including for CIRS transactions, is deferred.

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 Group 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.

2.12. Financial liabilities measured at amortised cost

Financial liabilities measured at amortized 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.

2.13. Intangible assets

Initially the Bank recognises intangible assets at acquisition cost. Subsequently intangible assets are recognised at their cost of acquisition adjusted by the costs of improvement (rearrangement, development, reconstruction, adaptation or modernisation) less any accumulated amortization and any impairment losses. Accumulated amortization is accrued by the straight line method taking into account the expected period of economic useful life of the respective intangible assets. Expenditures on an intangible asset are included in costs as they are incurred, unless they constitute an element of the purchase price or cost of creation of an intangible asset that meets the criteria of recognition.

On each balance sheet day the company carries out an assessment whether or not any indications exist for possible value impairment of any asset item. If any such indication exists, the company estimates the recoverable amount of such respective asset.

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. Capitalised costs are amortised on the basis of the expected useful life of the software (2-10 years). Expenses attached to the development or maintenance of computer software are expensed when incurred. Expenses directly linked to the development of identifiable 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.

Capitalised costs attached to the development of software are amortised over the period of their estimated useful life.

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 ability to complete and to use the generated intangible asset, the availability of adequate technical and financial resources to complete and to use the generated intangible asset and the ability to measure reliably the expenditure attributable to the generated 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.

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.

2.14. 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.

Purchase price or cost of production of a given tangible fixed asset is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction. The purchase price or cost of production also consist in all directly attributable costs incurred in order to adjust an asset to place and conditions necessary to begin its functioning, including also costs of demounting, removal of an asset or renovations to which the Bank is obliged. The purchase price or cost of production also cover expenditures incurred at a later date in order to increase the asset's useful life, change of its component or its renewal.

The value, which is either a purchase price or cost of production of specific assets or fair value established in other way reduced by the residual value of this asset, should be depreciated.

The depreciation is a systematic distribution of value subject to amortisation over the useful life of an asset. Impairment loss is recognised in the amount by which the carrying value of given asset item exceeds its recoverable value.

The recoverable value corresponds to the net selling price of an asset or its use value depending on which is higher.

The residual value of the asset is the amount, which according to the forecast the company could currently obtain taking into consideration the age and state at the end of its life (after deducting the estimated selling costs).

Depreciation period and annual depreciation rate are determined considering the economic usability period of given tangible fixed assets. Correctness of the applied periods and rates for depreciation is subject to periodical review - not later than at the start of each fiscal year. If the expected useful life of the asset is different from previous estimates, the depreciation period is changed accordingly. The above changes are presented by the Bank as changes in estimates and their effect is taken to profit or loss in the period when the estimate changes.

The Bank depreciates tangible fixed assets using the straight-line method by distributing its initial value or revalued amount reduced by residual value by estimated useful life. The residual value of useful life of an asset is verified at the end of each financial year and in case when expectations differ from previous estimations, the change is recognised as the change of estimated values.

Useful life of an asset is a period in which according to expectations a given asset will be used.

Useful lives of individual groups of tangible fixed assets amount to:

Technical equipment and machinery	5-10 years
IT equipment	4-5 years
Equipment ald vehicles	5 – 10 years
Leasehold improvements	in the expected lease / rent period
Office equipment and furniture	5- 12 years

If for a given tangible fixed asset expected useful life is different than the one specified above, the period of depreciation for a given asset may be determined with consideration of this difference.

Depreciable fixed assets are tested for impairment always whenever events or changes in circumstances indicate that the carrying value may not be recoverable and at the end of each reporting period. 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 an individual asset, the Bank determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).

The balance sheet value of tangible fixed assets is removed from the statement of financial situation upon disposal of this item or when no future economic benefits resulting from its use or disposal are expected.

The Bank does not increase the balance sheet value of tangible fixed assets by the costs of current maintenance of those assets. Repair and maintenance costs are recognized in the income statement in the period in which they occurred.

In case of replacement of a component of a tangible fixed asset, the Bank recognises costs of replacement of parts of those items in the balance sheet value of tangible fixed assets as they are incurred. The balance sheet value of components is written off in accordance with conditions of removal from the statement of financial situation.

Profits and losses resulting from the removal of a tangible fixed asset item from the statement of financial situation are established as the difference between net disposal proceeds and the balance sheet value of this item and are recognised in the income statement at the moment of removal of this position from the statement of financial situation.

2.15. Current and deferred income tax

Income tax is recognized as current tax and deferred tax. The current income tax is recognized in the income statement. The deferred income tax is recognized in the income statement or in other comprehensive income depending on the source of origin of temporary differences. The current tax is a tax liability relating to taxable income using a current tax rate, with all adjustments to the tax liability for the previous years.

Deferred tax liabilities and 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 corporate income tax. Liabilities or assets for deferred corporate 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. Temporary differences are differences between the carrying amount of an asset or liability and its tax value. Positive net differences are shown in liabilities as "Deferred income tax provision". Negative net differences are recognized as "Deferred income tax assets". Changes in the deferred income tax provision and deferred income tax assets in relation to the previous financial period are included in the item "Income tax".

Balance sheet value of deferred income tax assets is subject to review as at each balance sheet date and relevant correction is recognised, by the amount corresponding to the correction of the expected future taxable income that will enable partial or full utilisation of such deferred income tax assets. Unrecognised deferred income tax asset is subject to reassessment for each balance sheet date and is recognised up to the amount reflecting probability of achieving future taxable income which will allow for recovery of this asset.

The Bank presents the individual deferred income tax assets and liabilities netted in the statement of financial position if the Bank has a legally enforceable right to their simultaneous consideration in calculating the tax liability.

Deferred income tax due to revaluation of available-for-sale financial assets and due to actuarial profits and losses on valuation of pension benefits is recognised in the same manner as revaluation and actuarial profits and losses, directly in the other comprehensive income.

The Bank uses the accounting method to determine exchange differences.

2.16. Inventories

Assets repossessed for debt are classified by the Bank as inventories. At initial recognition assets repossessed for debt are valued at their fair value and then are stated at the lower of: purchase price or net sales price. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling costs. The amount of any inventory write-downs to the net realisable value and any inventory losses are recorded as costs of the period in which a write-down or a loss occurred. Reversals of inventory write-downs resulting from increases in their net realisable value are recorded as other operating income. As at December 31, 2021 and December 31, 2020, the Bank had no inventories.

2.17. 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".

2.18. 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 the 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.

2.19. Post-employment employee benefits and other employee benefits

Provision for retirement and similar 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. Current employment costs and net interest are recognized in the income statement under "Overhead costs". Actuarial profits and losses are recognised in other comprehensive incomes which will not be reclassified to the income statement.

Phantom share-based benefits settled in cash
The Bank runs a remuneration program for the Bank's Management Board and employees who have a significant impact on the Bank's risk profile, based on phantom shares settled in cash.
Pursuant to the provisions of IAS 19, the projected unit credit method was applied to determine the present value of employee benefit obligations. The basis for calculating the provision for the deferred part of the variable remuneration for eligible employees of the Bank is the amount of the bonus that the Bank undertakes to pay on the basis of the Employee Remuneration Policy that has a significant impact on the Bank's risk profile.

Phantom shares are awarded in the number resulting from the valuation of these shares for the assessment period. The valuation of phantom shares is calculated each time at the end of the reporting period as the quotient of the Bank's book value (estimated by the Bank's internal experts) and the number of ordinary shares.

The payment of phantom shares depends on the valuation of these shares in the given reporting period in which they are bought back, adjusted for a capital increase above their nominal value, throughout the assessment period.

The final value of the bonus, being the product of the number of shares and their expected value as at the balance sheet date preceding the realization of each of the deferred tranches, is actuarial discounted. The actuarial discount is the product of the financial discount (the time value of money) and the probability that each participant will survive individually until the moment of full vesting of each of the deferred tranches. Probability, the aforementioned was determined by the competing risk method, where the following three risks were taken into account: the possibility of dismissal from work, the risk of complete incapacity for work, and the risk of death.
The possibility of an employee quitting work has been assessed using a probability distribution, taking into account the Bank's statistical data. For the purposes of the valuation, it was assumed that the average probability of an employee's dismissal in each subsequent year of work is 12%.
The risk of death was expressed in the form of the latest statistical data from Polish life expectancy tables for men and women, published by the Central Statistical Office, as at the date of the valuation. A detailed description of the program is presented in note 41.

2.20. Issue of securities

The Bank's liabilities resulting from issue of securities (covered bonds, bonds) upon initial recognition are valuated according to the fair value, taking into account the costs of transaction that may be directly assigned to the issue, and throughout the entire duration of the transaction they are valued to the amount of amortised cost including the effective interest rate. The amount of the reversal is recorded in the income statement in "Interest expense".

2.21. Loans and advances received

Loans and advances received initially recognised at fair value reduced by the incurred transaction costs. After the initial recognition, loans and advances received are recorded at adjusted cost of acquisition using the effective interest method. Any differences between the amount received (reduced by transaction costs) and the redemption value are recognised in the income statement over the period of duration of the respective agreements according to the effective interest rate method.

2.22. Equity

Equity consists of capital and own funds attributable to owners of the Bank, and non-controlling interest 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.

Share premium

This capital is created from the issue premium obtained from the issue of shares, less the related costs directly incurred.

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

Retained earnings

Retained earnings include:

- other supplementary 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.

Other items of equity

Other equity items are created as a result:

- valuation of financial assets at fair value through other comprehensive income,
- actuarial gains and losses relating to post-employment benefits,
- applying cash flow hedge accounting

2.23. Leasing

The Bank acts as the lessee. Leases are recognized as the right to use an asset together with the corresponding lease liability determined at the amount of discounted future payments over the lease term, except for short-term leases of up to 12 months and leases involving insignificant assets.

Expenses related to the use of leased assets are classified as amortization costs and interest costs.

Assets by virtue of the right of use are depreciated on a straight-line basis, while liabilities by virtue of leasing contracts are settled taking into account the effective interest rate.

mBankHipoteczny S.A. as a lessee

If the definition of a lease is met, the right to use an asset is recognized in the group of property, plant and equipment together with the appropriate lease liability, ie under financial liabilities measured at amortized cost.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 Group 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 Group assumed that the lease period for this type of contracts is the remaining period of the right granted since the transition to IFRS 16.

Group 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.

- 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 Group as a lessee in connection with the conclusion of the leasing contract and
- an estimate of the costs to be incurred by the Group 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 Group 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 rightof-use asset is impaired. At the commencement date, the Group 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 Group 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

The Bank discounts lease payments using the interest rate of lease if this rate can be easily determined. Otherwise, the Group applies the marginal interest rate of lessee. As the lessee the Group estimates the discount rate taking into account the duration and the currency of the contract. 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. Total lease expenses recognized in accordance with IFRS 16 and other types of lease, i.e. short-term lease fees, lease fees for low-value assets and variable lease payments as at December 31, 2021 amounted to TPLN 3.959, while as at December 31, 2020 they amounted to TPLN 3.831.

Before the implementation of IFRS 16, the Bank, as a lessee, classified lease agreements existing in the Bank as operating lease agreements. All lease payments made under operating lease were charged to costs on a straight-line basis over the lease term. There were no financial lease agreements in the Bank.

2.24. Valuation of items denominated in foreign currencies

Functional currency and presentation currency

The financial statements are presented in TPLN, with PLN being the functional and presentation currency of the Bank.

Transactions and balances

Transactions denominated in foreign currencies are converted to the functional currency at the exchange rate of the National Bank of Poland. 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.

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 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 component of that gain or loss is recognised in profit or loss.

for 2021 (in PLN thousand)

2.25. Tax from the balance sheet positions of the Bank

The Bank presents the tax from the balance sheet positions of the Bank in the separate line of the income statement, below the operating result.

2.26. Received financial guarantees

Guarantees received during the life of the loan are not an integral part of the loan and should not be considered as collateral for the loan. They are accounted for as a separate financial instrument and the cash flows from which are not included in the measurement of ECL for a loan that is guaranteed.

Where the cash flows under the financial guarantee contract are not included in the expected credit losses on the guaranteed loan, the guarantee return is treated as a separate expected return asset (Other assets). As at the date of granting the guarantee, no asset to be reimbursed is recognized in the amount of the present value of the write-down for expected credit losses, and the impact on the financial result is neutral. This is due to the fact that the mechanism of this instrument is designed to cover the potential increases in the write-off for expected credit losses on the guaranteed portfolio. The change in the value of the asset to be returned, which is referred to the income statement in the same line as the costs of expected credit losses (impairment or reversal of impairment on financial assets not measured at fair value through profit or loss), is conditional on the recognition of an increase in credit risk on a given exposure.

2.27. New standards, interpretations and amendments to published standards

These financial statements incorporate the requirements of all EU-approved International Accounting Standards, International Financial Reporting Standards and related interpretations that have been issued and are effective for annual periods beginning January 1, 2021.

<u>Published Standards and Interpretations which have been issued and binding for the first time in the reporting period covered by the financial statements.</u>

Standards and interpretations	Description of the changes	The beginning of binding period	Impact on the Bank's financial statements in the period of their initial application
Amendments to IFRS 4, Extension of the Temporary Exemption from Applying IFRS 9	Amendments to IFRS 4 extend the temporary exemption from application of the IFRS 9 so that insurers will be required to apply IFRS 9 for annual periods beginning on or after 1 January 2023. The extension maintains the alignment between the expiry date of the temporary exemption and the effective date of IFRS 17, which replaces IFRS 4.	January 1, 2021	The application of the changes to the standard had no significant impact on the Bank's 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	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 resulting from the implementation of IBOR reform. The amendments to the standards require that in the case of a modification of the base for calculating cash flows, which is equivalent to the previous base and is the result of the implementation of the reform, the modification should be recognized as a result from a change in the variable interest rate. Regarding hedge accounting, amendments allow for the continuation of the existing relationships that were modified as a result of the IBOR reform, after appropriate modification of the documentation of the hedging relationship. 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. 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.	January 1, 2021	In 2021, the Bank worked on the implementation of IBOR reform. As a result, financial instruments based on the reference rates covered by reform were modified by replacing the IBOR with alternative benchmark rates. In order to correctly recognize the changes described above, in accordance with the requirements of the amended standards, the Bank assessed the economic equivalence of the changes introduced and recognized them in the books in accordance with the results of this assessment. The Bank also modified the documentation of hedging relationships to reflect the changes resulting from the reform. The amendments did not have significant impact on the balance sheet of the modified instruments or on the interest income resulting from these instruments. The detailed information regarding IBOR reform is provided below in this note.

for 2021 (in PLN thousand)

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

Standards and interpretations	Description of the changes	The beginning of binding period	Impact on the Bank's financial statements in the period of their initial application
Annual Improvements to IFRS Standards 2018-2020	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 9 clarifies which fees the entity includes when it applies the '10 per cent test' in assessing whether to derecognize a financial liability. The amendment to IFRS 16 removes the illustration of payments from the lessor relating to leasehold improvements.	1 January 2022	The application of the amended standard will have no significant impact on the financial statements.
Amendments to IAS 16 Property, Plant and Equipment: Proceeds before Intended Use	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.	1 January 2022	The application of the amended standard will have no significant impact on the financial statements.
Amendments to IAS 37 Onerous contracts – Cost of Fulfilling the Contract	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.	1 January 2022	The application of the amended standard will have no significant impact on the financial statements.
Amendments to IFRS 3 Reference to the Conceptual Framework	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.	1 January 2022	The application of the amended standard will have no significant impact on the financial statements.
Amendments to IFRS 16, COVID-19-related Rent Concessions beyond 30 June 2021	In amendment to IFRS 16 COVID-19-related Rent Concessions beyond 30 June 2021 (the 2021 amendment) the Board extended the availability of the 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 by one year.	1 April 2021	The application of the amended standard will have no significant impact on the financial statements.
IFRS 17, Insurance contracts	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. IFRS 17 introduces a number of significant changes in relation to the existing requirements of IFRS 4. They concern, among others: methods for the valuation of insurance liabilities, recognition a revenues and result from insurance contract.	1 January 2022	The application of the amended standard will have no significant impact on the financial statements.
Amendments to IFRS 17, Insurance contracts	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.	1 June 2023	The application of the amended standard will have no significant impact on the financial statements.

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.

Standards and interpretations	Description of the changes	The beginning of binding period	Impact on the Bank's financial statements in the period of their initial application
Amendments to IAS 12, Deferred tax related to assets and liabilities arising from a single transaction	The amendments to the standards require that the entities recognise in the financial statements deferred tax assets and liabilities resulting from transactions, other than business combinations, in which equal amounts of deductible and taxable temporary differences arise on initial recognition.	1 January 2023	The application of the amended standard will have no significant impact on the financial statements.
Amendments to IAS 1, Classification of liabilities as current or non-current	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.	1 January 2023	The application of the amended standard will have no significant impact on the financial statements.

for 2021 (in PLN thousand)

Amendment to IAS 8, Definition of Accounting Estimates	In amendment to IAS 8, 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 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.	1 January 2023	The application of the amended standard will have no significant impact on the financial statements.
Amendments to IAS 1 and IFRS Practice Statement 2 Disclosure of Accounting Policies	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 with some clarifications and examples how an entity can identify material accounting policy information.	1 January 2023	The application of the amended standard will have no significant impact on the financial statements.
IFRS 17, Insurance contracts and IFRS 9	The amendments to the standards introduces optional facilities to minimize the accounting mismatch between financial assets and liabilities presented in the comparative data of the financial statements of entities applying IFRS 17 and IFRS 9 for the first time.	1 January 2023	The application of the amended standard will have no significant impact on the financial statements.

3. Financial risk management

3.1. Credit risk

The Bank is exposed to credit risk consisting in counterparty's failure to fulfil obligation against the Bank in the full amount within the prescribed period. In order to limit the credit risk, the Bank conducts lending activity in accordance with internal procedures as well as policy of credit decision-making and credit risk assessment.

The maximum exposure to credit risk equals to the amount of positions presented in the statement of financial position and off-balance sheet data presented in the note 24.

3.1.1. Collaterals

The Bank's Policy in terms of loan collaterals and their valuation includes regulation of acts: on covered bonds and mortgage banks, banking law, Act on registered pledge and pledge register, Act on land and mortgage, provisions of the Commercial Companies Code, provisions of the Civil Code and other Acts. Additionally, the issues of legal safeguard cover Guidelines and Recommendations of the Banking Supervision Commission (currently Polish Financial Supervision Authority - PFSA), including Recommendation S and J as well as provisions of internal banking regulations.

The Bank hold and applies Regulations of Establishing of banking and mortgage real estate value approved by the Banking Supervision Commission (currently Polish Financial Supervision Authority), issued on the basis of the Act dated 29 August 1997 on covered bonds and mortgage banks (consolidated text Journal of Laws 2003 No. 99, item 919 as amended) including provisions of Recommendation F regarding basis criteria applies by the Financial Supervision Authority for approval of regulations of establishing the banking and mortgage lending value of the property issued by mortgage banks. Thereby, the Bank ensures that the value of credit exposure collateral secured by mortgage is sufficient for the entire duration of the agreement. This assurance is based on analysis of long-term profitability of a given real estate, completed by establishing of the amount of capitalised net proceeds possible in long-term to achieve from a given real estate.

The Bank may conduct or order conducting revaluation of collaterals, including the real estate constituting mortgage collateral, provided that in the period from the last valuation events occurred that could have significant influence on the value of a given collateral or in case of real estate which constitutes collateral of loans for which the loss of value was recognised.

As a mandatory legal collateral of repayment of a granted loan the Bank accepts:

- mortgage on real estate that is subject to lending, entered into mortgage and land register in the first place - in case of loans for refinancing, loans to commercial developers, loans to housing developers, loans for land purchase, loans to natural persons, loans to natural persons - agency model, pooling,
- assignment of rights from insurance policy against fire and other random events of a real estate mortgaged to the Bank or assignment of rights from policy against any construction risk

of the financed real estate (depending on whether financing covers a completed real estate or an estate under construction) - in case of loans for refinancing, loans to commercial developers, loans to housing developers, loans to natural persons, loans to natural persons - agency model, pooling,

- assignment or pledge on receivables under lease agreements - in case of loans for refinancing, loans to commercial developers,
- blank promissory note of the borrower with bill declaration - in case of loans granted to local government units,
- guarantee of local government units according to civil law - in case of loans for health care facilities and companies appointed by local government units.

In case of commercial loans a dominating organisational form of borrowers of the Bank are so called special purpose companies. To the best knowledge of the Bank, Members of the Management Board and employees of the Bank do not hold positions in bodies of companies that are borrowers of the Bank.

According to IFRS 10, the Bank conducts analysis of exercising of control over units by the Bank. The Bank did not invest in securities and shares of other business units giving it a possibility to exercise current management over significant activities of those units and has no subsidiaries or associated, thus the analysis is related to possible interactions between the Bank and entities credited by it.

If those companies are companies with share capital, i.e. limited liability companies and joint stock companies, the Bank accepts registered pledge on shares or stocks as a legal collateral for repayment of a loan. Therefore, there is also significant concentration of registered pledges on shares or stocks as legal collateral of loan repayment. In case of financing of limited and limited joint stock companies, as legal collateral of repayment of loan the Bank accepts a pledge on shares/stocks of a general partner - an entity authorised to manage affairs of a limited or limited joint stock company.

Regardless of collaterals referred to above, the Bank may accept additional legal forms of collaterals for loans, in particular:

a) bank guarantee,
b) guarantee under civil law or according to the law on bills of exchange,
c) registered pledge on rights or receivables,
d) pledge according to the civil code on rights or receivables,
e) transfer of receivables other than those referred to above,
f) reservation of money on accounts,
g) power of attorney to account,
h) accession to a loan debt,
i) loan insurance,
j) debtors' declaration on submission to execution,
k) deposit,
l) borrower's shareholders' obligations
m) other forms provided by law.

The Bank establishes the form and value of legal collateral taking into account the specificity of a transaction, i.e. considering:

a) type and amount of loan and period of lending,
b) borrower's legal status,
c) borrower's financial situation,
d) history of cooperation with the borrower and capital group to which the borrower belongs,
e) costs of establishing collateral,
f) possibility of satisfying from accepted collateral of claims of the Bank in the shortest possible time.

In the scope of bank guarantees and assignment of rights from insurance policies, the Bank while selecting counterparties pays attention to financial results and rating of collateral issuers, accepting collaterals from reliable banks and insurance companies only.

3.1.2. Description of the rating system and credit risk management

For the analysis of the loan portfolio the Bank uses rating models which are updated annually. Rating systems currently cover 99.01% of total sum of risk-weighted exposures with standard method including portfolios covered with a plan of gradual implementation and 41% without including those portfolios. The difference results from the fact, that 58% of the total sum of risk-weighted exposures with standard method are retail exposures gained from the cooperation with mBank S.A., which are part of gradual implementation of the IRB method, accepted by the Polish Financial Supervision Authority. The Bank intends to apply in the future for the acceptance to use the statistical methods to measure regulatory capital requirements for the credit risk of these exposures.

The Bank applies rating models:

- for the purposes of credit risk management, including making credit decisions, assessment of credit risk of a transaction and capital adequacy - in case of commercial portfolio;
- for the purposes of credit risk management, including making credit decisions, assessment of credit risk of a transaction, determination of loss impairments, and eventually also for the purposes of capital adequacy - for exposures in the scope of the retail portfolio obtained in cooperation with mBank S.A.

The amount of losses incurred in 2021 was lower than the amount of losses incurred in 2020. Increase from PLN 42,4 million up to PLN 2,4 million was mainly due to the guarantee concluded with mBank S.A. the action of which neutralized the effect of increased credit risk by PLN 18.6 million.
The decrease in write-offs compared to the previous year is due to the stabilization of the situation and the slowdown in the growth of write-offs in the commercial portfolio related to the COVID-19 pandemic and from the dissolution of write-offs in the retail portfolio as a result of, inter alia, implementation of the New Default Definition, decrease in the LGD LT parameter resulting from the mass update of the collateral value and changes in the PD LT parameters and Transfer Logic.
The Bank, using an individual approach, made judgments on the reclassification of credit exposures to individual baskets, in particular with regard to identifying a significant increase in credit risk and identifying premises for default in an individual approach.

<u>Commercial portfolio including commercial receivables purchased from mBank S.A.</u>

In the area of commercial credits the Bank applies its own rating system for the purposes of assessment of a transaction risk, covering 11 rating models dedicated to particular commercial real estate market segments and a transfer function model allowing for determination of supervisory category on the basis of scoring assigned in the scope of internal model.

Ratings that analyse the structure of transaction are applicable to financing implemented:

- using "project finance", where as a principle a special purpose company is a borrower,
- for different types of transactions related to financing or refinancing of construction/purchase of office, service and commercial buildings, commercial and service spaces, warehouses, single- and multi-family housing estates for rental or sale, hotels and business premises for commercial activity, offices or warehouses.

Bank's models cover various stages of financing of a transaction - financing of construction or financing of a purchase/refinancing of completed real estate. Criteria cover area associated with:

- real estate: location, legal status, functional features of the facility;
- features of a local market: relation between demand and supply for a given type of facilities, business activity indicator in the region;
- analysis of financial flows generated by a real estate: amount, stability, currency adjustment, stress tests;
- quality assessment of the project's sponsor and its financial potential and will to support the project.

The Bank uses a grouping method that assigns exposure to appropriate risk categories, specifying supervisory values of expected loss (EL) and risk weight.

Assignment of appropriate supervisory categories takes place subsequent to risk assessment of a transaction with application of developed by the Bank internal rating models and transfer function model which transforms scoring assigned in the scope of the above mentioned internal models to supervisory categories.

Retail portfolio obtained in cooperation with mBank S.A.

For the purposes of assessment of reliability of a client applying for a retail loan product secured with mortgage and monitoring/reporting of credit risk for this portfolio, group credit risk models, which the Bank is a local user, are applied. Detailed rules and scope of cooperation between Banks in terms of group risk models are specified by provisions of a separate agreement on cooperation in the scope of risk management. The capital requirement for credit risk for this part of the portfolio is calculated using the standard method.

This retail portfolio is included in the AIRB phasing-in plan.

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

- Loss Given Default (LGD) model. In the model, loss is defined as a function dependent on the level of recovery from clients' own payments and possible value of collateral using real estate collected during enforcement procedures,
- Credit Conversion Factor (CCF) model. This factor is an integral part of the EAD model (CCF as a degree of implementation of off-balance sheet liabilities by the client on the day of default occurrence),
- probability of default model (PD) which is a modular model that integrates functioning in the area of retail banking application cards, behavioural and based on external data from Credit Information Bureau (BIK).

Additional information

Ratings assigned by external rating agencies have very limited significance in the credit risk assessment of the Bank due to dominating organisational form of borrowers - special purpose companies.

The risk-weighted exposure amounts to credit risk calculated using the internal ratings method using the supervisory approach for assigning specialized lending exposures to risk categories (IRB slotting approach) are presented in note 44

Assessment of quality of the Bank's loan portfolio is made on the basis of monitoring of timely repayments and monitoring of analysis of economic and financial situation of the borrower.
Loans to natural persons are monitored monthly for timely repayments and regularities in terms of established effective mortgage collaterals. All contractual obligations of the client are realised in the same monitoring period (including insuring of the real estate and assignment of the rights under insurance policies).

Commercial and public sector portfolio is monitored monthly for timely repayments, while the economic and financial situation is monitored quarterly or semi-annually depending on risk assessment of a transaction measured with obtained amount of points in the rating model. Additionally, the implementation of investment and settlement with contractors is also subject to monthly monitoring - in case of financing of a construction.

3.1.3. Repossessed collateral

The Bank may acquire a real estate of the debtor of the Bank on which mortgage that secures the repayment of loan was established in exchange for cancellation of the loan liability or part thereof resulting from the loan agreement, directly to its assets.

The Bank repossesses real estates of the debtor that constitute subject of mortgage collateral of repayment of liabilities arising from loan agreement or other real estates indicated by the Bank's debtor and accepted by the Bank as a subject of repossession.

The Bank is obliged to take measures aimed at sale of repossessed real estate or part thereof immediately after its purchase/repossession.

The decision regarding the strategy of sale of repossessed/purchased by the Bank real estate or part thereof and its procedure is taken by the Management Board of the Bank.

In both 2021 and 2020, the Bank did not take over any collaterals.

for 2021 (in PLN thousand)

3.1.4. The policy of mBank Hipoteczny S.A. in terms of forbearance

For customers, who are temporarily in financial distress and are unable to meet their original contractual repayment terms, the Bank offers agreements with less restrictive terms of repayment, without which financial difficulties would prevent satisfactory repayment under the original terms and conditions of the contract.

Changes to these agreements may be initiated by the customer or the Bank and include e.g. debt restructuring, new repayments schedule, capital repayments deferrals with interest repayments kept.

The type of concession offered should be appropriate to the nature and the expected duration of the customer's financial distress. If the customer wants to conclude an agreement it must convince the Bank about its willingness and ability to repay the loan. Prior to granting any 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 loan receivables repayment and minimise the risk of client's default.

In case of retail customers, in accordance with the forbearance policy, forborne activities may take on various forms depending on the type and scale of the customer's financial problems. Activities of short-term nature are subject mainly to temporary reduction of the amounts of instalments or suspension of capital instalments while maintaining payment of interests. For customers under long term financial distress extension of contractual repayment schedule may be offered by the Bank which can include instalments reduction.

For the corporate clients in financial distress the Bank uses, in accordance with the forbearance policy, a wide range of activities aimed at supporting of the business process, starting from omission of actions to which the Bank is entitled in case of breach of contractual provisions or covenants, and finishing on restructuring of loan agreements. At the same time restructuring agreements may repeal or alleviate additional conditions concluded in the original agreement, if it is an optimum strategy for survival of the customer's business.

The risk of no repayment of the product portfolio subject to the forbearance policy is mitigated with the amount of PLN 462 200 thousand of accepted collaterals (the mortgage lending value of the property that constitute the collateral of the loan), therefore, the possible influence of this portfolio on deterioration of the entire portfolio of the Bank is significantly limited.

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

The structure of the loan portfolio measured at amortized cost in the forbearance category in mBank Hipoteczny S.A. as at 31 December 2021 is as follows:

31.12.2021	Gros value	Of which defaulted	Write-downs created	Net value
Loans and advances to customers, including:	339 390	293 339	70 069	269 321
Corporate customers	305 787	285 126	67 834	237 953
Individual customers	33 602	8 213	2 235	31 367
Total balance sheet data	**339 390**	**293 339**	**70 069**	**269 321**

The structure of the loan portfolio measured mandatorily at fair value through profit or loss in the forbearance category in mBank Hipoteczny S.A. as at 31 December 2021 is as follows:

31.12.2021	Fair value	Of which defaulted
Non-trading finansial assets mandatorily at fair value trough profit or loss – loans and advances to customers, including:	7 086	5 785
Corporate customers	7 086	5 785
Total	**7 086**	**5 785**

for 2021 (in PLN thousand)

The structure of the loan portfolio measured at amortized cost in the forbearance category in mBank Hipoteczny S.A. as at 31 December 2020 is as follows:

31.12.2020	Gros value	Of which defaulted	Write-downs created	Net value
Loans and advances to customers, including:	275 228	161 279	61 306	213 922
Corporate customers	238 782	156 829	59 159	179 623
Individual customers	36 446	4 450	2 147	34 299
Total balance sheet data	**275 228**	**161 279**	**61 306**	**213 922**

The structure of the loan portfolio measured mandatorily at fair value through profit or loss in the forbearance category in mBank Hipoteczny S.A. as at 31 December 2020 is as follows:

31.12.2020	Fair value	Of which defaulted
Non-trading finansial assets mandatorily at fair value trough profit or loss – loans and advances to customers, including:	7 698	5 921
Corporate customers	7 698	5 921
Total	**7 698**	**5 921**

The size of the portfolio of the customers to whom the Bank has granted relief is still small compared with the total size of the Bank’s loan portfolio. The forbearance portfolio represents 2.90% (2.45% as at 31.12.2020) of the entire portfolio. As at 31 December 2021, the forbearance exposure portfolio in the default category represented 86.43% of the forbearance portfolio (59.09% as at 31.12.2020). The portfolio of exposures measured at amortized cost default was covered by expected credit losses of 23.89% (38.01% as at 31.12.2020).

The risk of default on the forbearance portfolio is mitigated with the accepted collateral in the form of a mortgage on a property with a mortgage lending value of TPLN 566 445 (TPLN 478 951 as at 31.12.2020), including TPLN 482 339 in the default category (TPLN 375 377 as at 31.12.2020).

Changes in the carrying amount of the forbearance exposures measured at amortized cost in 2021:

31.12.2021	Gros value	Of which defaulted	Write-downs created	Net value
Balance 01.01.2021	**275 228**	**161 279**	**61 307**	**213 921**
Outputs from forbearance	(15 399)	(1 029)	(310)	(15 089)
Change in exposure	(36 130)	28 521	(1 601)	(34 529)
New forbearance	115 691	104 568	10 673	105 018
Balance 31.12.2021	**339 390**	**293 339**	**70 069**	**269 321**

In 2021, 49 new exposures in the forbearance category were added, of which 3 were corporate clients for a total gross amount of TPLN 102 257. In 2020, 48 new exposures entered the forbearance category, of which only 8 related to corporate clients for a total gross amount of TPLN 87 530.

Changes in the carrying amount of the forbearance exposures measured at amortized cost in 2020:

31.12.2020	Gros value	Of which defaulted	Write-downs created	Net value
Balance 01.01.2020	**227 959**	**164 578**	**53 463**	**174 496**
Outputs from forbearance	(9 049)	-	(51)	(8 998)
Change in exposure	(43 774)	(73 129)	(20 559)	(23 215)
New forbearance	100 092	69 830	28 454	71 638
Balance 31.12.2020	**275 228**	**161 279**	**61 307**	**213 921**

Changes in the fair value of the forbearance exposures which is mandatorily at fair value through profit or loss in 2021:

31.12.2021	Fair value	Of which defaulted
Balance 01.01.2021	**7 698**	**5 921**
Outputs from forbearance	-	-
Change in exposure	(429)	8
New forbearance	-	-
Balance 31.12.2021	**7 269**	**5 929**

for 2021 (in PLN thousand)

Changes in the fair value of the forbearance exposures which is mandatorily at fair value through profit or loss in 2020:

31.12.2020	Fair value	Of which defaulted
Balance 01.01.2020	**26 210**	**24 056**
Outputs from forbearance	-	-
Change in exposure	(18 512)	(18 135)
New forbearance	-	-
Balance 31.12.2020	**7 698**	**5 921**

Forbearance exposures measured at amortized cost by type of concession as at 31 December 2021

31.12.2021	Gros value	Of which defaulted	Write-downs created	Net value
Refinancing	1 639	1 639	1 196	443
Modifications of terms and conditons	336 405	291 152	68 869	267 536
Total	**338 044**	**292 791**	**70 065**	**267 979**

Forbearance exposures measured mandatorily at fair value through profit or loss by type of concession as at 31 December 2021

31.12.2021	Fair value	Of which defaulted
Refinancing	-	-
Modifications of terms and conditons	7 086	5 785
Total	**7 086**	**5 785**

Forbearance exposures measured at amortized cost by type of concession as at 31 December 2020:

31.12.2020	Gros value	Of which defaulted	Write-downs created	Net value
Refinancing	12 812	11 303	1 508	11 304
Modifications of terms and conditons	262 416	149 976	59 798	202 618
Total	**275 228**	**161 279**	**61 306**	**213 922**

Forbearance exposures measured mandatorily at fair value through profit or loss by type of concession as at 31 December 2020

Type of concession 31.12.2020	Fair value	Of which defaulted
Refinancing	-	-
Modifications of terms and conditons	7 698	5 921
Total	**7 698**	**5 921**

Forbearance exposures measured mandatorily at fair value through profit or loss per length of overdue period as at 31 December 2021

31.12.2021 Past due period	Fair value	Of which defaulted
Not overdue	1 301	-
Over 90 days	5 785	5 785
Total	**7 086**	**5 785**

Forbearance exposures measured at amortized cost without recognised loss impairment per length of overdue period as at 31 December 2021

for 2021 (in PLN thousand)

Forbearance ex posures without impairment reconised (31.12.2021)	Gross value	Of which defaulted	Write downs created	Net value
Not overdue	40 080	-	2 842	37 238
Up to 30 days	3 635	-	120	3 515
31 to 90 days	1 992	-	98	1 894
Over 90 days	344	-	17	327
Total	**46 051**	**-**	**3 077**	**42 974**

Forbearance exposures measured mandatorily at fair value through profit or loss per length of overdue period as at 31 December 2020:

31.12.2020 Past due period	Fair value	Of which defaulted
Not overdue	5 921	5 921
Over 90 days	1 777	-
Total	**7 698**	**5 921**

Forbearance exposures measured at amortized cost without recognised loss impairment per length of overdue period as at 31 December 2020

Forbearance ex posures without impairment reconised (31.12.2020)	Gross value	Of which defaulted	Write downs created	Net value
Not overdue	46 817	-	2 704	44 113
Up to 30 days	6 443	-	148	6 295
31 to 90 days	2 351	-	117	2 234
Total	**55 611**	**-**	**2 969**	**52 642**

Forbearance exposures measured at amortized cost with recognised loss impairment per length of overdue period as at 31 December 2021

Forbearance ex posures without impairment reconised (31.12.2021)	Gross value	Of which defaulted	Write downs created	Net value
Not overdue	168 059	168 059	9 950	158 109
Up to 30 days	3 978	3 978	766	3 212
31 to 90 days	17 455	17 455	2 747	14 708
more than 90 days	103 846	103 846	53 528	50 318
Total	**293 338**	**293 338**	**66 991**	**226 347**

Forbearance exposures measured at amortized cost with recognised loss impairment per length of overdue period as at 31 December 2020

Forbearance ex posures without impairment reconised (31.12.2020)	Gross value	Of which defaulted	Write downs created	Net value
Not overdue	102 953	102 953	10 536	92 417
Up to 30 days	1 891	1 891	356	1 535
31 to 90 days	12 304	12 304	3 053	9 251
more than 90 days	102 467	-	44 393	58 074
Total	**219 615**	**117 148**	**58 338**	**161 277**

Forbearance exposures measured mandatorily at fair value through profit or loss by industry as at 31 December 2021

Forbearance ex posures without impairment reconised (31.12.2021)	Fair value	Of which defaulted
Activity related to the real estate market	7 086	5 785
Building industry	-	-
Total	**7 086**	**5 785**

for 2021 (in PLN thousand)

Forbearance exposures measured at amortized cost by industry as at 31 December 2021

Forbearance ex posures without impairment reconised (31.12.2021)	Gross value	Of which defaulted	Write-downs created	Net value
Activity related to the real estate market	218 673	213 329	30 153	188 520
Building industry	87 115	71 797	37 681	49 434
Natural persons	33 602	8 213	2 235	31 367
Total	**339 390**	**293 339**	**70 069**	**269 321**

Forbearance exposures measured mandatorily at fair value through profit or loss by industry as at 31 December 2020

As at 31 December 2020	Fair value	Of which defaulted
Activity related to the real estate market	7 698	5 921
Building industry	-	-
Total	**7 698**	**5 921**

Forbearance exposures measured at amortized cost by industry as at 31 December 2020

As at 31 December 2020	Gross value	Of which defaulted	Write-downs created	Net value
Activity related to the real estate market	121 525	103 004	9 478	112 047
Building industry	117 257	53 825	49 681	67 576
Natural persons	36 446	4 450	2 147	34 299
Total	**275 228**	**161 279**	**61 306**	**213 922**

Interest income related to forbearance exposures at the end of 2021, amounted to PLN 2 955 thousand (for the period ended 31 December 2020: PLN 5 897 thousand).

Retail Banking

The Bank does not consider loans with modified terms as falling under the forbearance policy in the case when changes result from the customer's application and there are no current or anticipated customer's financial difficulties, and, in addition, modifications of the contract meet the criteria of decision-making policy for a healthy portfolio. In the normal course of cooperation with a customer, the customer who is not in financial distress submits application to change the conditions of agreement, for example, in the scope of renegotiation of pricing conditions due to change of market conditions or in order to increase its ability to service another loan. If such application meets all decision criteria and is granted according to market conditions, then such loan is not classified to the forbearance category.

If case when a customer applies for prolongation of the repayment term, reduction of the amount of paid instalments or other alleviation of conditions, when it is caused by financial distress of the customer, modified agreements are treated as forborne products subject to the forbearance policy and are appropriately reported in the financial statement.

Forborne products (forbearance) available in retail banking are offered only to customers who are in financial distress. The type of offered forborne 198product depends of the scale and nature of the customer's financial distress.

The following list of forborne activities does not exhaust all possible actions that are subject to forbearance policy, but it includes the most common:

- individual repayment schedule,
- maturity extension/ extension of loan duration,
- restructuring,
- interest deferrals,
- principal deferrals,

with assumption that the failure to apply changes could result with no repayment of loan and in consequence the loss on the side of the Bank.

Forborne activities of short-term nature are focused on temporary reduction of the amount of instalments and may consist in suspension of repayments of capital with maintaining repayment of interests.

For customers under long term financial distress extension of contractual repayment schedule or refinancing of debt, which can be evidence for classification of the customer to the default category, may be offered.

The necessity to grant another forborne product causes reclassification of the product to non-performing category, and in case of lack of regular servicing, when overdue exceeds 90 days, the customer is reclassified to the default category.

This portfolio is subject to regular reviews and reporting to the management of the Risk Division. The effectiveness of undertaken actions, regularity of restructured products service in respect of types of product and client's segment are subject to assessment.

The Bank ceases to recognise the product as forbearance in the following cases:

- repayment of loan is considered as performing,
- at least 2 years passed since an attempt to recognise exposure as performing, or the contract was in the non-performing category at the moment of granting of a concession,
- there were regular inflows from receivables or interests (delays is payment on the contract not exceeding 31 DPD in significant amount), since at least from the half of the sample period,
- no exposure of debtors is overdue by over 31 days at the end of sample period in the amount greater than PLN 500.

Gross portfolio of products of forbearance status in the retail part as at 31 December 2021 amounted to TPLN 33 602 (TPLN 36 446 as at 31.12.2020).

Corporate banking

Credit relationships between the Bank and corporate clients are based on products the granting conditions of which take into account the type of business activity conducted by the client and are subject to negotiations.

Mortgage loans renegotiated for commercial reasons, e.g. in cases of significant improvement of the client's financial situation or in order to maintain relationship with a client without difficult credit situation are not treated as forbearance and are not subject to the following disclosure.

Forbearance occurs when, due to current or future financial distress of a client, the Bank grants products on conditions that are below standard conditions applicable in the Bank, which in other circumstances would not be accepted.

The change of conditions is treated as a relief subject to the forbearance policy,when it improves the client's ability to repay the debt or prevents the client's default.

For corporate clients in financial distress the Bank applies a wide range of action aimed at supporting of the Client's business process, wherein the following list of possible restructuring actions subject to the forbearance policy do not exhaust all available actions, but includes the most commonly used:

- loan increase,
- change of scheduled repayments,
- extension of the tenor,
- restructuring (medium or long term refinancing),
- capitalization of interest,
- lowering of the Bank's margin,
- granting of a grace period for repayment of capital while maintaining payment of interests,

- suspending, waiving from realization of actions resulting from additional conditions in agreement (so-called covenants).

The assessment of impairment on the basis of individual analysis is performed in every situation in which any criterion of recognising exposure as default in accordance with methodology applicable in the Bank occurred.

The portfolio of loans classified to the forbearance category in the Bank is subject to particular monitoring by all units participating in the lending process and constant assessment whether any evidence of permanent impairment of the Bank's receivable occurred. Transactions qualified to this category remain in this portfolio and are reported as forbearance for minimum 24 months from the day of granting of a concession (so called trial period). The following conditions must be met:

- recognizing the exposure as non-risky (performing),
- At least 24 months have passed since the exposure was considered non-performing (performing),
- there were regular receipts from receivables or interest (delays in repayment on the contract not exceeding 30 DPD in a significant amount), at least from the middle of the trial period,
- none of the obligor's exposures are more than 30 days past due at the end of the trial period.

A client may be removed from the forbearance portfolio before the end of the trial period only in case of complete repayment of the debt.

All loan products granted to a client serviced in the area of restructuring in the scope of the Bad Loans Section in the Commercial Loans Risk Department have the forbearance status and are subject to disclosure.

The portfolio of products of forbearance status in the corporate part as at 31 December 2021 amounted to TPLN 339 390 for assets measured at amortized cost and TPLN 7 086 for the portfolio measured mandatorily at fair value through profit or loss (TPLN 275 228 as at 31.12.2020 and TPLN 7 698 for the portfolio measured mandatorily at fair value through profit or loss). At the end of December 2021, aid in the form of a forbearance moratorium is 0.19% of loans (including a slight percentage of credit holidays).

3.1.5. Counterparty risk arising from transactions in derivatives

The Bank enters into derivative transactions only to hedge against currency risk and interest rate risk. The bank does not conduct trading activities, all derivative transactions are included in the banking book. The Bank's portfolio includes interest rate risk (IRS), exchange rate risk (FX SWAP contracts) and CIRS derivatives. The Bank has credit exposure limits for derivative transactions, approved by the Bank's Management Board. The amounts of the applicable credit exposure limits for individual banks are subject to review and verification at least once a year. The bank sets limits for banks with which an ISDA (International Swaps and Derivatives Association) agreement has been signed with a CSA (Credit Support Annex), for banks with which it plans to sign ISDA agreements with a CSA annex, and for central clearing houses, by which the Bank will settle derivative transactions. The counterparty risk is limited by selecting the individual segregated account structure in the clearing house. The utilization of credit exposure limits is controlled on a daily basis. Both in 2021 and 2020, there were no cases of exceeding the limits. As of December 31, 2021 and on On December 31, 2020, derivative transactions were concluded with mBank S.A., J.P. Morgan AG and with the central clearing house. Therefore, it is assumed that derivative transactions at the Bank have a limited credit risk profile.

3.1.6. Debt securities - financial assets at fair value through other comprehensive income

The value of debt securities (financial assets at fair value through other comprehensive income) as at 31 December 2021 amounted to TPLN 732 393, and as at 31 December 2020 amounted to TPLN 791 045. Debt securities on both 31 December 2021 and 31 December 2020 had A- rating in the scale of Standard & Poor's (S&P) Ratings.

Net balance sheet value of investment securities constituting additional collateral of liabilities for issued mortgage covered bonds:

- as at 31 December 2021 amounted to TPLN 165 189,
- as at 31 December 2020 amounted to TPLN 151 009.

Investment securities on which collateral was established are presented in Note 34.

As at December 31, 2021, the Bank created an allowance for expected credit losses (ECL) on treasury bonds in the amount of TPLN 99.

Both as at 31 December 2021 and 31 December 2020 all investment securities were not past due instruments.

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

Risk of geographical concentration

Assets, liabilities and off-balance sheet items are not presented according to geographical areas in the Bank due to insignificance of geographical differentiation of risks. The Bank operates only in the territory of the Republic of Poland. Bank stosuje wewnętrzne limity koncentracji geograficznej w podziale na województwa dla ekspozycji z portfela korporacyjnego.

The risk of concentration of large exposures, the risk of concentration of exposures

Concentration risk is a risk that can significantly influence stability and security of the Bank's actions through failure to perform liability by a single entity, entities related in capital or organisationally as well as through group of entities in case of which the probability of failure to perform this liability depends on common factors.

In the scope of concentration risk management the Bank identifies risk, measures, monitor and report it.

Measurement of concentration risk in the Bank is performed through establishing of the size of an exposure that generates the risk of concentration and relate this amount to established limits resulting from provisions of law and internal limits.

The Bank limits credit risk using internal exposure concentration limits, specified in internal procedures.

While establishing proposal of the level of internal exposure concentration limits, the Bank takes into account the following issues:

a) the macroeconomic situation in the country,
b) situation on the real estate market in the country,
c) situation on financial markets in the country,
d) implementation of credit policy of the Bank in previous years,
e) results of restructuring and debt collection actions of the Bank,
f) information from reliable sources (academic centres) on economic situation of entities, branches, industry sectors, according to the recommendations of Resolution No. 384/2008 PFSA,
g) economic and quality information regarding the process of management in entities against which it holds exposure from which the concentration risk results,
h) factors resulting from other types of risk associated with identified exposures from which the risk of concentration arises (e.g. of interest rate, liquidity, operational and political) that may negatively influence an increase of concentration risk,
i) stress test results.

Internal exposure limits are specified in relation to the amount of own funds of the Bank and in relation to the sum of exposures of the Bank.

The Bank conducts monthly reporting of monitored concentration risk in relation to:

a) capital groups monitoring,
b) exposures concentration limit monitoring,
c) large exposures limit monitoring,
d) monitoring of the limit of loans granted to Bank's related entities,
e) internal limits monitoring.

Sector concentration risk

The Bank focuses its activity on granting of loans secured with mortgage established on real estate to legal entities, loans to local government units and loans secured with guarantee or guarantee of local government units. Regardless of external loan concentration limits the Management Board of the Bank establishes internal limits associated with e.g.:

a) industry concentration according to the type of financed real estate,
b) financing of real estates under construction and land purchases,
c) share of the financing of particular types of real estates in the loan portfolio,
d) geographical concentration, currency concentration,
e) type of applied in the Bank interest rates (fixed and variable interest rates),
f) lending period.

As at 31 December 2021 and 31 December 2020 no exceeding of exposure limit against an entity or a group of affiliated clients specified in Art. 395.1 of the CRR Regulation occurred in the Bank.

The assessment of individual credit risk in case of financing of commercial real estates is made on the basis of assessment of borrowers' creditworthiness, credit transaction ratings which include selected quantitative indicators, i.e. debt service coverage ratio (DSCR), interests service coverage ratio (ISCR), level of own funds, and in case of housing developers the level of benchmark price and quality measures, e.g. the means of project management and identification of default event. Ratings in the Bank cover different segments of specialist financing defined in bank procedures in terms of their distinction as to the type and investment phase. The Bank assesses the risk of credit transactions through risk parameters estimates. In particular the Bank, whose activity is subject to credit risk, before concluding a transaction or over its course - in monitoring mode - conducts risk assessment based on individualised rating systems that were created on the basis of an expert approach.

Credit risk management in financing of commercial real estate also includes: creation of impairment losses provisions for balance sheet credit exposures and write-offs for off-balance sheet credit exposures, indicators of creation and release of write-offs, application of limits, stress tests, scenario analyses, receivables concentration limits monitoring, application of credit collaterals, application of conservative rules of specifying of mortgage lending value of the property, application of statistical models for revaluing properties.

The table below presents the structure of concentration of balance sheet exposures in particular sectors.

No.	Trade	31.12.2021		31.12.2020	
		Net carrying amount (PLN '000)	Share in the portfolio (%)	Net carrying amount (PLN '000)	Share in the portfolio (%)
1.	Natural persons	9 136 876	77,90	8 346 280	72,88
2.	Activity related to the real estate market	1 695 338	14,45	1 989 425	17,37
3.	Building industry	664 546	5,67	851 337	7,43
4.	Proffesional, scientific and technical activity	77 751	0,66	82 577	0,72
5.	Activity related to culture, enteraiment ald leisure	56 373	0,48	62 468	0,55
6.	Public administration and defence;Compulsory social security	36 580	0,31	42 668	0,37
7.	Healt protection and social welfare	31 915	0,27	37 254	0,33
8.	Financial activities	20 371	0,17	29 242	0,26
9.	Activity related to accommodation and catering services	8 730	0,07	10343	0,09
10.	Other	-	0,00	-	0,00
	Total	**11 728 480**	**100,00**	**11 451 594**	**100,00**

3.3. Strategy for use of financial instruments

The Bank in its activity uses financial instruments including also derivative instruments. The Bank issues covered bonds and bonds. The Bank's liabilities bear both variable and fixed interest rates. The Bank invests raised funds in assets of acceptable level of risk in order to increase interest margin. In order to secure currency risk and interest rate risk the Bank concludes transactions on derivative instruments.

While concluding the above mentioned transactions the Bank maintains the level of liquidity sufficient to settle all arising liabilities.

Derivative instruments

The Bank strictly controls open net derivative items, i.e. difference between purchase and sale contracts, both in terms of the nominal value of the contract and the period of validity. The amount subject to credit risk at any time is limited to current fair value of instruments which valuation is positive (i.e. assets), which, in relation to derivative instruments, constitutes only small fraction of value of agreement or nominal values used to express the volume of existing instruments.

Off-balance sheet liabilities of credit nature

Off-balance sheet liabilities of credit nature relate to not used part of granted loans. The Bank reserves the possibility to non-payment of unused part of loan in case of deterioration of the client's creditworthiness. Therefore, the probable amount of resulting loss is significantly lower than the entire amount of unused liabilities from loans.

The Bank has organisational solutions that ensure formal and factual separation of credit risk assessment processes from processes of credit decision-making. Credit decisions are taken collectively, according to the decision-making powers, after consideration of recommendation presented by the director of department responsible for the credit risk analysis.

3.4. Market risk

The Bank is exposed to market risk understood as risk of changes of current valuation of financial instruments that constitute the portfolios of the Bank which result from changes in pricing and value of market parameters. Market risk exposure of the Bank results from open items on interest, currency instruments that are exposed to market change of value of appropriate risk factors, and in particular to change of value of interest rates, exchange rates and credit spread.

The risk profile results from the Bank's operational strategy. The Bank offers products based on variable and fixed interest rate, wherein the products based on variable interest rate are preferred. The Bank offers products in foreign currencies EUR and USD. The Bank does not perform operations at its own account for trade purposes, it only has the bank portfolio. The main method of market risk management in the Bank is application of natural security, that is obtaining of funds for financing in currencies and of interest rates directly adjusted to corresponding assets. Due to the nature of the Bank's activity, the exposure to market risk should be maintained at the lowest possible level. The Bank aims to limit the exposure to market risk resulting from the structure of assets and liabilities through concluding hedging transactions, the catalogue of which is approved by the Management Board of the Bank. Identification of market risks and liquidity takes into account internal and external factors.

Internal factors include factors such as: the specificity of lending activity and the specificity of refinancing structure. External factors include factors constituting the surroundings of the Bank: interbank market, behaviour of financial markets, strategy and policy of shareholder against the Bank. The market risk is identified in all types of products and types of activities. Widely recognised methods are applied in the process of identification. The Bank specified the level of risk through measurement of the value exposed to risk (Value at Risk - VaR) and through stress tests.

VaR is a statistical measurement of the market risk level which expresses a potential loss to which a portfolio is exposed during specified period of time, for a given level of confidence, in normal market conditions, due to changes of risk factors (foreign exchange rates, interest rates, credit spreads). The potentiality of a loss means that with previously established large probability (confidence level), at which fair value is determined, within a specified time period a loss lower than determined VaR value may be expected.

Value at risk in the Bank is determined using historical simulation method. This method consists in determination of distribution of changes in the value of portfolio on the basis of historical distribution of changes of risk factors, observed over a specified period of time. VaR is determined in one day time horizon on the basis of 254 historical observations and is monitored at confidence level of 97.5%.

As at 31 December 2021, VaR amounted to TPLN 3 283.8 compared with TPLN 2 411.1 as at 31 December 2020, with a confidence level of 97.5%. The increase in VAR was influenced by the CIRS transaction securing the issue of mortgage bonds in EUR.

The list below presents the value of average and maximum VaR of the Bank during the period from 1 January 2021 until 31 December 2021 and from 1 January 2020 until 31 December 2020.

PLN '000	12 months until 31.12.2021		12 months until 31.12.2020	
	average	maximum	average	maximum
Credit spread risk	2 226	3 089	1 941	2 510
Interest rate risk	2 110	2 986	2 346	2 719
Currency risk	79	647	37	374
VaR Total	**2 671**	**3 321**	**2 676**	**3 100**

Stress test and scenario analyses

An additional measure of market risk, supplementing the measurement of value at risk, is a stress test which shows a hypothetical change in the current valuation of the Bank's portfolio, that would take place as a result of risk factors (foreign exchange rates, interest rates, credit spreads) assuming the defined extreme values within a one-day time horizon. The Bank makes use of standard and expanded scenarios of big changes in the values of risk factors. Standard scenarios include changes in interest rates and exchange rates, extended scenarios additionally include scenarios of changes in credit spreads for securities.

As at December 31, 2021, the amount of risk resulting from the extended scenario was TPLN 45 599, while the average amount of risk for this scenario in the period from January 1, 2021 to December 31, 2021 was TPLN 48 170.

Below is a decomposition of amount of risk resulting from described stress test to the amount assigned to interest rate risk and currency risk.

Stress test	31.12.2021				31.12.2020			
	Total	Interes rate risk	Currency risk	Credit spread risk	Total	Interes rate risk	Currency risk	Credit spread risk
Amount of risc in PLN '000	(45 598)	(26 918)	(2 290)	(16 390)	(45 466)	(30 724)	(303)	(14 439)

3.5. Currency risk

Exchange rate risk results from exposure of current value of exposures of the Bank in assets, liabilities and off-balance sheet items expressed in PLN to adverse effect of changes of market exchange rates.

The Bank is exposed to currency risk to a small degree, as it does not maintain significant currency mismatch of assets and liabilities (currency positions) through adaptation of currency structure of conducted lending action and sources of refinancing as well as closing of open currency positions with derivative contracts (Note 19). The risk of influence of changes of exchange rates to the financial result of the Bank is limited, and existing in the Bank procedures for control and reporting significantly eliminate possibility of its arising. In the scope of currency risk management, the Bank assesses the scale and structure of currency risk only on the basis of current currency position of the Bank. Monitoring also covers currency position including expected repayments and payment of loans that influence currency risk. The Bank manages currency position by performing currency purchase/sale transactions with immediate or future terms and by concluding transaction of the SWAP type.

for 2021 (in PLN thousand)

The table below presents an analysis of the sensitivity of assets, liabilities and off-balance sheet items to changes in exchange rates to which the Bank was exposed as at 31.12.2021 and as at 31.12.2020. The analysis shows the impact of a 10% increase in the currency exchange rate against the PLN profit and loss. A 10% drop in odds causes the same change, but with the opposite sign. A negative amount in the table reflects a potential decline in the income statement, while a positive amount reflects a potential growth.

Impact on the income statement duo to changes in exchange rates

currency	scenario	31.12.2021	31.12.2020
EUR	+10%	(2 161 675)	(233 684)
USD	+10%	(128 018)	(69 388)

The following table presents exposures of the Bank to currency risk as at 31 December 2021 and 31 December 2020. The table presents assets and liabilities of the Bank according to balance sheet amount broken down by particular currencies of transactions.

31.12.2021	PLN	EUR	USD	Total
Assets				
Cash and balances with the Central Bank	114 658	-	-	**114 658**
Financial assets held for trading and derivatives held for hedges	1 163	124 618	56	**125 837**
Non-trading financial assets mandatorily at fair value through profit or loss, including:	70 389	49 816	-	**120 205**
Loans and advances to customers	70 389	49 816	-	**120 205**
Financial assets at fair value through other comprehensive income	732 393	-	-	**732 393**
Financial assets at amortised cost:	9 742 520	1 991 689	26 733	**11 760 943**
Loans and advances to banks	495	152 127	46	**152 668**
Loans and advances to customers	9 742 025	1 839 562	26 687	**11 608 275**
Intangible assets	52 488	-	-	**52 488**
Tangible assets	29 434	-	-	**29 434**
Deferred income tax assets	19 960	-	-	**19 960**
Other assets	25 904	-	-	**25 904**
TOTAL ASSETS	**10 788 910**	**2 166 123**	**26 789**	**12 981 822**
Liabilities				
Financial liabilities held for trading and derivatives held for hedges	327	6 726	-	**7 053**
Financial liabilities measured at amortised cost, including:	7 134 154	4 552 689	-	**11 686 843**
Amounts due to banks	3 401 866	579 149	-	**3 981 015**
Amounts due to customers	1 829	104	-	**1 933**
Debt securities issued	3 630 241	3 973 436	-	**7 603 677**
Subordinated liabilities	100 218	-	-	**100 218**
Provisions	5 382	-	-	**5 383**
Current income tax liabilities	2 551	-	-	**2 551**
Other liabilities	15 703	-	-	**15 702**
TOTAL LIABILITIES	**7 158 117**	**4 559 415**	-	**11 717 533**
Net balance sheet position	**3 630 793**	**(2 393 292)**	**26 789**	**1 264 290**
Loan commitments	**9 700**	**-**	**-**	**9 700**

31.12.2020	PLN	EUR	USD	Total
Assets				
Cash and balances with the Central Bank	29 393	-	-	**29 393**
Financial assets held for trading and derivatives held for hedges	-	195 982	935	**196 917**

Non-trading financial assets mandatorily at fair value through profit or loss, including:	76 203	57 635	-	**133 838**
Loans and advances to customers	76 203	57 635	-	**133 838**
Financial assets at fair value through other comprehensive income	791 045	-	-	**791 045**
Financial assets at amortised cost:	9 103 318	2 501 771	35 800	**11 640 889**
Loans and advances to banks	659	322 276	198	**323 133**
Loans and advances to customers	9 102 659	2 179 495	35 603	**11 317 756**
Intangible assets	53 936	-	-	**53 936**
Tangible assets	13 818	-	-	**13 818**
Deferred income tax assets	4 123	-	-	**4 123**
Other assets	5 349	-	-	**5 349**
TOTAL ASSETS	**10 077 185**	**2 755 388**	**36 736**	**12 869 308**
Liabilities				
Financial liabilities held for trading and derivatives held for hedges	216	4 503	-	**4 719**
Financial liabilities measured at amortised cost, including:	6 699 008	4 856 221	-	**11 555 229**
Amounts due to banks	2 915 394	585 279	-	**3 500 673**
Amounts due to customers	1 687	1 790	-	**3 477**
Debt securities issued	3 681 778	4 269 152	-	**7 950 930**
Subordinated liabilities	100 149	-	-	**100 149**
Provisions	3 392	-	-	**3 392**
Current income tax liabilities	-	-	-	**-**
Other liabilities	15 728	-	-	**15 728**
TOTAL LIABILITIES	**6 718 345**	**4 860 723**	**-**	**11 579 068**
Net balance sheet position	**3 358 840**	**(2 105 336)**	**36 736**	**1 290 240**
Loan commitments	**66 576**	**-**	**-**	**66 576**

3.6. Interest rate risk

Interest rate risk is a risk resulting from exposure of current and future financial result and capital of the Bank to adverse impact of changes in interest rates. The Bank manages the interest rate gap through matching of terms of revaluations of assets and liabilities. In case of such mismatch appropriate hedging instruments are applied (IRS derivative instruments, Basic Swap, CIRS). Derivative transactions to interest rate are concluded exclusively in order to secure positions resulting from lending activity and its financing.

The measure of interest rate risk are revaluation terms mismatch gap and specified on its basis interest income exposed to risk ("EaR").

A sudden change of interest rates by 100 BP for all maturity dates if it had a permanent nature and adverse direction and would cause reduction of annual interest income by:

EaR (in PLN '000)	31.12.2021	31.12.2020
For items expressed in PLN	5 115	8 965
For items expressed in USD	41	42
For items expressed in EUR	91	546

When calculating those values it was assumed that the structure of assets and liabilities recognised in financial statements as at 31 December 2021 and as at 31 December 2020 will not change in the course of next year and that the Bank will not take any action in order to change exposure at risk.

Maintaining of interest rate risk level in 2021 on similar level as in 2020 is a result of current adjustment of revaluation terms of granted loans and corresponding financing sources. Additionally, the Bank concludes hedging transaction of IRS type in order to limit interest rate risk and CIRS.

for 2021 (in PLN thousand)

The Bank's exposures to interest rate risk are presented below. Data in the table present financial assets and financial liabilities per balance sheet value, sorted according to terms of interest rate change arising from agreement or relates to their maturity.

31.12.2021	Up to 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Not-interest rate items	Total
Assets							
Cash and balances with the Central Bank	114 658	-	-	-	-	-	**114 658**
Financial assets held for trading and derivatives held for hedges	57	111 299	14 482	-	-	-	**125 838**
Non-trading financial assets mandatorily at fair value through profit or loss, including:	15 224	100 472	4 509	-	-	-	**120 205**
Financial assets at fair value through other comprehensive income	322 253	-	146 479	263 662	-	-	**732 394**
Financial assets at amortised cost loans and advances to banks	152 668	-	-	-	-	-	**152 668**
Financial assets at amortised cost loans and advances to customers	1 480 230	9 635 421	432 437	59 829	358	-	**11 608 275**
TOTAL ASSETS	**2 085 090**	**9 847 192**	**597 907**	**323 491**	**358**	**-**	**12 854 038**
Liabilities							
Financial liabilities held for trading and derivatives held for hedges	2 081	4 972	-	-	-	-	**7 053**
Financial liabilities measured at amortised cost - amounts due to banks	1 732 216	2 248 799	-	-	-	-	**3 981 015**
Financial liabilities measured at amortised cost - amounts due to customers	-	-	-	-	-	1 933	**1 933**
Financial liabilities measured at amortised cost - amounts due to the issue of debt securities	465 414	2 834 964	920 649	3 182 549	200 102	-	**7 603 678**
Subordinated liabilities	-	100 218	-	-	-	-	**100 218**
TOTAL LIABILITIES	**2 199 711**	**5 188 953**	**920 649**	**3 182 549**	**200 102**	**1 933**	**11 693 897**
balance sheet gap	**(114 621)**	**4 658 239**	**(322 742)**	**(2 859 058)**	**(199 744)**	**(1 933)**	**1 160 141**

31.12.2020	Up to 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Not-interest rate items	Total
Assets							
Cash and balances with the Central Bank	29 393	-	-	-	-	-	**29 393**
Financial assets held for trading and derivatives held for hedges	12 777	162 895	21 245	-	-	-	**196 917**
Non-trading financial assets mandatorily at fair value through profit or loss, including:	19 475	107 511	6 852	-	-	-	**133 838**
Financial assets at fair value through other comprehensive income	488 735	-	302 310	-	-	-	**791 045**
Financial assets at amortised cost loans and advances to banks	323 133	-	-	-	-	-	**323 133**
Financial assets at amortised cost loans and advances to customers	1 646 852	9 091 507	579 397	-	-	-	**11 317 756**
TOTAL ASSETS	**2 520 365**	**9 361 913**	**909 803**	**-**	**-**	**-**	**12 792 082**
Liabilities							
Financial liabilities held for trading and derivatives held for hedges	4 495	224	-	-	-	-	**4 719**
Financial liabilities measured at amortised cost - amounts due to banks	832 368	2 668 305	-	-	-	-	**3 500 672**
Financial liabilities measured at amortised cost - amounts due to customers	-	-	-	-	-	3 477	**3 477**
Financial liabilities measured at amortised cost - amounts due to the issue of debt securities	468 060	3 048 231	457 885	3 549 449	427 305	-	**7 950 930**
Subordinated liabilities	-	100 149	-	-	-	-	**100 149**
TOTAL LIABILITIES	**1 304 923**	**5 816 908**	**457 885**	**3 549 449**	**427 305**	**3 477**	**11 559 949**
balance sheet gap	**1 215 442**	**3 545 004**	**451 919**	**(3 549 449)**	**(427 305)**	**(3 477)**	**1 232 134**

for 2021 (in PLN thousand)

3.7. Liquidity risk

Liquidity risk is a threat of losing the ability to finance the assets and discharge the liabilities on a timely basis in the course of the Bank's ordinary operations or in other conditions that can be predicted, which makes it necessary to incur unacceptable losses.

Strategic objective in terms of liquidity risk management is ensuring the ability of the Bank to timely repayment of liabilities and financing of steadily growing assets and minimisation of impact of this risk to the financial result of the Bank.

The Bank manages liquidity risk so as to ensure that intraday, short-term, mid-term and long-term liquidity is maintained. The Bank lays down the principles for identifying, measuring, assessing, monitoring and reporting risk. As part of managing market liquidity risk, the Bank diversifies the sources of financing mainly as part of cooperation with mBank S.A. The Bank finances its long-term assets primarily with mortgage bonds with long maturities and credit lines, and it satisfies its current cash needs on the interbank market and by issuing short-term bonds.

The Bank has emergency plan in case of liquidity crisis. The plan specifies cases of crisis situations that cause risk of liquidity loss or arising of another hazard for currency and interest risk management, identifies reserve funding sources of the Bank, indicates general procedures for the Bank in crisis situations.

The Bank ensures intraday liquidity by maintaining a liquidity portfolio which consists of instruments which can be liquidated quickly.

The Bank manages and monitors liquidity risk using cumulative liquidity gap limits, check digits (MAT) and statutory limits, in particular the liabilities limit (referred to in Article 15, clause 2 of the Act on Mortgage Bonds and Mortgage Banks) as well as the limits on supervisory measures of short-term and long-term liquidity specified in the PFSA Resolution and the Regulation.

In 2021 and 2020, the Bank monitored all liquidity measures specified in the resolution of PFSA 386/2008 dated 17 December 2008:

- M3 - coverage ratio of illiquid assets with own funds,
- M4 - coverage ratio of illiquid assets and assets of limited liquidity with own funds and stable external funds.

The The tables below present the values of the M3 - M4 liquidity standards and the LCR measure as at December 31, 2021 and December 31, 2020, their average and minimum values and maximum:

Liquidity norm*	Value as at 31.12.2021	average	minimum	maximum
M3	40.745	66.005	38.974	100.092
M4	1.047	1.049	1.034	1.061
LCR	876%	1627%	516%	2792%
NSFR	110%	115%	109%	119%

Liquidity norm*	Value as at 31.12.2020	average	minimum	maximum
M3	93,281	84,217	79,315	93,281
M4	1,047	1,059	1,031	1,099
LCR	848%	901%	262%	1554%
NSFR	119%	111%	98%	122%

* M2, M3 and M4 measures are relative measures expressed as decimal fraction

LCR (Liquidity Coverage Ratio) – the ratio of coverage of net cash outflows determining the relationship of the liquidity buffer to its net liquidity outflows over a 30 calendar day stress period.

In 2021 and 2020 no exceeding of liabilities limit and any form of liquidity took place.

for 2021 (in PLN thousand)

3.7.1. Cash flows from transactions in non-derivative financial instruments

The table below includes not discounted values of cash flows required to pay or receive by the Bank. 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.

31.12.2021	Up to 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total
Assets (by expected dates of maturity)						
Cash and balances with the Central Bank	114 658	-	-	-	-	114 658
Non-trading financial assets mandatorily at fair value through profit or loss, including:	541	1 184	6 491	29 296	82 694	120 206
Financial assets at fair value through other comprehensive income	413	-	7 718	769 448	-	777 579
Financial assets at amortised cost loans and advances to banks	152 881	-	-	-	-	152 881
Financial assets at amortised cost loans and advances to customers	73 514	160 956	882 066	3 981 208	11 237 857	16 335 601
TOTAL ASSETS	**342 007**	**162 140**	**896 275**	**4 779 952**	**11 320 551**	**17 500 925**
Planned payments of the off-balance sheet liabilities to grant loans or guarantees	**17**	**35**	**5 332**	**911**	**3 405**	**9 700**
Total asetes and off-balance sheet	**342 024**	**162 175**	**901 607**	**4 780 863**	**11 323 956**	**17 510 625**
Liabilities (by contractual dates of maturity)						
Financial liabilities held for trading and derivatives held for hedges	268 144	24 152	366 145	1 744 735	2 029 782	4 432 958
Financial liabilities measured at amortised cost - amounts due to banks	1 933	-	-	-	-	1 933
Financial liabilities measured at amortised cost - amounts due to customers	102 256	132 445	1 534 338	5 782 096	324 018	7 875 153
Financial liabilities measured at amortised cost - amounts due to the issue of debt securities	-	1 161	3 549	18 853	109 433	132 995
Subordinated liabilities	**372 333**	**157 758**	**1 904 032**	**7 545 684**	**2 463 233**	**12 443 039**
TOTAL LIABILITIES	**5 367**	**1 705**	**2 629**	**-**	**-**	**9 701**
Off-balance sheet liabilities to grant loans or guarantees	**377 700**	**159 463**	**1 906 661**	**7 545 684**	**2 463 233**	**12 452 740**
Total liabilities and off-balance sheet	268 144	24 152	366 145	1 744 735	2 029 782	4 432 958
Net liquidity gap	**(35 676)**	**2 712**	**(1 005 054)**	**(2 764 821)**	**8 860 723**	**5 057 885**

31.12.2020	Up to 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total
Assets (by expected dates of maturity)						
Cash and balances with the Central Bank	29 393	-	-	-	-	29 393
Financial assets held for trading and derivatives held for hedges	611	1 356	6 410	35 667	89 794	133 838
Non-trading financial assets mandatorily at fair value through profit or loss, including:	155 630	-	153 837	403 710	80 112	793 289
Financial assets at fair value through other comprehensive income	323 307	-	-	-	-	323 307
Financial assets at amortised cost loans and advances to banks	63 085	140 026	661 850	3 682 923	9 271 841	13 819 725
Financial assets at amortised cost loans and advances to customers	**572 026**	**141 382**	**822 097**	**4 122 300**	**9 441 747**	**15 099 552**
TOTAL ASSETS	**25**	**49**	**35 454**	**26 035**	**5 014**	**66 577**
Planned payments of the off-balance sheet liabilities to grant loans or guarantees	**572 051**	**141 431**	**857 551**	**4 148 335**	**9 446 761**	**15 166 129**
Total asetes and off-balance sheet	29 393	-	-	-	-	29 393
Liabilities (by contractual dates of maturity)						

Financial liabilities held for trading and derivatives held for hedges	248 902	6 338	220 453	2 240 340	996 480	3 712 513
Financial liabilities measured at amortised cost - amounts due to banks	3 477	-	-	-	-	3 477
Financial liabilities measured at amortised cost - amounts due to customers	2 307	329 013	622 885	6 574 971	552 268	8 081 444
Financial liabilities measured at amortised cost - amounts due to the issue of debt securities	-	794	2 426	12 889	109 669	125 778
Subordinated liabilities	**254 686**	**336 145**	**845 764**	**8 828 200**	**1 658 417**	**11 923 212**
TOTAL LIABILITIES	**26 170**	**12 516**	**27 134**	**756**	**-**	**66 576**
Off-balance sheet liabilities to grant loans or guarantees	**280 856**	**348 661**	**872 898**	**8 828 956**	**1 658 417**	**11 989 788**
Total liabilities and off-balance sheet	248 902	6 338	220 453	2 240 340	996 480	3 712 513
Net liquidity gap	**291 195**	**(207 230)**	**(15 347)**	**(4 680 621)**	**7 788 344**	**3 176 341**

The amounts disclosed in maturity dates analysis are undiscounted contractual cash flows. Liabilities due to leases fall under the item: financial liabilities valued at the motorized cost cost - payable to clients and banks. Maturity structure of liabilities due to leasing was presented in note 28.

3.7.2. Cash flows from transactions in derivative financial instruments

Derivative financial instruments settled in net amounts

Derivative financial instruments settled by the Bank on the net basis include interest rate swap contracts (IRS).

The following table presents derivative financial liabilities of the Bank which will be settled on the net basis, broken down by particular maturity dates as at balance sheet date. The amount in foreign currencies has been converted to PLN according to average exchange rate of NBP from balance sheet date. Amounts recognised in the table are not discounted contractual cash outflows.

As at December 31, 2021

Derivatieves financial instruments to be settled on a net basis	within 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	Total
Interes rate swaps (IRS)	-	20 116	5 829	46 593	11 163	83 701
Total net valuation	-	20 116	5 829	46 593	11 163	83 701

Derivatieves financial instruments to be settled on gross basis	within 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	Total
Currency SWAP contracts:						
- outflows	737 326	546 282	-	-	-	1 283 608
- inflows	735 049	538 130	-	-	-	1 273 179
Intrest-rate contracts CIRS:						
- outflows	-	10 082	46 393	1 437 616	-	1 494 091
- inflows	-	-	3 339	1 389 837	-	1 393 176

Derivative financial instruments settled in gross amounts

Derivative financial instruments settled by the Bank on the gross basis include derivative currency financial instruments: SWAP currency contracts on the date of SPOT and FORWARD currency and CIRS.

The table below presents derivative financial instruments of the Bank which will be settled on the gross basis, broken down by particular maturity periods as at balance sheet date. The amounts in foreign currencies have been converted to PLN according to average exchange rate of NBP as at balance sheet date.

for 2021 (in PLN thousand)

As at December 31, 2020

Derivatieves financial instruments to be settled on a net basis	within 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	Total
Interes rate swaps (IRS)	-	19 568	6 520	90 140	19 709	135 937
Total net valuation	-	19 568	6 520	90 140	19 709	135 937

Derivatieves financial instruments to be settled on gross basis	within 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	Total
Currency SWAP contracts:						
- outflows	610 002	597 114	-	-	-	1 207 116
- inflows	618 302	611 646	-	-	-	1 229 947
Intrest-rate contracts CIRS:						
- outflows	-	3 489	9 809	1 350 455	-	1 363 754
- inflows	-	-	3 350	1 397 841	-	1 401 192

4. Fair value of financial assets and liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly 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 either:

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

The main and the most advantageous markets must be both available to the Bank.

In line with IFRS 9, for accounting purposes, the Bank measures financial assets and liabilities at amortized cost or at fair value. Moreover, for items measured at amortized cost accounting for the needs of disclosures in the financial statements - in accordance with the requirements of IFRS 7 - measurement at fair value.

In line with market practices, the Bank measures financial instruments in which it maintains open positions using market prices (valuation to the market) or valuation models recognized in market practice (valuation from the model) fed with prices or market parameters, and in few cases with parameters estimated internally by the Bank. All material open positions in derivative instruments are valued using market models that are fed with prices or parameters observable by the market.

For the purposes of disclosures, the Bank assumed that the fair value of short-term financial liabilities (less than 1 year) was equal to their book value. For financial liabilities over 1 year, the fair value is estimated on the basis of discounted cash flows using appropriate interest rates.

Items valued at amortized cost

The table below summarizes the book values and fair values for each group of financial assets and liabilities not measured in the statement. from the financial position of the Bank at fair value.

Financial assets and liabilities	31.12.2021		31.12.2020	
	Carrying value	Fair value	Carrying value	Fair value
Financial assets valued at amortised cost				
Cash and balances with the Central Bank	**114 658**	**114 658**	**29 393**	**29 393**
Amounts due from other banks	**152 668**	**152 668**	**323 133**	**323 133**
Loans and advances to customers, including:	**11 608 275**	**12 259 684**	**11 317 756**	**11 972 924**
Individual customers	9 136 875	9 738 518	8 346 281	8 933 414
Corporate customers	2 379 628	2 427 270	2 856 501	2 921 918
Public sector customers	71 401	73 525	85 731	88 349

for 2021 (in PLN thousand)

Other financial institutes	20 371	20 371	29 243	29 243
Total financial assets	**11 875 601**	**12 527 010**	**11 670 282**	**12 325 450**
Financial liabilities at amortised cost				
Amounts due from other banks	**3 981 015**	**3 981 015**	**3 500 673**	**3 500 673 3 477**
Amounts due to the customers, including:	**1 933**	**1 933**	**3 477**	**3 477**
Corporate customers	1 881	1 881	3 353	3 353
Individual customers	21	21	114	114
Public sector customers	31	31	10	10
Debt securities in issue	**7 603 677**	**7 567 578**	**7 950 930**	**7 956 838**
Surbordinated liabilities	**100 218**	**100 218**	**100 149**	**100 149**
Total financial liabilities	**11 686 843**	**11 650 744**	**11 555 229**	**11 561 137**

The main assumptions and methods used by the Bank when estimating the fair value of financial instruments are presented below:

Receivables due to loans and advances granted to clients

The fair value of receivables from banks and loans and advances to customers was calculated as the value of estimated future cash flows (taking into account the effect of prepayments) using current interest rates, taking into account the amount of the credit spread, liquidity cost and cost of capital. The credit spread level was determined based on the market quotation of the median credit spreads for Moody's rating system. The credit spread was assigned to a given credit exposure by mapping Moody's rating system with the Bank's internal rating system. In order to reflect the fact that a large part of the Bank's exposure is secured, while the median of market quotes is concentrated around unsecured issues, the Bank made an adjustment on this account.

The value of expected future cash flows takes into account potential losses resulting from credit risk. Input data for the model are principal installments schedules, forward rate curves, PD and LGD parameter curves and components of the discount rate related to the financing cost margin, fixed costs and capital, as well as the calibration margin.

Financial instruments representing liabilities include the following:

- loans received,
- other financial liabilities with deferred payment term,
- subordinated loans received,
- liabilities in respect of cash collateral,
- liabilities due to issued by the Bank covered bonds and bonds,
- other liabilities due to customers.

The Bank does not hold financial instruments on the side of liabilities of fixed interest rate of above 1 year apart from liabilities due to covered bonds issued by the Bank.

Liabilities arising from issuing of securities (covered bonds and bonds)

The Bank estimated the fair value of the issued covered bonds and unsecured high-rated corporate bonds using the credit spread. For the so far issued tranches subject to secondary trading, the assumption was made that that the value of the credit spread is the same as for primary market issues with the same maturity. The clean price of individual tranches of outstanding covered bonds was estimated taking into account the remaining maturity, the value of the expected credit spread for issues on the secondary market and quotations from the swap curve.

Liabilities from the issue of debt securities are presented at level 3 in the fair value hierarchy.

Based on the methods used by the Bank to determine the fair value, financial assets and liabilities are classified into the following categories:

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

for 2021 (in PLN thousand)

The table below presents the fair value hierarchy for financial assets and liabilities measured at fair value in accordance with the assumptions and methods described above, solely for the purpose of disclosure, as at December 31, 2021 and December 31, 2020.

31.12.2021	including	Level 1	Level 2	Level 3
		Quoted prices in active markets	Valuation techniques based on observable market data	Other valuation techniques
VALUATION FOR DISCLOSURE ONLY				
Financial assets				
Cash and balances with the Central Bank	**114 658**	**-**	**-**	**114 658**
Amounts due from other banks	**152 668**	**-**	**-**	**152 668**
Loans and advances to customers, including:	**12 259 684**	**-**	**-**	**12 259 684**
Individual customers	9 738 518	-	-	9 738 518
Corporate customers	2 427 270	-	-	2 427 270
Public sector customers	73 525	-	-	73 525
Other financial institutes	20 371	-	-	20 371
Financial liabilities				
Amounts due from other banks	**3 981 015**	**-**	**-**	**3 981 015**
Amounts due to the customers, including:	**1 933**	**-**	**-**	**1 933**
Corporate customers	1 881	-	-	1 881
Individual customers	21	-	-	21
Public sector customers	31	-	-	31
Debt securities in issue	**7 567 578**	-	-	**7 567 578**
Surbordinated liabilities	**100 218**	-	-	**100 218**
Total financial assets	**12 527 010**	**-**	**-**	**12 527 010**
Total financial liabilities	**11 650 744**	**-**	**-**	**11 650 744**

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 FOR DISCLOSURE ONLY				
Financial assets				
Cash and balances with the Central Bank	**29 393**	**-**	**-**	**29 393**
Amounts due from other banks	**323 133**	**-**	**-**	**323 133**
Loans and advances to customers, including:	**11 972 924**	**-**	**-**	**11 972 924**
Individual customers	8 933 414	-	-	8 933 414
Corporate customers	2 921 918	-	-	2 921 918
Public sector customers	88 349	-	-	88 349
Other financial institutes	29 243	-	-	29 243
Financial liabilities				
Amounts due from other banks	**3 500 673**	**-**	**-**	**3 500 673**
Amounts due to the customers, including:	**3 477**	**-**	**-**	**3 477**
Corporate customers	3 353	-	-	3 353
Individual customers	114	-	-	114
Public sector customers	10	-	-	10
Debt securities in issue	7 956 838	-	-	7 956 838
Surbordinated liabilities	**100 149**	**-**	**-**	**100 149**
Total financial assets	**12 325 450**	**-**	**-**	**12 325 450**
Total financial liabilities	**11 561 137**	**-**	**-**	**11 561 137**

Items valued at fair value

The tables below present the fair value hierarchy for financial assets and liabilities that were disclosed in the Bank's statement of financial position at fair value as at December 31, 2021.

for 2021 (in PLN thousand)

The tables below present the fair value hierarchy of financial assets and liabilities recognised in the statement of financial position of the Bank at their fair values as of 31 December 2021.

31.12.2021	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 derivatives held for hedges	**125 837**	**-**	**33 594**	**92 243**
Derivative financial instruments, including:	**125 837**	**-**	**33 594**	**92 243**
Derivative financial instruments held for trading:	**1 229**	**-**	**1 229**	**-**
- Interest rate derivatives	1 172	**-**	1 172	-
- Foreign exchange derivatives	57	**-**	57	-
Derivative financial instruments held for hedging:	**124 608**	**-**	**32 365**	**92 243**
Derivatives designated as fair value hedges	32 365	**-**	32 365	-
- Derivatives designated as cash flow hedges	92 243	**-**	-	92 243
Non-trading financial assets mandatorily at fair value through profit or loss	**120 205**	**-**	**-**	**120 205**
Loans and advances to custumers	**120 205**	**-**	**-**	**120 205**
Corporate customers	120 205	**-**	-	120 205
Financial assets at fair value through other comprehensive income	**732 393**	**732 393**	**-**	**-**
- **Treasury bonds**	732 393	732 393	-	-
TOTAL FINANCIAL ASSETS	**978 435**	**732 393**	**33 594**	**212 448**

31.12.2021	including	Level 1	Level 2	Level 3
		Quoted prices in active markets	Valuation techniques based on observable market data	Other valuation techniques
FINANCIAL LIABILITIES				
Derivative financial instruments, including:	**7 053**	**-**	**7 053**	**-**
Derivative financial instruments held for trading:	**7 053**	**-**	**7 053**	**-**
- Interest rate derivatives	-	**-**	-	-
- Foreign exchange derivatives	7 053	**-**	7 053	-
Derivative financial instruments held for hedging:	**-**	**-**	**-**	**-**
-Derivatives designated as fair value hedges	-	**-**	-	-
TOTAL FINANCIAL LIABILITIES	**7 053**	**-**	**7 053**	**-**
RECURRING FAIR VALUE MEASUREMENTS				
TOTAL FINANCIAL ASSETS	**978 435**	**732 393**	**33 594**	**212 448**
TOTAL FINANCIAL LIABILITIES	**7 053**	**-**	**7 053**	**-**

Level 3 financial assets measured at fair value	Non-trading loans and advances at mandatory fair value through profit or loss - change in 2021
Opening balance sheet	**133 838**
Gains or losses recognised in the profit and loss account	864
Gains or losses on non-trading financial assets required to be measured at fair value through profit or loss	864
Changes due to modifications that do not result in derecognition (net)	(14 497)
Closing balance sheet	**120 205**

for 2021 (in PLN thousand)

The tables below present the fair value hierarchy of financial assets and liabilities recognised in the statement of financial position of the Bank at their fair values as of 31 December 2020.

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 derivatives held for hedges	**196 917**	**-**	**75 888**	**121 029**
Derivative financial instruments, including:	**196 917**	**-**	**75 888**	**121 029**
Derivative financial instruments held for trading:	**28 323**	**-**	**28 323**	**-**
- Interest rate derivatives	-	-	-	-
- Foreign exchange derivatives	28 323	-	28 323	-
Derivative financial instruments held for hedging:	**168 594**	**-**	**47 565**	**121 029**
Derivatives designated as fair value hedges	47 565	-	47 565	-
- Derivatives designated as cash flow hedges	121 029	-	-	121 029
Non-trading financial assets mandatorily at fair value through profit or loss	**133 838**	**-**	**-**	**133 838**
Loans and advances to custumers	**133 838**	**-**	**-**	**133 838**
Corporate customers	133 838	-	-	133 838
Financial assets at fair value through other comprehensive income	**791 045**	**756 046**	**34 999**	**-**
- Treasury bonds	756 046	756 046	-	-
- Money bills	34 999	-	34 999	-
TOTAL FINANCIAL ASSETS	**1 121 800**	**756 046**	**110 887**	**254 867**

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
FINANCIAL LIABILITIES				
Derivative financial instruments, including:	**4 719**	**-**	**4 719**	**-**
Derivative financial instruments held for trading:	**4 674**	**-**	**4 674**	**-**
- Interest rate derivatives	-	-	-	-
- Foreign exchange derivatives	4 674	-	4 674	-
Derivative financial instruments held for hedging:	**45**	**-**	**45**	**-**
-Derivatives designated as fair value hedges	45	-	45	**-**
TOTAL FINANCIAL LIABILITIES	**4 719**	**-**	**4 719**	**-**
RECURRING FAIR VALUE MEASUREMENTS				
TOTAL FINANCIAL ASSETS	**1 121 800**	**756 046**	**110 887**	**254 867**
TOTAL FINANCIAL LIABILITIES	**4 719**	**-**	**4 719**	**-**

Level 3 financial assets measured at fair value	Non-trading loans and advances at mandatory fair value through profit or loss - change in 2020
Opening balance sheet	**157 714**
Gains or losses recognised in the profit and loss account	**(2 168)**
Gains or losses on non-trading financial assets required to be measured at fair value through profit or loss	(2 168)
Changes due to modifications that do not result in derecognition (net)	(9 100)
Write-offs	(12 608)
Closing balance sheet	**133 838**

for 2021 (in PLN thousand)

With regard to financial instruments repeatedly measured at fair value, classified at levels 1 and 2 of the fair value hierarchy, any potential transfer between these levels is monitored by the relevant departments of the Bank based on internal rules.

In 2021 and 2020, there were no transfers of financial instruments between individual levels of the fair value hierarchy.

With respect to financial instruments repeatedly measured at fair value, classified at levels 1 and 2 of the fair value hierarchy, any potential transfer between these levels is monitored by the Risk Management Department based on internal policies. If there is no market price for direct valuation, the valuation method for this instrument is changed for a period of more than 5 business days, i.e. the transition from direct valuation to model valuation, if an approved valuation method from the model for this instrument is available. The return to the direct valuation method takes place after a period of at least 10 business days in which the market price has been continuously available. In the absence of a market price for Treasury debt securities, the above periods are 2 and 5 business days, respectively.

Level 1
As at 31 December 2021, at level 1 of the hierarchy of values, the Bank presents the fair value of government bonds measured at fair value through other comprehensive income in the amount of PLN 732 393 thousand (31 December 2020: PLN 791 045 thousand).
These instruments were classified to level 1 because their valuation consists in direct use of the current market prices of these instruments from active and liquid financial markets.

Level 2
Level 2 of the hierarchy mainly covers the fair value of money bills issued by NBP in the amount of PLN 0 thousand (December 31, 2020: PLN 34 999 thousand), the valuation of which is based on the NPV model (discounting future cash flows), which is fed with interest rate curves determined by transformation of quotations derived directly from active and liquid financial markets.
In addition, to level 2, the Group includes the valuation of derivative financial instruments for which models are used, in accordance with market standards and practices in this respect, which are supplied with parameters directly from the markets (e.g. exchange rates, implied volatilities of currency options, stocks) or parameters that transform quotes directly from active and liquid financial markets (e.g. interest rate curves).

Level 3
At level 3 of the hierarchy, the fair value of Loans and advances to customers is disclosed, which are obligatorily measured at fair value through profit or loss in the amount of PLN 120 205 thousand (December 31, 2020 - PLN 133 838 thousand). The valuation model uses credit risk parameters (e.g. PD, LGD) and information obtained from the market (including spreads implied from transactions). The PD and LGD parameters are not observed in active markets and therefore have been derived from statistical analyzes. The credit spread model has been built internally in risk units, has been approved by the Model Risk Committee and is subject to periodic monitoring and validation carried out by a unit independent of the units responsible for model building and maintenance.

The table below presents the sensitivity of the fair value measurement to the change in unobservable parameters used in models for loans and advances to customers measured at fair value at level 3.

Portfolio	Fair value 31.12.2021	Sensitivity to the change of the unobservable parameterego		Description
		(-)	(+)	
Loans and advances to customers are obligatorily measured at fair value through profit or loss in a non-default situation	104 931	95	(188)	The valuation model uses the PD credit risk parameters Sensitivity calculated assuming a PD change of +/- 10%
Loans and advances to customers obligatorily measured at fair value through profit or loss in the def	15 274	(1 527)	949	The valuation model uses individual estimates of expected cash flows. Sensitivity calculated assuming a change in flows of +/- 10%

Portfolio	Fair value 31.12.2020	Sensitivity to the change of the unobservable parameterego		Description
		(-)	(+)	
Loans and advances to customers are obligatorily measured at fair value through profit or loss in a non-default situation	118 460	753	(348)	The valuation model uses the PD credit risk parameters Sensitivity calculated assuming a PD change of +/- 10%
Loans and advances to customers obligatorily measured at fair value through profit or loss in the def	15 378	(1 538)	946	The valuation model uses individual estimates of expected cash flows. Sensitivity calculated assuming a change in flows of +/- 10%

for 2021 (in PLN thousand)

Derivatives designated as cash flow hedges

The derivative designated as a cash flow hedge is a CIRS (Cross-Currency Interest Rate Swap), which was classified at level 3 of the fair value hierarchy, where the Bank pays a variable rate based on WIBOR and receives a fixed rate in EUR. In the case of announced bankruptcy of mBank Hipoteczny S.A., the CIRS transaction is not completed and continues until the date of completion of the transaction in accordance with the parameters set on the transaction date. Moreover, the transaction in question is characterised by a high denomination and a unilateral obligation to make a security deposit, where mBank Hipoteczny S.A. is exempt from the obligation to make it.

For the purposes of cash flow hedge accounting, the Bank enters into two hedging relationships simultaneously:

- by decomposition of the actual part of a CIRS transaction securing a PLN loan portfolio with a variable interest rate (hedging against interest rate risk), and
- by decomposing the part of the actual CIRS transaction securing the obligation in EUR (hedging against currency risk).

For the purpose of calculating changes in the fair value of future cash flows of items being hedged, the Bank applies the "hypothetical derivative" method, which assumes the possibility of reflecting the hedged item and the characteristics of the hedged risk in the form of a derivative.
The rules of valuation are analogous to those of interest rate derivatives.

Due to the properties of a CIRS transaction concluded by the Bank, containing non-standard and non-quoted price components, the margin on the leg paid by the Bank was higher than the margin of a standard, analogous CIRS transaction, which is resolved in the case of bankruptcy of a counterparty with a bilateral exchange of margin.
This fact was confirmed by an independent quotation of CIRS transactions obtained by the Bank. At the same time, before concluding the transaction, the Bank checked other market quotations of high-rated counterparties and they showed convergence with the finally obtained transaction quotation. Thus the transaction was classified as a transaction concluded on market conditions, not having an option character, free of additional fees at the time of its conclusion and was considered a transaction in which there are parameters unobservable on an active market influencing its valuation.

Due to the non-standard character of the CIRS transaction concluded by the Bank, the valuation of this transaction consists of three elements - the value of discounted expected flows from the CIRS transaction, CVA/DVA adjustments and linear depreciation over time until the maturity date of the difference between the valuation of a non-standard CIRS transaction (including CVA/DVA adjustments corresponding to the nature of this transaction) and the valuation of a standard CIRS transaction (including CVA/DVA adjustments resulting from the profile of this transaction) determined on the transaction date. The amount depreciated on a straight-line basis, taken into account in the valuation of IRS transactions, determined at the time of concluding the transaction is PLN 7,215 thousand. Due to the fact that at the moment of establishing the NPV relation of the original CIRS transaction was transferred to the IRS transaction, therefore DVA as a significant valuation component was included in its valuation, and CVA due to its insignificant value was included in the valuation of the CIRS transaction.

The components of the CIRS transaction valuation are presented in the table below

		Date of the transaction 05.11.2019	31.12.2021
Fair value measurement of CIRS transactions		**(1 402)**	**92 334**
Includings	CVA of the CIRS transaction	(60)	(42)
	DVA of the CIRS transaction	3 555	382
	Value of the valuation of the CIRS transaction to be settled over time	7 215	4 563

For the CIRS transaction concluded by the Bank for the purposes of cash flow hedge accounting, there is no active market that would reflect the valuation of transactions with similar characteristics. Publicly available CIRS quotes refer to contracts that are settled upon bankruptcy of the counterparty, include bilateral margin collateral and have a face value that is actively traded in the market. In the opinion of the Bank, these are the arguments that there are no prices available on an actively available market that could adequately reflect the fair value of the CIRS transaction concluded by the Bank.

5. Major estimates and assessments made in connection with the application of accounting 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 impact of the implementation of the New Definition of Default on the Bank's operations

From January 1, 2021, the Bank implemented the default definition in line with the European Banking Supervision Guidelines EBA / GL / 2016/07 of January 18, 2017.

The bank maintained its current application of the definition of default at the customer level, also in relation to retail banking exposures.

The process of adapting to the new regulations covered the following key areas:

- change in the method of calculating days past due;
- implementation of the materiality threshold (relative and absolute) in accordance with the Regulation of the Minister of Finance, Investments and Development of October 3, 2019;
- Emergency Restructuring Guidelines. The materiality threshold from which the Bank considers a reduced financial liability to be defaulted is 1%. The bank has mechanisms in place to ensure that all forborne non-performing exposures are classified as defaulted and subject to contingency restructuring; providing facilities to an already defaulted debtor classifies it as a debtor subject to emergency restructuring;
- introducing a quarantine (trial period), the time during which the Bank assesses the behavior and financial situation of the debtor.

The new definition of default is applied consistently, both for the purposes of calculating own funds requirements and for estimating impairment and expected credit loss. In line with supervisory expectations, it also plays an important role in internal credit risk management processes. On the date of implementation of the EBA / GL / 2016/07 Guidelines, the share of NPL exposures in the loan portfolio decreased. The NPL ratio, i.e. the ratio calculated in accordance with the EBA guidelines, decreased by 0.07 pp. (from 3.15% as of December 31, 2020 to 3.08% as of January 1, 2021).

The observed direction of changes is a consequence of introducing the provisions of par. 95-105 of the EBA Guidelines on the principle of treatment of joint credit obligations. The positive effect of using the above-mentioned of the provisions is balanced by the negative effect of introducing a continuous method of calculating days past due and lowering the amount threshold to PLN 400.

In the case of the corporate banking portfolio, there is no material impact of changes to the EBA / GL / 2016/07 Guidelines on the level of NPL exposure. This is due to the fact that the corporate area in the assessment of the default status is characterized by an expert approach, which identifies the probability of default much earlier than the overdue over 90 days. Thus, changes in the calculation of days past due introduced by the Guidelines had an immaterial impact on the level of NPLs in the corporate area.

The impact of the implementation of the EBA guidelines on the costs of credit risk recognized by the Bank in the income statement was PLN 2.1 million (as of January 1, 2021).

The Bank estimates that in subsequent reporting periods the introduced changes should not materially affect the financial result.

The Bank reviews its loan portfolio in terms of possible impairments at least once per quarter. In order to establish whether the impairment should be reported in the income statement, the Bank assesses whether there are any evidence indicating possible to measure decrease of estimated future cash flows arising from granted loans and advances. If there is objective evidence of impairment of loan, the amount of impairment is calculated as a difference between balance sheet value for a given element of asset and current value of estimated future cash flows, discounted according to original effective interest rate of a given element of financial assets. If the current value of estimated cash flows for the portfolio of loans with recognized individual impairment changed by +/- 10%, as at 31 December 2021 the estimated amount of loan impairment would decrease by PLN 30.2 thousand or increase by PLN 38.4 thousand respectively (as at 31 December 2020, the amount of estimated cash flows would decrease by PLN 16.6 thousand or increase by PLN 21.5 thousand respectively). This estimate was made for a portfolio of loans in the case of which impairment is recognized on the basis of an individual analysis of future cash flows from recoveries from collateral (stage 3).

The most important changes resulting from the implementation of Recommendation R

On April 15, 2021, the Polish Financial Supervision Authority issued Recommendation R on principles of classification of credit exposures, estimating and recognizing expected credit losses and credit risk management which entered into force on January 1, 2022.

Revised Recommendation R is a collection of good practices on credit exposure classification estimating and recognizing expected credit losses in accordance with the accounting and credit risk management policies adopted and in force at banks.

The most important adjustments resulting from the content of the Recommendation covered the following areas of the Bank:

- definition of default - no need to change the definition of default was identified as part of the adjustment to Recommendation R. The provisions of the recommendation contributed to the specification of some premises for impairment and the modification of the debt collection process;
- Baskets classification - adaptation of the criteria catalog of the Transfer Logic algorithm:
- In terms of quality criteria, the following two elements were added to the previously used criteria:
    - deterioration of the risk profile of the entire exposure portfolio due to the type of product, industry or distribution channel - applies to retail banking,
    - a delay in repayment for a given exposure exceeding 90 days from the maturity of a credit / loan installment - principal, interest or fees, in a situation where the materiality criteria for an overdue credit obligation have not been met for a given exposure - applies to retail and corporate banking;

  in terms of the quantitative criterion, the following changes were made:
    - adjusting the definition of the relative and absolute change of the long-term PD to the requirements of Recommendation R,
    - updating the thresholds of the Transfer Logic, taking into account the long-term perspective (departure from the cyclical recalibration of thresholds based on the current portfolio data; ensuring the constancy of the thresholds expected by the supervisor throughout the life of the contract by determining the thresholds based on a long-term sample of data),
    - taking into account the model segmentation compliant with the cross-sections suggested in the R recommendation;
- process changes:
    - inclusion of the Management Board Member for Risk Management (CRO) in the process of approval of expected credit losses,
    - clarifying the process of determining expected credit losses through, inter alia, detailed description of data sources, IT systems, information flow and schedule.

The most important changes implemented in the scope of expected credit losses and their impact are presented in Note 2.8. The bank does not expect these changes to have a significant impact on the expected credit losses in 2022.

The impact of the COVID-19 pandemic on the Bank's operations

Aid measures taken at the Bank as a result of the COVID-19 pandemic

In connection with the crisis caused by the COVID-19 pandemic, the 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 clients by reducing the financial burden in the short term.

The tools used at the Bank until the end of September 2020 were in line with the Banks' position regarding the unification of the rules for offering assistance tools to clients of the banking sector. This position was a non-statutory moratorium within the meaning of the European Banking Authority's guidelines on statutory and non-statutory loan repayment moratoria that were applied by the Banks in connection with the COVID-19 crisis. They were notified by the Polish Financial Supervision Authority to the European Banking Authority.

The moratorium covered aid instruments granted from March 13 to September 30, 2020 and then - in the period from January 18 to March 31, 2021 - aid instruments dedicated to enterprises from industries particularly affected by the effects of the COVID-19 pandemic.

As regards the activities of the Retail Banking area in Poland, in January 2021, the Bank again enabled corporate clients from industries particularly affected by the pandemic, listed in the provisions of the PFR 2.0 Financial Shield program, to apply for a deferment in the repayment of principal or principal and interest installments, for the period indicated by them a maximum of 6 months, taking into account the number of months used during the non-statutory moratorium in 2020, with the possibility of extending the loan period by the duration of the moratorium. The applications that met the conditions set by the sectoral position were examined in a simplified manner, ie without the need to test the client's ability to pay the liabilities. The process of examining applications was supported by the mechanism of automatic verification of boundary conditions (including the entrepreneur's PKD, no arrears in repayment of more than one installment, at least 6-month history of repayments, date of signing the loan before March 13, 2020).

When granting a capital grace, the sum of capital outstanding after the grace period was divided according to the algorithm (equal or decreasing installments - according to the contract) for the remaining period. In the case of extending the loan period, the period to be repaid is longer, which means that the installments after the grace period will be lower than in the case of a capital grace without extending the loan period. When granting the capital and interest grace period for the capital, the mechanism was identical to that for the capital grace, while the interest suspended was evenly distributed over the period to be repaid after the grace period.

Aid instruments under this moratorium were available to all retail clients whose delay in repayment of principal or interest did not exceed 30 days as of the date of submitting the application for support and concerned only loans granted before March 13, 2020, which were not reclassified to the default category.

The bank also offers clients support under the so-called anti-crisis shield 4.0, effective from June 23, 2020, under which customers who have lost their job or other main source of income after March 13, 2020 have the right to suspend loan repayment for up to 3 months without charging interest during the suspension period. This improvement is a statutory moratorium within the meaning of the guidelines of the European Banking Authority. The scale of applications for this form of aid is currently insignificant. In the period from January 1, 2021 to December 31, 2021, aid was granted to 8 borrowers. The gross carrying amount of these customers' liabilities as at December 31, 2021, it amounted to PLN 2.57 million.

As regards the activities of the Corporate Banking area, on December 2, 2020, the EBA decided to reactivate the "Guidelines on statutory and non-statutory moratoria on loan repayments in the wake of the COVID-19 crisis ”. On this basis, the banks and banking groups associated in the Polish Bank Association decided to resume the non-statutory moratorium and include it in the aid measures granted from January 18 to March 31, 2021. The renewed moratorium was notified by the EBA through the PFSA Office, but its scale is significantly smaller than that of the first moratorium.

The operation of the reactivated moratorium was limited to acting clients only in sectors most affected by the COVID-19 pandemic, i.e. in industries covered by the PFR Financial Shield (in accordance with the PKD classification) or operating in the field of renting space in commercial or service facilities, including retail parks with an area of more than 2,000 m2. Other criteria that qualify the client for aid were similar to the rules in force under the first moratorium, i.e. they only applied to loans granted before March 13, 2020, the client as at December 31, 2021 was not classified as default by the Bank, bankruptcy, restructuring, liquidation or enforcement proceedings and, by March 31, 2021, filed an application for a change in financing conditions.

for 2021 (in PLN thousand)

The tables below present information on the scope of COVID-19 moratoria applied by the Bank.

13.03.2020-31.12.2021	Number of total clients assisted as of March 13, 2020	of which: exposures on 31.12.2021	of which: number of clients assisted in 2021
Moratoriums	2 758	2 253	5
BGK government guarantees	-	-	-

Value of loans with assistance granted in the period 13.03.2020-31.12.2021	Total number of customers who received assistance since March 13, 2020				
	Gross value of contracts with awarded moratoria	Including: gross value of contracts with expired moratoria	Including: gross value of contracts with active moratoria	Cumulative impairment of contracts with active moratoria	Net value/fair value of contracts with active moratoria
Moratoriums	**1 510 478**	**1 510 478**	**-**	**-**	**-**
Individual customers	695 040	695 040	-	-	-
Corporate customers	815 438	815 438	-	-	-
Including corporate customers who received help in 2021	122 637	122 637	-	-	-

At the end of December 31, 2021, there were no active moratoria.

The vast majority of contracts subject to the installment suspension moratoria benefited from the aid in the form of the principal installment suspension - it was approximately 92% of the total exposure recorded on December 31, 2021. This means that customers are still required to pay their liabilities, but with a lower installment. The delay in the payment of interest installments is subject to the standard overdue calculation. If such payment is overdue by more than 30 days, it will be classified into Basket 2, and over 90 days - into Basket 3.

The tables below provide information on the expired moratoria that were applied within the Group under COVID-19 from March 13,2020 to December 31, 2021.

Expired assistance as of 31.12.2021 provided between March 13 and December 31, 2021	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)	Accumulative impairment
Moratoriums	**1 488 574**	**22 242**	**22 242**	**148 409**	**8 412**
Individual customers	689 758	1 581	1 581	12 791	753
Corporate customers	798 816	20 661	20 661	135 618	7 659
Including corporate customers who received help in 2021	122 637	-	-	39 671	1 295

Expired assistance as of 31.12.2021 provided between March 13,2020 and December 31, 2021	Non-performing				
	Gross Value	Of which: exposures with forbearance measures	Of which: unlikely to pay that are not past-due or past-due <= 90 days	Accumulated impairment	Cumulative impairment
Moratoriums	**21 904**	**17 134**	**16 763**	**-**	**(17 939)**
Individual customers	5 282	512	141	-	905
Corporate customers	16 622	16 622	16 622	-	(18 844)
Including corporate customers who received help in 2021	-	-	-	-	-

The impact of the COVID-19 pandemic on the process of assessing the client's financial situation

In assessing the financial condition of corporate clients, the Bank used only the individual assessment as the most appropriate and precise (the Bank did not use a collective or sectoral approach).

During the monitoring of customer and transaction risk, the impact of the COVID-19 pandemic on the customer's situation and the strength of this impact (i.e. temporary turbulence, long-term problem for the business model, etc.) as well as the plan to reduce this impact implemented by the customer were assessed. Among corporate clients applying for moratoria, CRE clients in the retail and hotel industries had the largest balance sheet exposure.

The customer was entered on the Watch List (LW - list of customers under the watch) based on standard criteria defined in the Bank's internal regulations. With regard to customers who submitted an application for an aid measure to the Bank, the list of criteria for entry on the Watch List has been extended with an additional, discretionary COVID-19 premise. A customer may have been included on the Watch List if, in the credit analyst's opinion, the customer's problems resulting from the pandemic are of a long-term nature and after the pandemic is over, the customer may not return to a financial situation sufficient to settle liabilities. In addition, other criteria for inclusion on the Watch List, contained in the Bank's internal regulations, also applied to the clients whom the Bank provided support in connection with COVID-19. Placing a client on the Watch List results in the classification of the client into the basket 2.

With regard to the retail client risk assessment, clients covered by the moratorium aid tools continue to be scoring according to the standard client evaluation process.

Description of the Bank's approach to forbearance classification in relation to aid activities under COVID-19

According to the statement of the European Banking Authority on the application of the prudential default, forbearance and IFRS9 framework in the light of COVID-19 measures, published on March 25, 2020, stating that the use of COVID-19 aid tools in the form of repayment moratoria meeting the guidelines defined in the guidelines The EBA regarding the treatment of public and private moratoria in the light of COVID-19 measures does not automatically classify exposures to default and forbearance, and in line with the statement of the KNF Office published under the Supervisory Impulses for Security and Development Package that it will apply a flexible approach to the application of EBA guidelines on of non-performing and restructured exposures, the Bank does not classify the granting of aid instruments used due to the COVID-19 crisis under the moratoria as a forbearance measure.

The exception are corporate clients, for which the approach was used based on an individual assessment of whether it is required to classify such client's exposure as forborne, in accordance with the applicable internal regulations of the Bank.

Actions regarding additional write-offs for credit risk in connection with the COVID-19 pandemic

- actions taken in 2021 and in 2020 with regard to retail clients subject to non-statutory moratoria

Due to the uncertainty related to the difficult observation of the timeliness of repayment of loans covered by the moratoria, the Bank also decided to reclassify, as at December 31, 2020, some of the retail clients covered by this form of support, selected on the basis of behavioral characteristics, into basket 2 despite the lack of evidence of a significant increase in risk resulting in the recognition of additional allowances for expected credit losses in the amount of PLN 0.77 million. The total gross carrying amount of the reclassified portfolio as at December 31, 2021 was approximately PLN 400 million.

The change had an impact on the basket share structure. The share of Basket 2 in the total exposure of the loan portfolio increased with a simultaneous decrease in its coverage with provisions, which is a natural consequence of allocating exposures with a lower probability of impairment (lower PD) to the basket.

- In the first quarter of 2021, the Bank gradually resigned from applying additional premises allowing for the maintenance of loans covered by moratoria in Basket 2. In the following months, the classification for loans was changed from Basket 2 for loans that were properly handled after the moratoria and had no other premises resulting from the transfer logic applied in the Bank. The change in classification in 2021 resulted in the reversal of write-offs for expected credit losses in the total amount of PLN 0.6 million. The total gross carrying amount of the portfolio, therefore reclassified to Basket 1, was in 2021 approximately PLN 391 million,

for 2021 (in PLN thousand)

- actions taken in 2021 and in 2020 with regard to retail clients subject to statutory moratoria.

In relation to the exposures covered by the relief in the form of the statutory moratorium, the Bank decided to automatically classify them temporarily, starting from December 31, 2020 to Basket 3, or, in justified cases, to Basket 2. The final assignment of the exposure to Basket 2 was possible after additional analyzes taking into account quantitative and qualitative factors, such as the existence of a co-borrower in the contract, the credit quality of all customer exposures, the presence and amount of cash flows after the date of submitting the moratorium application.

These activities resulted in the recognition of additional allowances for expected credit losses in the amount of PLN 0.2 million in 2020 and in the amount of PLN 0.26 million in 2021. The total gross carrying amount of the portfolio subject to temporary reclassification as at December 31, 2021 was PLN 9 million (WBB for applications from 2021 was PLN 2.57 million).

Summary of the impact of the COVID-19 pandemic on expected credit losses

All actions dictated by the pandemic situation resulted in the total recognition of additional allowances for expected credit losses in 2020 in the amount of PLN 38 536 thousand in the portfolio valued at amortized cost in 2020, of which PLN 36 836 thousand in the commercial portfolio and PLN 1 700 thousand in the retail portfolio. In 2021, there was an additional PLN 11 037 thousand in the commercial portfolio, while in the retail portfolio, PLN 341 thousand of write-offs were released on this account.

Impairment and change in the fair value of loans and advances	31.12.2021		
	Individual customers	Corporate clients	Total
Financial Assets at amortized	**(341)**	**11 037**	**10 696**
Stage 1	-	(490)	(490)
Stage 2	(625)	(7 789)	(8 414)
Stage 3	284	19 316	19 600
Assets measured at fair value through profit or loss	**nd**	**(249)**	**(249)**
Total	**(341)**	**10 788**	**10 447**

Impairment and change in the fair value of loans and advances	31.12.2020		
	Individual customers	Corporate clients	Total
Financial Assets at amortized	**1 700**	**36 836**	**38 536**
Stage 1	150	1 196	1 346
Stage 2	1 250	12 943	14 193
Stage 3	300	22 697	22 997
Assets measured at fair value through profit or loss	**nd**	**838**	**838**
Total	**1 700**	**37 674**	**39 374**

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

On 17 December 2020, Bank (acting as the Beneficiary) concluded a Framework Guarantee Agreement with mBank SA (acting as the Guarantor) and 23 Detailed Guarantee Agreements (in total: Guarantee Agreements) concerning 23 commercial credit exposures mainly in stage 2 granted by mBank Hipoteczny SA (Beneficiary) to its borrowers. ECL at the time of granting was PLN 16.2 million. At the end of 2021, the results of the write-offs were influenced by the recognition of the information service in the service of PLN 18.556 thousand for the period of building a loan bank, which was included in a part of the commercial portfolio.

The total value of guarantee instruments as at the date of signing the Guarantee Agreements, i.e. December 17, 2020, amounted to PLN 121.52 million and EUR 105.83 million.

for 2021 (in PLN thousand)

As at December 31, 2021, the Guarantee Agreement covered 21 commercial credit exposures. The total value of guarantee instruments as at December 31, 2021 was PLN 91.64 million and EUR 102.96 million.
Under the Guarantee Agreements, mBank SA (Guarantor) is a provider of unfunded credit protection within the meaning of Art. 194 paragraph. 6 CRR.

As at December 31, 2021 and 2020, the Bank did not apply management overlays.

In the third quarter of 2021, the forecasts of future macroeconomic conditions used in the Group's expected credit loss model were updated. The adopted forecasts take into account the current development of the ongoing COVID-19 pandemic and are consistent with the forecasts used in the planning process.

The table below presents the forecasts of the main macroeconomic indicators as at December 31, 2021 and December 31, 2020:

Scenario 31.12.2021	Base		Optimstic		Pessimistic	
Probability	60%		20%		20%	
	2022	Average for 2023 and 2024	2022	Average for 2023 and 2024	2022	Average for 2023 and 2024
Unemployment rate/end of year	3,6%	2,8%	3,1%	2,3%	4,4%	3,5%

Scenario 31.12.2020	Base		Optimstic		Pessimistic	
Probability	60%		20%		20%	
	2021	Average for 2022 and 2023	2021	Average for 2022 and 2023	2021	Average for 2022 and 2023
Unemployment rate/end of year	7,0%	5,5%	3,3%	2,9%	9,2%	11,9%

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

In addition, in 2021, the following activities were carried out at mBank Group as part of the model management process:

- cyclical recalibration of short-term PD models reflecting the current level of the portfolio's loss ratio,
- recalibration of the long-term PD models and the quantitative model of allocation to baskets, additionally taking into account selected guidelines of the new Recommendation R of the Polish Financial Supervision Authority, the provisions of which came into force on 1 January 2022.

As a result of the above-mentioned changes, the value of write-offs decreased by approx. PLN 1.2 million.

A significant modification

Material modification - a change in the contractual terms of a financial instrument, which leads to the removal of a modified asset from the balance sheet and recognition of a new one. Modified assets are written off in the net amount, ie taking into account previously recognized expected credit losses for credit risk (in the case of impaired assets). The new asset is recognized at fair value (possibly adjusted for new commissions on the newly created asset) and a new effective interest rate is calculated for it. The assessment of whether a given modification of financial assets is a material or a minor modification depends on the fulfillment of the qualitative and quantitative criteria described in Note 2.6.

Description of the assumptions made regarding the calculation of the effective interest rate and significant modification

The solutions applied so far under the aid programs did not meet the criteria of significant modification applied by the Bank in relation to financial assets.
In particular, there were no situations where the Bank used aid programs as a beneficiary that would change the terms of the Bank's financial liabilities.

A change in the loan repayment schedule as a result of credit holidays means, from the point of view of the accounting principles applied by the Bank, an insignificant modification that results in the following effects:

- if the credit holiday period is not part of the contract, then the introduction of the holiday changes the contractual cash flows and the Bank recalculates the gross carrying amount of the financial asset and recognizes the gain or loss on the modification in the income statement;
- if the credit vacation period is a feature of an existing contract (the existing contract allows an equivalent grace period), there is a change in expected cash flows and a cumulative adjustment to the gross carrying amount of the financial asset must be recognized on the other side of the income statement, net interest income.

The Bank identifies a negative result on an insignificant modification in the amount of PLN 2 796 thousand (Note 10), including a positive result of PLN 2 545 thousand in connection with the application of aid programs due to the COVID-19 pandemic.

<u>Deferred tax assets</u>

The Bank recognizes a deferred tax asset if there is sufficient certainty that tax profit will be generated in the future allowing for its use.
The carrying amount of a deferred tax asset is verified at each balance sheet date and is reduced accordingly by the amount that it is no longer probable that the taxable income will be sufficient for partial or full realization of the deferred tax asset.
The Bank activates in deferred tax write-offs for credit losses not recognized as tax costs, in the part attributable to capital, which, in accordance with tax regulations, may become tax-deductible in the future in the form of a write-off for credit losses, after meeting the statutory conditions for overdue or making it plausible. or as the cost of irrecoverable capital after documenting the uncollectibility of the debt. Write-offs for credit losses which, in accordance with the CIT Act, will never become a tax expense, have been excluded from the income tax calculation.

<u>Benefits based on phantom shares</u>
The Bank runs a remuneration program for the Bank's Management Board and employees who have a significant impact on the Bank's risk profile, based on phantom shares settled in cash.

Pursuant to the provisions of IAS 19, the projected unit credit method was applied to determine the present value of employee benefit obligations. The basis for calculating the provision for deferred part of the variable remuneration for eligible employees of the Bank is the amount of the bonus that the Bank undertakes to pay on the basis of the Employee Remuneration Policy that has a significant impact on the Bank's risk profile.

Phantom shares are awarded in the number resulting from the valuation of these shares for the assessment period. The valuation of phantom shares is calculated each time at the end of the reporting period as the quotient of the Bank's book value and the number of ordinary shares. The payment of phantom shares depends on the average valuation of these shares derived from two values: the value of the phantom share at the end of the annual period preceding the payment date and the value of the phantom share at the end of the first half of the year in which the payment is to take place in a given reporting period. This average value is multiplied by the number of phantom shares to be exercised in a given period, and the result of this action determines the amount of the cash payout resulting from the phantom shares held. The final value of the bonus, which is the product of the number of shares and their expected value as at the balance sheet date preceding the realization of each of the deferred tranches, is actuarial discounted. The discounted amount is reduced by the amounts of annual write-downs for the provision, discounted actuarially for the same day. The actuarial discount is the product of the financial discount and the probability that each participant will survive individually until the moment of full vesting of rights to each of the deferred tranches. The amounts of the annual write-offs are calculated according to the Projected Unit Credit Method. The above-mentioned probability was determined using the competitive risk method ("Multiple Decrement Model"), where the following three risks were taken into account: possibility of dismissal, risk of complete incapacity to work, risk of death.

<u>The fair value of derivatives and other financial instruments</u>

The fair value of financial instruments not listed on active markets is determined using valuation techniques. All models are approved before use and also calibrated to ensure that the results obtained reflect the actual data and comparable market prices. As far as possible, only observable data from an active market are used in the models. The methods of determining the fair value of financial instruments are described in Note 4.

Early repayment of retail loans

In the judgment of September 11, 2019, in a case concerning a consumer loan fully repaid early, the CJEU ruled that "the consumer's right to a reduction in the total cost of the loan in the event of early loan repayment covers all costs that have been imposed on the consumer". Due to the change in estimates of the expected future cash flows, a provision in the amount of PLN 2 594 thousand was created as at December 31, 2020.
As at December 31, 2021, the provision recognized under provisions for future liabilities (Note 29) relating to costs for potential commission reimbursements due to early repayment of loans made before the date of the judgment by the CJEU amounted to PLN 4 770 thousand (as at December 31, 2020: PLN 2 900 thousand).
Originally, the group model referred to the entire loan portfolio, which resulted in an overestimation, therefore, in the first quarter of 2020, an adjustment of the group model was made taking into account only a part of the portfolio that will be prepaid in the future.
The total negative impact of early repayment of retail loans on the Bank's gross profit in 2021 amounted to PLN 2 896 thousand, reducing interest income, in 2020 it amounted to 2 861 thousand, of which PLN 2 891 thousand decreased interest income and by PLN 30 thousand increased other operating income.
The above estimates are subject to significant uncertainty as to the number of clients who will apply to the Bank for the reimbursement of commissions related to early repayments made before the judgment of the CJEU, as well as the expected rate of prepayment of loans in the future.

6. Operating segments

Following the adoption of "management approach" of IFRS 8, operating segments are reported in accordance with the internal reporting provided to the Bank's Management Board, which is responsible for allocating resources to the reportable segments and assesses their performance.

mBank Hipoteczny S.A. is a specialised mortgage bank of which primary purpose is to issue mortgage bonds, which are intended to constitute the main source of long-term financing for loans secured with real estate property. There are two business lines in the Bank:

- retail line, focusing on the purchase of receivables from housing mortgage loans from mBank S.A.,
- commercial line, covering the financing of income-generating real property such as office buildings, shopping centres, hotels, warehouses and distribution premises, as well as financing of residential property (apartments and houses), carried out by housing developers.

From January 2019, the sale of commercial loans was transferred to mBank S.A.

The introduced method of data presentation is consistent with the Bank's business profile and facilitates the receipt of management information by report users. Moreover, the dynamic development of the retail mortgage loan portfolio, as the second significant area of the Bank's lending activity, resulted in the need to allocate internal interest costs, to set business goals and to account for segment results.

The Bank segmented the result into three business segments, which were distinguished from the point of view of specific customer groups and products according to the homogeneous characteristics of the transaction:

1. The Corporate Banking Segment – is a segment of the Bank's business that includes the following loans:
   - for refinancing — loans for refinancing or purchase of existing commercial properties (office buildings, warehouses, shopping centres and malls, logistics centres, hotels, guest houses, commercial premises, etc.), including commercial loans acquired from mBank S.A.,
   - to housing developers — loans for the financing of housing development projects (estates with single/multi-family houses for sale or rent),

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- loans to commercial developers — loans for the financing of commercial real estate projects that are consistent with the Bank's credit policy,
- historically to local government units — loans to local government units (municipalities, districts, provinces) as well as loans secured by local government units (commercial companies established by local governments, public health care institutions).

2. The Retail Banking Segment – is a segment of the Bank's business that includes the loans to natural persons, those that may form a basis for the issue of mortgage bonds:
   - loans granted for housing purposes in PLN, the sale of which was under an agency agreement with mBank S.A. – agency model,
   - loans in PLN, secured with a mortgage on a housing property, acquired from mBank S.A. – pooling,
   - loans to natural persons granted not in cooperation with mBank S.A. The Bank discontinued the sales in this segment in 2004.
3. Treasury Segment – a segment of Bank's activities, comprising financing acquisition, in particular issuance of mortgage bonds, liquidity management, and Bank's interest rate and currency risk management. Revenues of the segment result from the maintenance of the liquidity portfolio and reclassification of internal interest costs from retail banking and corporate banking segments. Costs of the segment pertain to acquiring financing and, as of 2018, include a part of administrative expenses too.

The main assumption of the segment division within the profit and loss account is the most accurate presentation of the profitability of a given segment in the Bank's operations (with the exception of the Treasury Segment, which finances the activities of other segments in a mortgage bank and by definition does not generate a positive financial result). For this purpose, the Bank assigns at the level of each loan agreement all direct income, such as interest income, commission income and determines the level of expected credit losses.

The bank does not allocate to individual income tax segments, therefore information in terms of profit / loss, they are disclosed at the level of profit before tax. Information on segments is measured according to the same principles as those presented in the accounting policy.

The separation of the segment's assets and liabilities as well as revenues and costs was made on the basis of internal information prepared at the Bank for management purposes. The individual segments of the Bank have been assigned assets and liabilities and related to these assets and liabilities, income and expenses. There are related assets and liabilities in the Treasury segment with hedging derivatives and liabilities due to external financing. The segment result takes into account all revenue items that can be allocated and costs.

Other assets not allocated to segments include intangible assets, tangible fixed assets, deferred tax assets and other assets.

Profit before tax for each operating segments of the Bank is presented with the reconciliation to the positon of the income statements, prepared for the purposes of the audited financial statements.

Business segment reporting on the activities of mBank Hipoteczny S.A. – positions from income statement

Period from 01.01.2021 to 31.12.2021	**Corporate Banking**	**Retail Banking**	**Treasure Segment**	**Total**
Net interest income	**49 723**	**104 017**	**(14 017)**	**139 723**
Interest income	69 719	176 554	30 729	277 001
Interest expenses	(19 996)	(72 537)	(44 745)	(137 278)
Net fee and commission income	**(5 165)**	**(1 076)**	**(1 549)**	**(7 790)**
Fee and commission income	745	345	-	1 090
Fee and commission expenses	(5 911)	(1 420)	(1 549)	(8 880)
Other operating income/expenses	(580)	(912)	(24)	(1 516)
Net trading income	-	-	(145)	(145)
Result from non-substantial modificationj	(2 723)	(73)	-	(2 796)

for 2021 (in PLN thousand)

Result on derecognition of financial instruments not measured at fair value through profit or loss	5	-	-	5
Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss	864	-	-	864
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss	(5 959)	3 657	(99)	(2 401)
Overhead costs	(22 506)	(22 104)	(6 835)	(51 445)
Depreciation	(2 636)	(9 696)	(932)	(13 264)
Tax on the Bank's balance sheet items	(7 877)	(23 186)	-	(31 063)
Segment result (gross)	**3 146**	**50 627**	**(23 601)**	**30 172**
Income tax				(11 370)
Net profit				**18 802**

Period from 01.01.2020 to 31.12.2020	Corporate Banking	Retail Banking	Treasure Segment	Total
Net interest income	**79 526**	**93 414**	**(5 360)**	**167 580**
Interest income	117 028	203 080	42 920	363 027
Interest expenses	(37 502)	(109 666)	(48 280)	(195 447)
Net fee and commission income	**(2 161)**	**(1 608)**	**(2 643)**	**(6 412)**
Fee and commission income	998	185	-	1 183
Fee and commission expenses	(3 159)	(1 793)	(2 643)	(7 595)
Other operating income/expenses	(881)	(246)	13	(1 114)
Net trading income	-	-	327	327
Result from non-substantial modificationj	(2 652)	(141)	-	(2 793)
Result on derecognition of financial instruments not measured at fair value through profit or loss	(1 018)	-	4 244	3 226
Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss	(2 168)	-	-	(2 168)
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss	(39 504)	(2 816)	-	(42 320)
Overhead costs	(22 969)	(23 057)	(6 826)	(52 852)
Depreciation	(1 941)	(7 142)	(687)	(9 770)
Tax on the Bank's balance sheet items	(11 013)	(20 336)	-	(31 349)
Segment result (gross)	**(4 781)**	**38 068**	**(10 932)**	**22 355**
Income tax				(17 477)
Net profit				**4 878**

Business segment reporting on the activities of mBank Hipoteczny S.A. – positions from statement of financial position

31.12.2021	Corporate Banking	Retail Banking	Treasure Segment	Other assets	Total
Segment Assets	2 582 875	9 125 234	1 145 927	127 786	12 981 822
Segment Liabilities	6 160	19 409	11 691 963	-	11 717 532

31.12.2020	Corporate Banking	Retail Banking	Treasure Segment	Other assets	Total
Segment Assets	3 089 600	8 332 751	1 369 731	77 226	12 869 308
Segment Liabilities	8 050	14 547	11 556 471	-	11 579 068

Other assets not allocated to segments include intangible assets, tangible assets, deferred tax assets and other assets.

for 2021 (in PLN thousand)

7. Net interest income

	Year ended 31 December	
	2021	**2020**
Interest income		
Interest income calculated using the effective interest rate method	**248 272**	**330 936**
Interest income of financial assets at amortised cost, including:	**244 185**	**316 784**
- Loans and advances	243 335	316 009
- Cash and short-term placements	46	122
- Interest income on liabilities	804	653
Interest income on financial assets at fair value through other comprehensive income	4 087	14 152
- *Debt securities*	4 087	14 152
Income similar to interest on financial assets at fair value through profit or loss, including:	**28 729**	**32 091**
Non-trading financial assets mandatorily measured at fair value through profit or loss, including:	2 938	4 098
- Loans and advances	2 938	4098
Interest income on derivatives classified into banking book	36	3 272
Interest income on derivatives concluded under hedge accounting	25 755	24 721
Total interest income	**277 001**	**363 027**

	31.12.2021	**31.12.2020**
Interest expense		
Financial liabilities valued at amortized cost, including:	**(115 823)**	**175 791**
-Due to the issue of debt securities	(78 011)	118 088
-Loans received	(31 853)	42 462
-Due to subordinated loan	(2 987)	8 159
-Other financial liabilities	(85)	7 082
Interest expenses on derivatives condluded under the cash flow hedge	(9 359)	-
Interest expense on leasing	(12 096)	19 618
Total interest expense	**(137 278)**	**195 447**

In 2021, interest income related to impaired financial assets measured at amortised cost, stood at PLN 9 304 thousand (for the period ended on 31 December 2020: PLN 6 430 thousand).

Net interest income broken down by individual sectors is as follows:

	Year ended 31 December	
	2021	**2020**
Interest income		
From banking sector	9 121	22 028
From other entities including:	267 880	340 999
- From corporate customers	88 679	134 081
- From individual customers	178 135	205 387
- From public sector	1 066	1 531
Total interes income	**277 001**	**363 027**
Interest expense		

From banking sector	(34 685)	(49 420)
From other entities including:	(140)	(162)
- From corporate customers	(140)	(162)
From own issuances	(78 011)	(118 088)
Subordinated capital	(2 987)	(8 159)
Interest expenses on derivatives conluded under the cash flow hedge	(12 096)	(19 618)
Total Interest expense	**(137 278)**	**(195 447)**

Interest income generated on monetary bills is presented in the item "Interest income from the banking sector", whereas interest income from treasury bonds in the item "Interest income from the public sector".

8. Net fee and commission income

	Year ended 31 December	
	2021	**2020**
Fee and commission income		
Credit-related fees and commissions	1 090	1 183
Total fee and commission income	**1 090**	**1 183**
Fee and commission expenses		
Fee and commission expenses	(4 581)	(4 419)
Commission expense from loan received and stand-by credit line	(325)	(770)
Costs related to the debt securities issue program (covered bonds and bonds)	(1 110)	(1 762)
Costs of real estate analyses and valuations related to the lending activity	(104)	(110)
Commission for transfers for billing	(2 760)	-
Other	-	(534)
Total fee and commission expense	**(8 880)**	**(7 595)**
Total net fee and commission income	**(7 790)**	**(6 412)**

All fees and commission income and expenses presented in the table above relate to items not measured at fair value through profit or loss. The costs of fees and commissions for the issue of debt securities decreased due to the lack of issues in 2020. As at December 31, 2021, it was in the amount of PLN 2 760 thousand. The first payment was made in February 2021.

Costs of servicing credit products related to the outsourcing agreement with mBank S.A. for after-sale service of the commercial portfolio amount to PLN 3 150 thousand (as at December 2020 PLN it was 3 159 thousand).

9. Net trading income

	31.12.2021	**31.12.2020**
Foreign exchange result	**(444)**	**(168)**
Net exchange differences on translation	27 656	(21 914)
Valuation of foreign currency derivatives	(28 100)	21 746
Other net trading income and result on hedge accounting	**299**	**495**
Interest rate risk instruments	1 216	(220)
Hedge accounting, including:	(917)	715
- net profit on hedged items	55 282	(24 995)
- net profit on hedging instruments	(55 117)	25 726
- ineffective portion of cash flow hedge accounting	(1 082)	(16)
Total net trading income	**(145)**	**327**

for 2021 (in PLN thousand)

Foreign exchange result covers realised and unrealised, positive and negative exchange rate differences, as well as profits and losses on spot transactions and futures contracts. The result on operations on interest-bearing instruments covers the result on interest rate swap contracts which have not been designated as hedging instruments.

The Bank applies fair value hedge accounting. The interest rate risk is the only type of risk hedged for which hedge accounting is applied. The result on hedged item and hedging instruments is presented in the Note 21. The hedge is assessed on an ongoing basis and determined to have been highly effective. The Bank documents its own assessment of the effectiveness of fair value 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.

10. Net income on modification

In 2021 and 2020, the result on modifications was calculated only for assets measured at amortized cost, as the Bank did not have instruments measured at fair value through other comprehensive income.
The matters related to recognition of the net income on insubstantial modification are described in note 2.6.

31.12.2021	Stage 1	Stage 2	Stage 3	Total
Financial assets modified during the period				
Amortized cost of financial assets before modification	327 336	254 001	310 217	891 554
Net income on modification	(137)	(59)	(2 600)	(2 796)

31.12.2020	Stage 1	Stage 2	Stage 3	Total
Financial assets modified during the period				
Amortized cost of financial assets before modification	1 891 200	672 282	173 036	2 736 518
Net income on modification	(1 802)	(545)	(1 536)	(2 793)

11. Net income on derecognition of financial instruments not measured at fair value through proft and loss

Profit or loss on derecognition of financial assets and liabilities not measured at fair value through profit and loss (including on sale or substantial modification) is presented broken down by accounting portfolios:
- measured at fair value through other comprehensive income,
- measured at amortised cost

	Year ended 31 December 2021	
	Gains	Losses
Debt securities	-	-
Loans and advances	5	-
Gains of losses on derecognistion of financial assets and liabilities not measured at fair value through profit or loss	**5**	**-**

In 2020, the result was PLN 4,243 thousand.

	Year ended 31 December 2020	
	Gains	Losses
Debt securities	4 243	-
Loans and advances	562	(1 577)
Gains of losses on derecognistion of financial assets and liabilities not measured at fair value through profit or loss	**4 805**	**(1 577)**

The matters related to recognition of the net income on the sale of debt securities measured at fair value through other comprehensive income and the net income on substantial modification are described in note 2.6.

for 2021 (in PLN thousand)

12. Profit or loss on financial assets not held for trading mandatorily measured at fair value through net financial income

	Year ended 31 December	
	2021	2020
Loans and advances	864	(2 168)
- Corporate customers	864	(2 168)
Gains or losses from non-trading financial assets mandatorily at fair value through profit or loss	**864**	**(2 168)**

13. Other operating income

	Year ended 31 December	
	2021	2020
Income from release of prior year provisions	-	34
Income from sales of services	29	67
Income from recovering receivables designated previously as prescribed, remitted or uncollectible	2	22
Compensation, penalties and fines received	354	0
Other	-	690
Total other operating income	**385**	**813**

14. General administrative expenses

	Year ended 31 December	
	2021	2020
Staff-related costs	(22 810)	(22 643)
Material costs, including:	(16 622)	(16 579)
- costs of administration and real estate services	(4 961)	(5 314)
- IT cost	(9 426)	(8 740)
- marketing cost	(443)	(437)
- consulting services cost	(1 173)	(1 649)
- other overheads cost	(619)	(439)
Contributions and transfers to the Bank Guarantee Fund	(9 194)	(10 902)
Taxes and fees	(2 617)	(2 510)
Contributions to the Social Benefits Fund	(202)	(218)
Total overhead costs	**(51 445)**	**(52 852)**

The "logistics costs" item includes costs related to short-term lease contracts, costs related to low-value asset lease contracts and costs related to variable remuneration components (not included in the lease obligation). The total cost of leasing recognized in general administrative expenses as at December 31, 2021 amounted to PLN 240 thousand (as at December 31, 2020, PLN 333 thousand).

In accordance with the Resolution of the Bank Guarantee Fund Council of April 16, 2021 on determining the amount of contributions to the bank restructuring fund for 2021, in the current reporting period, the Bank recognized the contribution in the profit and loss account in the amount of PLN 9 194 thousand (for 2020 in the amount of PLN 10 902 thousand).

for 2021 (in PLN thousand)

Staff-related expenses

	Year ended 31 December	
	2021	2020
Wages and salaries	(19 239)	(19 072)
Social security expenses	(3 057)	(2 898)
Costs of retirement benefits	(21)	(14)
Provision for unused holidays	(588)	(161)
Remuneration payment in the form of phantom shares settled in cash	95	(498)
Staff-related costs, total	**(22 810)**	**(22 643)**

15. Other operating expenses

	Year ended 31 December	
	2021	2020
Costs of enforcement proceedings	(383)	(792)
Litigation reserves	(333)	(25)
Writing down investments	(807)	(901)
Loss on sales or liquidation of tangible fixed assets and intangible assets	(306)	(151)
Other	(72)	(58)
Total other operating expenses	**(1 901)**	**(1 927)**

16. Impairment or reversal of impairment on financial assets not measured at fair through net financial income

	Year ended 31 December	
	2021	2020
Financial assets at amortised cost, including:	**(2 516)**	**(43 698)**
- Loans and advances	**(2 516)**	**(43 698)**
Stage 1	28 738	9 720
Stage 2	(10 204)	(15 588)
Stage 3	(40 211)	(38 373)
POCI	546	543
- Changes due to guarantee valuation	18 615	-
Commitments and guarantees given	**214**	**1 378**
Stage 1	214	1 228
Stage 2	-	150
Financial assets measured at fair value through other comprehensive income, including:	**(99)**	**-**
Debt securities	**(99)**	-
Stage 1	(99)	-
Net impairment losses on financial assets not measured at fair value through profit or loss	**(2 401)**	**(42 320)**

In 2021, the result of impairment losses was positively affected by the valuation of guarantees in the amount of 18 615 thousand PLN to cover the increase in credit risk (mainly in basket 2), which was included in part of the commercial portfolio at the end of 2020. Details on the guarantee are described in Note 29.
In the case of the retail portfolio, the significant reversal of provisions, especially in basket 3, is due to the implementation of the New Default Definition for this portfolio. Much higher - compared to the same period of the previous year - release of provisions in basket 2 is additionally due to

for 2021 (in PLN thousand)

changes in the Transfer Logic model, withdrawal of the so-called "Leading provision" for a part of the portfolio with a non-statutory moratorium as well as from real estate revaluation.

The Bank applies an individual approach to all exposures under CRE financing.
Each renewal of AP is associated with a reassessment of the borrower's current situation, location and technical advantages of the financed property, the current lease status, etc. Updates of the PD parameter in 2021 and 2020 were made with the utmost care, and the release of provisions in individual cases was associated with a reduction in the risk of the assessed exposures, e.g. due to the increase in the level of rented space, renewal of lease agreements, extension of lease periods, improvement of financial data and the economic and financial situation of the Borrower and / or the project sponsor.

17. Income tax

	Year ended 31 December	
	2021	**2020**
Current income tax	(16 821)	(15 285)
Deferred income tax (note 29)	5 451	(2 192)
Total income tax	**(11 370)**	**(17 477)**
Profit before tax	**30 172**	**22 355**
Income tax calculated at the rate applicable in a given fiscal year (19%)	(5 733)	(4 248)
- other non-taxtable income	(8 097)	(13 154)
- tax on the the Bank's balance sheet items	(5 902)	(5 956)
- value of write-down on receivables	(976)	(633)
- contribution and payments to the Bank Guarantee Fund	(1 747)	(2 071)
- receivables writen off against the write-offs	1 023	(2 877)
- NKUP on purchased receivables	(503)	(1 409)
- other	8	(208)
Adjustmenst in respect of current tax from prior years	2 460	(75)
Total income tax expense	**(11 370)**	**(17 477)**
Effective tax rate calculation		
Profit before income tax	30 172	22 355
Income tax	(11 370)	(17 477)
Effective tax rate	**37,68%**	**78,18%**
Nominal tax rate	**19,00%**	**19,00%**

Tax authorities may inspect the correctness of tax settlements over a period of 5 years from the end of the year in which the deadline for submitting a tax return had expired. Since the beginning of the Bank's operations, no tax inspections were carried out by the tax authorities with regards to corporate income tax.

18. Profit per share

	Year ended 31 December	
	2021	**2020**
Basic:		
Net profit from activities attributable to shareholders of mBank Hipoteczny S.A.	18 802	4 878
Weighted average number of ordinary shares	3 360 000	3 360 000
Basic net profit per share (in PLN per share)	**5,60**	**1,45**
Diluted:		
Net profit attributable to shareholders of mBank Hipoteczny S.A., applied during the estimation of diluted earnings per share	18 802	4 878
Weighted average number of ordinary shares	3 360 000	3 360 000
Diluted net profit per share (in PLN per share)	**5,60**	**1,45**

for 2021 (in PLN thousand)

Basic earnings per share are computed as the quotient of the profit attributable to the Bank's shareholders and the weighted average number of ordinary shares during the year.

Diluted earnings per share are equal to basic earnings per share, as there are no dilutive elements.

The weighted average number of ordinary shares outstanding during the period is the number of ordinary shares at the beginning of the period, adjusted by the number of ordinary shares bought back or issued during the period multiplied by a time-weighting factor. The time-weighting factor is the number of days that the shares are outstanding as a proportion of the total number of days in the period.

19. Other comprehensive income

Disclosurre of tax effects relatin to each component of other comprehensive income	Year ended 31 December	
	2021	2020
Net profit	**18 802**	**4 878**
Other comprehensive income net of tax including:	**(44 752)**	**17 842**
Items that my be reclassifield to the income statement	**(44 762)**	**17 840**
Change in the valuation of debt financial instruments valued at fair value trough other comprehensive income (gross)	(33 426)	1 707
Deferred tax on debt financial instruments measured at fair value trough other comprehensive income (net)	6 351	(325)
Change in the valuation of debt financial instruments measures at fair value trough other	(27 075)	1 382
Change in valuation due to cash flow hedge (gross)	(21 836)	20 319
Deferred tax due to cash flow hedges	4 149	(3 861)
Net cash flow hedge (net)	(17 687)	16 458
Items that will not be reclassified to the income statement	**10**	**2**
Actuarial gains and losses on post-employement benefits (gross)	12	2
Deferred tax on actuarial gains and losses on post-employment benefits	(2)	-
Actuarial gains and losses on post-employment benefits (net)	10	2
Total comprehensive income net of tax	**(25 950)**	**22 720**

20. Cash and balances with the central bank

As at December 31, 2021, the Bank has a current account with the National Bank of Poland, the balance of which was PLN 154 thousand (as at December 31, 2020: PLN 29 393 thousand). As at December 31, 2021, the Bank have ON deposits in the amount of PLN 114 504 thousand (as at December 31, 2020, the Bank did not have ON deposits).

On the basis of the National Bank of Poland Act dated 29 August 1997, mBank Hipoteczny S.A. maintains a mandatory reserve deposit. The arithmetic mean of daily balances of the mandatory reserve which the Bank is required to maintain during a given period in the current account with NBP amounted to:

- PLN 0 thousand for the period from 31 December 2021 to 30 January 2022,
- PLN 0 thousand in the period from 31 December 2020 to 30 January 2021.

The bank has the funds with limited possibilities to dispose. As at 31 December 2021, the interest rate on the cash maintained as a mandatory reserve was 2% (as at 31 December 2020 was 0.50%).

21. Financial assets and liabilities held for trading and derivative hedging instruments

The Bank has the following derivative instruments in its portfolio:

Interest rate risk instruments:

- Interest Rate Swap (IRS),

Currency risk instruments

- FX SWAP contracts,

for 2021 (in PLN thousand)

Instrument for interest rate risk and exchange rate risk

- Cross Currency Interest Rate Swap (CIRS)

All derivative transactions are concluded for the purpose of hedging against currency risk and interest rate risk. The Bank is not engaged in trading; all derivative transactions are included in the banking portfolio.

As at December 31, 2021, the offsetting effect, apart from the valuation of derivative transactions, includes PLN 50 432 thousand of collaterals accepted in connection with concluded transactions on derivative instruments subject to compensation.

	Nominal amount		Fair value	
	purchase	disposal	assets	liabilities
As at 31 December 2021				
Derivative financial instruments held for trading				
- Foreign exchange derivatives	2 067	2 070	-	3
- FX swap contracts	1 273 178	1 283 609	57	7 046
Total OTC derivatives	**1 275 245**	**1 285 679**	**57**	**7 049**
Total foreign exchange derivatives	**1 275 245**	**1 285 679**	**57**	**7 049**
Interest rate derivatives				
- IRS contracts	50 000	50 000	1 172	-
Total OTC interest rate derivatives	**50 000**	**50 000**	**1 172**	**-**
Total interest rate derivatives	**50 000**	**50 000**	**1 172**	**-**
Total assets / liabilities held for trading	**1 325 245**	**1 335 679**	**1 229**	**7 049**
Interest rate derivatives				
Derivatives designated as fair value hedges	2 515 412	2 515 412	82 797	-
- IRS contracts	2 515 412	2 515 412	82 797	-
Derivatives designated as cash flow hedges	1 379 820	1 278 930	92 243	-
- CIRS	1 379 820	1 278 930	92 243	-
Total derivatives held for hedging	**3 895 232**	**3 794 342**	**175 040**	**-**
Total recognised derivative assets /liabilities	**5 220 477**	**5 130 021**	**176 269**	**7 049**
Net-off effect	**-**	**-**	**(50 432)**	**4**
Total recognised derivative assets /liabilities held for trading	**5 220 477**	**5 130 021**	**125 837**	**7 053**
Short-term (up to 1 year)	1 827 173	1 837 607	3 834	7 053
Long-term (over 1 year)	3 393 304	3 292 414	122 003	-

	Nominal amount		Fair value	
	purchase	disposal	assets	liabilities
As at 31 December 2020				
Derivative financial instruments held for trading				
- Foreign exchange derivatives	2 968	3 000	-	32
- FX swap contracts	1 229 947	1 207 116	28 323	4 642
Total OTC derivatives	**1 232 915**	**1 210 116**	**28 323**	**4 674**
Total foreign exchange derivatives	**1 232 915**	**1 210 116**	**28 323**	**4 674**

for 2021 (in PLN thousand)

Total assets / liabilities held for trading	**1 232 915**	**1 210 116**	**28 323**	**4 674**
Interest rate derivatives	2 523 834	2 523 834	137 814	-
Derivatives designated as fair value hedges	2 523 834	2 523 834	137 814	-
- IRS contracts				
Derivatives designated as cash flow hedges	1 384 440	1 278 930	121 029	-
- CIRS	**3 908 274**	**3 802 764**	**258 843**	**-**
Total derivatives held for hedging	2 523 834	2 523 834	137 814	-
Total recognised derivative assets /liabilities	**5 141 189**	**5 012 880**	**287 166**	**4 674**
Net-off effect	**-**	**-**	**(90 249)**	**45**
Total recognised derivative assets /liabilities held for trading	**5 141 189**	**5 012 880**	**196 917**	**4 719**
Short-term (up to 1 year)	1 232 915	1 210 116	28 323	4 674
Long-term (over 1 year)	3 908 274	3 802 764	168 594	45

As at December 31, 2020 except of valuation of derivatives, the netting effect includes PLN 90 249 thousand collaterals accepted in connection with concluded transactions on derivative instruments subject to netting.

Hedge accounting

a) *Fair value hedge accounting*

The Bank applies fair value hedge accounting where the only type of hedged risk is the interest rate risk. At the end of each month, the Bank assesses the effectiveness of the applied hedge by analyzing the changes in the fair value of the hedged instrument and the hedging instrument due to the hedged risk in order to confirm that the hedging relationships are effective in line with the accounting policy described in Note 2.10.

Description of the hedging relationship

The Bank hedges against the risk of change in fair value of fixed-interest rate mortgage covered bonds issued by the Bank. The hedged risk results from changes in interest rates.

Hedged items

The hedged items are fixed-interest rate mortgage covered bonds with the nominal value of EUR 546 900 thousand.

The hedged item and the hedging item have exactly the same nominal amounts, start and end dates. As at the reporting dates, the Bank performs retrospective and prospective tests using a linear regression model that describes changes in the fair value of the hedging instrument and the hedged item.

Sources of ineffectiveness for hedging relationships for which ineffectiveness occurs are cash flow mismatches, credit risk of the hedged instrument, and mismatch due to the initial measurement of derivatives, if a derivative that was entered into before the relationship was included in the hedging relationship.

Hedging instruments

Interest Rate Swap transactions are the hedging instruments 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 liabilities as well as valuation of the hedging instruments is recognised in the income statement as the income from trading operation, except for interest income and expenses related to the interest measurement component of hedging instruments, which are presented in the position of interest income/expenses on derivatives concluded under the hedge accounting.

Pledged letters being a hedged instrument are presented in the statement of financial position under Liabilities arising from the issue of debt securities.

The following table presents hedged items as at 31 December 2021 and 31 December 2020. In the following table, the nominal value is presented in EUR thousands, while the value of liability measured at amortised cost, hedge accounting adjustments related to fair value, carrying amount of a liability and the change of fair value resulting from hedge accounting, in PLN thousands.

Debt financial instruments by type as at 31.12.2021	Nominal value	Interest rate as at 31.12.2021	Redemption date	Liability amount measured at amortised cost	Hedge accounting adjustments related to fair value of hedged items	Carrying amount of liability	The change in the value of the hedged item from the date of designation used as the basis for recognizing the hedge ineffectiveness in a given period
Mortgage covered bonds (EUR)	20 000	1.14%	25.02.2022	92 853	145	92 998	937
Mortgage covered bonds (EUR)	100 000	0.61%	22.06.2022	461 316	1 432	462 748	2 949
Mortgage covered bonds (EUR)	24 900	0.94%	01.02.2024	115 412	1 817	117 229	1 667
Mortgage covered bonds (EUR)	300 000	1.07%	05.03.2025	1 390 190	32 379	1 422 569	30 770
Mortgage covered bonds (EUR)	11 000	1.29%	24.04.2025	50 899	972	51 871	1 105
Mortgage covered bonds (EUR)	13 000	1.18%	20.09.2026	59 867	458	60 325	1 573
Mortgage covered bonds (EUR)	35 000	1.18%	01.12.2026	161 211	2 232	163 443	4 442
Mortgage covered bonds (EUR)	8 000	3.5%	28.02.2029	37 478	5 087	42 565	2 192
Mortgage covered bonds (EUR)	15 000	3.5%	15.03.2029	70 265	9 593	79 858	4 127
Mortgage covered bonds (EUR)	20 000	3.2%	30.05.2029	92 777	12 880	105 657	5 520
Total hedged items				**2 532 268**	**66 995**	**2 599 263**	**55 282**

Debt financial instruments by type as at 31.12.2020	Nominal value	Interest rate as at 31.12.2021	Redemption date	Liability amount measured at amortised cost	Hedge accounting adjustments related to fair value of hedged items	Carrying amount of liability	The change in the value of the hedged item from the date of designation used as the basis for recognizing the hedge ineffectiveness in a given period
Mortgage covered bonds (EUR)	20 000	1.14%	25.02.2022	93 031	1 083	94 114	329
Mortgage covered bonds (EUR)	100 000	0.61%	22.06.2022	462 630	4 381	467 011	143
Mortgage covered bonds (EUR)	24 900	0.94%	01.02.2024	115 751	3 484	119 235	(698)
Mortgage covered bonds (EUR)	300 000	1.07%	05.03.2025	1 394 280	63 148	1 457 428	(12 888)
Mortgage covered bonds (EUR)	11 000	1.29%	24.04.2025	51 033	2 077	53 110	(662)
Mortgage covered bonds (EUR)	13 000	1.18%	20.09.2026	60 040	2 031	62 071	(1 247)
Mortgage covered bonds (EUR)	35 000	1.18%	20.09.2026	161 684	6 675	168 359	(3 263)
Mortgage covered bonds (EUR)	8 000	3.5%	28.02.2029	37 564	7 279	44 843	(1 399)
Mortgage covered bonds (EUR)	15 000	3.5%	15.03.2029	70 417	13 720	84 137	(2 648)
Mortgage covered bonds (EUR)	20 000	3.2%	30.05.2029	92 974	18 400	111 374	(3 679)
Mortgage covered bonds (EUR)	-	-	-	-	-	-	1 017
Total hedged items				**2 539 404**	**122 278**	**2 661 682**	**(24 995)**

The following table presents hedged items as at 31 December 2021 and 31 December 2020. In the following table, the nominal value is presented in EUR thousands, while the fair value and the change of fair value resulting from hedge accounting, in PLN thousands.

Derivatives as at 31.12.2021	Nominal value	End of transaction	Fair value of asset	The change in the value of the hedging item since designation used as the basis for recognizing the hedge ineffectiveness in a given period
IRS (EUR)	20 000	25.02.2022	910	(755)
IRS (EUR)	100 000	22.06.2022	2 867	(2 778)
IRS (EUR)	24 900	01.02.2024	2 694	(1 617)
IRS (EUR)	300 000	05.03.2025	41 139	(30 436)
IRS (EUR)	11 000	24.04.2025	1 222	(1 072)
IRS (EUR)	13 000	20.09.2026	476	(1 578)
IRS (EUR)	35 000	01.12.2026	2 253	(4 470)
IRS (EUR)	8 000	28.02.2029	6 314	(2 342)
IRS (EUR)	15 000	15.03.2029	11 653	(4 387)
IRS (EUR)	20 000	30.05.2029	13 270	(5 681)
Total hedging items			**82 798**	**(55 116)**

Derivatives as at 31.12.2020	Nominal value	End of transaction	Fair value of asset	The change in the value of the hedging item since designation used as the basis for recognizing the hedge ineffectiveness in a given period
IRS (EUR)	20 000	25.02.2022	1 639	(218)
IRS (EUR)	100 000	22.06.2022	5 643	(43)
IRS (EUR)	24 900	01.02.2024	4 254	715
IRS (EUR)	300 000	05.03.2025	71 577	13 457
IRS (EUR)	11 000	24.04.2025	2 292	690
IRS (EUR)	13 000	20.09.2026	2 054	1 291
IRS (EUR)	35 000	20.09.2026	6 722	3 387
IRS (EUR)	8 000	28.02.2029	8 653	1 399
IRS (EUR)	15 000	15.03.2029	16 026	2 652
IRS (EUR)	20 000	30.05.2029	18 954	3 763
IRS (EUR)	-	-	-	(1 367)
Total hedging items			**137 814**	**25 726**

Total result on fair value hedge accounting recognised in the income statement in 2021 and 2020

	Year ended 31 December	
	2021	**2020**
Interest income on derivatives as part of fair value hedge accounting	36	3 272
Result from the valuation of the hedged	55 282	(24 995)
Result on the valuation of hedging instruments	(55 117)	25 726
Total result on fair value hedge accounting	**201**	**4 003**

for 2021 (in PLN thousand)

b) Cash flow hegde accounting

The Bank uses hedge accounting with respect to the cash flows of the portfolio of mortgage loans denominated in PLN and the mortgage bonds denominated in EUR issued by the Bank. The purpose of the hedging strategy is to eliminate the risk of volatility of cash flows generated by PLN mortgage loans due to changes in reference interest rates and mortgage bonds denominated in a convertible currency due to changes in the exchange rate using currency interest rate swaps (CIRS).

As part of hedge accounting, the Bank designates a hedged item consisting of:

- parts of the portfolio of housing loans for retail customers entered in the collateral register for mortgage covered bonds, denominated in PLN with an interest rate indexed to 3M WIBOR, the loan margin is excluded from collateral**;**
- mortgage bonds issued by the Bank in EUR with a fixed interest rate.

As hedging instruments, the Bank uses CIRS derivative transactions in which, as a party to the transaction, it pays variable interest flows in PLN increased by a margin,and receives fixed interest rates in EUR and the denominations are exchanged at the beginning and at the end of the transaction. As transactions concluded by a mortgage bank, CIRS transactions are subject to entry in the Register of covered bond collateral. In addition, if the bank's bankruptcy is announced by the court, it will not be immediately terminated, it will last until the end of the original maturity on the conditions specified on the date of the transaction (they will not be extended beyond the original maturity).

In accordance with the adopted methodology, the Bank hedges the interest rate risk and currency risk within one economic relationship between the concluded CIRS transactions and part of the loan portfolio in PLN and mortgage bonds financing them in EUR. For the purposes of cash flow hedge accounting, the Bank simultaneously establishes two hedging relationships:

- by decomposing the real part of the CIRS transaction hedging the portfolio of loans in PLN with variable interest (hedging against interest rate risk) - relation A and
- by decomposing the actual portion of the CIRS transaction securing the liability in EUR (protection against currency risk) – relation B.

For the purpose of calculating changes in the fair value of future cash flows of items being hedged, the Bank uses the "hypothetical derivative" method, which assumes the possibility of reflecting the hedged item and the characteristics of the risk being hedged

in the form of a derivative. The valuation principles are analogous to the principles for the valuation of interest rate derivatives.

Hedged items - cash flow hedge

	The nominal value of the hedged items		Change in fair value due to hedge accounting since the designations of the hedged instrument	
	31.12.2021	31.12.2020	31.12.2021	31.12.2020
Loans in PLN with variable interest	1 278 930	1 278 930	85 861	(70 742)
Covered bonds issued in a convertible currency with a fixed interest rate	1 379 820	1 384 440	(181 520)	(53 921)

Hedging items - cash flow hedge

	The notional value of the hedging items		Change in fair value due to hedge accounting from the date of designation of the hedging instruments		Other equity items Effective part of CIRS valuation	
	31.12.2021	31.12.2020	31.12.2021	31.12.2020	31.12.2021	31.12.2020
IRS decomposition FV	1 278 930	1 278 930	(85 989)	69 185	(85 861)	68 194
CIRS decomposition FV	1 379 820	1 384 440	179 633	53 246	80 630	(51 589)

The average constant rate weighted by denomination for a fixed leg was 0.242%.

The average constant rate weighted by the nominal value of the variable leg in PLN was 2.4199%.

31.12.2021	Up to 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total
INTEREST RATE RISK						
Interest rate swap (IRS) transaktions hedging the cash flows available from loans with variable interest rates denominated in PLN						
Nominal value (in thousand PLN)	-	-	-	1 278 930	-	**1 278 930**
Average interest rate on a fixed leg	-	-	-	2,4199%	-	**2,4199%**
CURRENCY RISK						
Foreign exchange swap transactions (CIRS) hedging cash flows resulting from the issued mortgage bonds						
Nominal value (in thousand PLN)	-	-	-	1 379 820	-	1 379 820
Average interest rate on a fixed leg	-	-	-	0,242%	-	**0,242%**

31.12.2020	Up to 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total
INTEREST RATE RISK						
Interest rate swap (IRS) transaktions hedging the cash flows available from loans with variable interest rates denominated in PLN						
Nominal value (in thousand PLN)	-	-	-	1 278 930	-	**1 278 930**
Average interest rate on a fixed leg	-	-	-	2,4199%	-	**2,4199%**
CURRENCY RISK						
Foreign exchange swap transactions (CIRS) hedging cash flows resulting from the issued mortgage bonds						
Nominal value (in thousand PLN)	-	-	-	1 384 440	-	**1 384 440**
Average interest rate on a fixed leg	-	-	-	0,242%	-	**0,242%**

In the case of established relationships, the period in which cash flows are expected and when they should be expected to influence the results is the period from January 2022 to September 2025.

Efficiency tests include the valuation of hedging transactions after deducting accrued interest and exchange differences on the nominal value of hedging transactions. Hedge effectiveness is verified by applying prospective and retrospective effectiveness tests. The tests are performed on a monthly basis.

The main sources of hedge ineffectiveness can be:

- taking into account the CVA / DVA correction only on the hedging instrument side,
- differences in the structure and basic parameters of hedging transactions and hedged items, resulting from different lengths of interest periods - 3 months for IRS transactions and 1 month for the loan portfolio.

Changes in the fair value of a derivative hedging instrument designated as a cash flow hedge are recognized directly in other comprehensive income in the portion that forms the effective portion of the hedge.

The ineffective portion of the hedge is recognized in the income statement in the position 'Result on financial instruments measured at fair value' or 'Result on exchange position'. In addition, amounts charged directly to other comprehensive income are transferred to the profit and loss account respectively of the item 'Net interest income' and 'Net foreign exchange gains' in the same period or periods in which the inflow of the hedged transaction is referred to the profit and loss account and precipitate.

The table below presents other comprehensive income from the cash flow hedge and the ineffective part of the cash flow hedge for the period from January 1 to December 31, 2021 and in the period from January 1 to December 31, 2020.

for 2021 (in PLN thousand)

Accumulated other total revenue for protection of cash flows and impact on other total income	**the period**	
	from 01.01.2021 to 31.12.2021	**from 01.01.2020 to 31.12.2020**
Accumulated other comprehensive income from cash flow hedges at the beginning of the gross period	**16 605**	**(3 714)**
Profits / (Losses) recognized in other comprehensive income in the period	**(38 552)**	**107 591**
The amount transferred during the period from other comprehensive income to the profit and loss account	**16 716**	**(87 272)**
- Net interest income	12 096	19 618
- Result on exchange position	4 620	(106 890)
Accumulated other comprehensive income from cash flow hedges at the end of the gross period	**(5 231)**	**16 605**
Tax effect	994	(3 155)
Accumulated other comprehensive income from cash flow hedges at the end of the net period	**(4 237)**	**13 450**
Ineffective portion of cash flow hedges recognized in the income statement	(1 082)	(16)
Impact during the period on other gross comprehensive income	**(21 836)**	**20 319**
Deferred tax due to cash flow hedges	4 149	(3 861)
Impact during the period on other net comprehensive income	**(17 687)**	**16 458**

	the period	
	from 01.01.2021 to 31.12.2021	**from 01.01.2020 to 31.12.2020**
Gains/losses recognised in comprehensive income (gross) during the reporting period, including:		
Unrealised gains/losses included in other comprehensive income (gross)	**(21 836)**	**20 319**
Results of cash flow hedge accounting recognised in the income statement	**(17 798)**	**87 256**
- amount included as interest income in income statement during the reporting period	(12 096)	(19 618)
- foreign exchange result	(4 620)	106 890
- ineffective portion of hedge recognised included in other net trading income in income statement	(1 082)	(16)
Impact on other comprehensive income in the reporting period (gross)	**(39 634)**	**107 575**

BALANCE SHEET/ FAIR VALUE OF DERIVATIVE INSTRUMENTS FOR PROTECTING CASH FLOWS	**Assets**
31.12.2021	
IRS (decomposed part of the actual CIRS transaction hedging against interest rate risk – Relation A)	(87 330)
CIRS (decomposed part of the actual CIRS transaction as hedging against currency risk – Relation B)	179 573
Total	**92 243**

BALANCE SHEET/ FAIR VALUE OF DERIVATIVE INSTRUMENTS FOR PROTECTING CASH FLOWS	**Assets**
31.12.2020	
IRS (decomposed part of the actual CIRS transaction hedging against interest rate risk – Relation A)	67 843
CIRS (decomposed part of the actual CIRS transaction as hedging against currency risk – Relation B)	53 186
Total	**121 029**

for 2021 (in PLN thousand)

NOMINAL VALUE OF SECURITY INSTRUMENTS BY DURATION FOR IMPLEMENTATION	up to 1 month	over 1 month to 3 months	over 1 year to 5 years	over 5 years Total	Total
31.12.2021					
CIRS					
PLN float sale	-	-	1 278 930	-	**1 278 930**
Fixed EUR purchase (original currency)	-	-	300 000	**-**	**300 000**

NOMINAL VALUE OF SECURITY INSTRUMENTS BY DURATION FOR IMPLEMENTATION	up to 1 month	over 1 month to 3 months	over 1 year to 5 years	over 5 years Total	Total
31.12.2020					
CIRS					
PLN float sale	-	-	1 278 930	-	**1 278 930**
Fixed EUR purchase (original currency)	-	-	300 000	-	**300 000**

Estimates and assessments

The fair value of derivatives is determined using valuation models based on discounted future cash flows from a given financial instrument. The variables in the model and the assumptions used for valuation include, if available, data from observable markets (e.g. deposit rates on the interbank market, currency exchange rates, IRS and CCBS transaction quotes). The fair value of derivatives includes DVA's own credit risk (debit value adjustment) as well as the credit risk of the counterparty CVA (credit value adjustment). The process of calculating CVA and DVA adjustments involves choosing a method to determine the spread on the counterparty or Bank's credit risk as well as estimating the probability of the contractor or Bank's insolvency and the recovery rate. In addition, to reflect the impact of non-standard transaction parameters on the valuation level, the model uses historical prices used in CIRS transactions with similar parameters for which quotes can be obtained from active markets.

Estimate calculation

The Bank conducted a simulation to determine the possible impact of changes in yield curves on the transaction valuation.

ESTIMATED CHANGE IN VALUATION WITH A PARALLEL INCOME SHIFT	Scenario + 50 bp.	Scenario -50 bp.
31.12.2021		
CIRS	(24 896)	24 905

For the purpose of calculating the valuation of CIRS transactions classified under level 3 of the fair value hierarchy, the Bank determines the value of the CVA and DVA adjustments using:
- available market data in the form of spread curves necessary to determine the probability of default, the input data range of which is summarized in the table below:

RANGE OF SPREAD CURVES USED FOR CVA AND DVA CALCULATIONS	Min	Max
31.12.2021		
Credit spread	0,0019%	2,8358%

-and unobserved LGD levels, for which, in the case of determining CVA and DVA, the Bank assumes the levels of 60% and 100%, respectively. The asymmetric LGD levels for CIRS transactions result from the specific nature of this transaction, described in detail in the section "Derivatives designated as cash flow hedges".

The tables below present the estimated impact of the applied input parameters on the valuation of CIRS transactions - a parallel shift of the spread curves by 50 basis points and the impact of different levels of the LGD parameter on the amount of CVA and DVA adjustments.

for 2021 (in PLN thousand)

ESTIMATED CHANGE IN THE VALUATION OF A CIRS TRANSFER WITH A PARALLEL SHIFT OF THE SPREAD CURVE	script +50pb.
31.12.2021	
CIRS transaction CVA change	(69)
CIRS transaction DVA change	219
Total impact on the valuation of CIRS transactions	**150**

ESTIMATED VALUES OF THE VALUATION OF THE CVA AND DVA APPLYING DIFFERENT LAG LEVELS	40%	60%	80%	100%
31.12.2021				
CVA	(28)	(42)	(56)	(70)
DVA	153	229	306	382

22. Financial assets not held for trading mandatorily measured at fair value through net financial income

	31.12.2021	31.12.2020
Loans	**120 205**	**133 838**
- corporate customers	120 205	133 838
Financial assets not held for trading mandatorily measured at fair value through net financial income	**120 205**	**133 838**

The credit quality non-trading financial assets mandatorily at fair value through profit or loss according to an internal rating as at December 31, 2021 and December 31, 2020.

	Score with model domestic		31.12.2021
	[SCORE min	SCORE max)	
Exposures subject to the IRB approach – specialised lending, including	-	-	120 205
-supervisory category 2	23	45	71 682
-supervisory category 3	11	23	33 250
-supervisory category 4	1	11	-
-supervisory category 5	default	default	15 273
Total	**-**	**-**	**120 205**

	Score with model domestic		31.12.2020
	[SCORE min	SCORE max)	
Exposures subject to the IRB approach – specialised lending, including	-	-	133 838
-supervisory category 2	23	45	99 768
-supervisory category 3	11	23	13 716
-supervisory category 4	1	11	4 976
-supervisory category 5	default	default	15 378
Total	**-**	**-**	**133 838**

for 2021 (in PLN thousand)

23. Financial assets measured at fair value through other comprehensive income

31.12.2021	carrying amount
Debt securities	**732 393**
- General governments, including::	732 393
pledged securities	*165 189*
Total financial assets at fair value through comprehensive income	**732 393**
Short-term (up to 1 year)	-
Long-term (over 1 year)	732 393
Based on fixed interest rate	253 087
Based on floating interest rate	479 306

All debt securities have been classified into basket 1. Financial assets in the form of money bills and treasury bonds, the Bank considers financial assets with low credit risk due to the fact that these assets are characterized by a low risk of default.

As at 31.12.2021 and 31.12.2020, all debt securities were classified in basket 1.

Change in financial assets at fair value through other comprehensive income.

	31.12.2021
As at the beginning of the period	**791 045**
Additions	1 394 150
Disposals (sale, redemption and forfeiture)	(1 419 376)
Gains / losses from changes in fair value	(33 426)
As at the end of the period	**732 393**

31.12.2020	carrying amount
Debt securities	**791 045**
- Central banks	34 999
- General governments, including::	756 046
pledged securities	*151 009*
Total financial assets at fair value through comprehensive income	**791 045**
Short-term (up to 1 year)	308 177
Long-term (over 1 year)	482 868
Based on fixed interest rate	188 047
Based on floating interest rate	602 998

for 2021 (in PLN thousand)

Change in financial assets at fair value through other comprehensive income

	31.12.2020
As at the beginning of the period	**1 221 735**
Additions	5 277 038
Disposals (sale, redemption and forfeiture)	(5 712 213)
Gains / losses from changes in fair value	4 485
As at the end of the period	**791 045**

Both as at 31 December 2021 and as at 31 December 2020, debt instruments had a rating of AAA on the scale of Standard & Poor's (S&P) rating agency.

Pledged assets are not subject to resale or further pledging.

24. Financial assets measured at amortised cost

31.12.2021	Carrying value	Gross carrying amount				Accumulated impairment			
		Stage 1	Stage 2	Stage 3	POCI	Stage 1	Stage 2	Stage 3	POCI
Loans and advances to banks	152 668	152 668	-	-	-	-	-	-	-
Loans and advances to customers	**11 608 275**	**10 635 876**	**581 723**	**501 352**	**2 322**	**(5 211)**	**(18 524)**	**(110 657)**	**21 394**
Individual customers	9 136 875	9 031 848	77 491	41 121	1 315	(1 664)	(2 165)	(11 024)	(47)
Corporate customers	2 379 628	1 512 748	504 232	459 163	1 007	(3 526)	(16 359)	(99 078)	21 441
Public sector customers	71 401	70 909	-	1 068	-	(21)	-	(555)	-
Financial institutions	20 371	20 371	-	-	-	-	-	-	-
Financial assets at amortised cost, total	**11 760 943**	**10 788 544**	**581 723**	**501 352**	**2 322**	**(5 211)**	**(18 524)**	**(110 657)**	**21 394**

Short-term (up to 1 year)	352 751
Long-term (over 1 year)	11 408 192

In 2021, the Bank sold loan receivables with a total gross carrying amount of PLN 4 541 thousand qualified to the basket 3. Principal and interest obtained prices in the amount PLN 1 270 thousand were credited towards the repayment of principal and interest, in accordance with the provisions of the sale agreements. Unpaid principal and interest in the amount of PLN 3 272 thousand was written off against previously created provisions for individual debts.

In 2020, the Bank sold loan receivables with a total gross carrying amount of PLN 53 989 thousand qualified to the basket 3. Prices obtained in the amount PLN 11 700 thousand were credited towards the repayment of principal and interest, in accordance with the provisions of the sale agreements. Unpaid principal and interest in the amount of PLN 42 289 thousand was written off against previously created provisions for individual debts.

Loan structure by past due days

Loan structure by past due days 31.12.2021	Loans and advances to banks	Financial istitutions	Corporate customers	Individual customers	Public sector customers	Total
Not overdue or up to 30 days	152 668	20 370	2 316 483	9 102 889	70 888	11 667 765
31 to 60 days	-	-	12 940	11 539	-	24 479
61 to 90 days	-	-	735	5 807	-	2 075
over 90 days	-	-	49 470	16 641	513	66 624
Razem	**152 668**	**20 370**	**2 379 628**	**9 136 876**	**71 401**	**11 760 943**

for 2021 (in PLN thousand)

31.12.2020	Carrying value	Gross carrying amount				Accumulated impairment			
		Stage 1	Stage 2	Stage 3	POCI	Stage 1	Stage 2	Stage 3	POCI
Loans and advances to banks	323 133	323 133	-	-	-	-	-	-	-
Loans and advances to customers	**11 317 756**	**9 480 090**	**1 627 930**	**314 440**	**3 224**	**(4 369)**	**(29 841)**	**(95 531)**	**21 813**
Individual customers	8 346 281	7 524 397	798 837	43 381	1 043	(1 594)	(4 991)	(14 673)	(119)
Corporate customers	2 856 501	1 841 181	829 093	269 991	2 181	(2 749)	(24 850)	(80 278)	21 932
Public sector customers	85 731	85 269	-	1 068	-	(26)	-	(580)	-
Financial institutions	29 243	29 243	-	-	-	-	-	-	-
Financial assets at amortised cost, total	**11 640 889**	**9 803 223**	**1 627 930**	**314 440**	**3 224**	**(4 369)**	**(29 841)**	**(95 531)**	**21 813**

Short-term (up to 1 year)	433 522
Long-term (over 1 year)	11 207 367

Loan structure by past due days

Loan structure by past due days 31.12.2020	Loans and advances to banks	Financial institutions	Corporate customers	Individual customers	Public sector customers	Total
Not overdue or up to 30 days	323 133	29 243	2 732 795	8 322 661	85 244	11 493 076
31 to 60 days	-	-	1 867	8 727	-	10 594
61 to 90 days	-	-	8 354	4 438	-	12 792
Over 90 days	-	-	113 486	10 454	488	124 428
Total	**323 133**	**29 243**	**2 856 502**	**8 346 280**	**85 732**	**11 640 890**

As at 31 December 2021, in the Bank's credit portfolio measured at amortised cost, the gross value of loans to corporate customers, individual customers and the public sector in the Bank's loan portfolio, carrying floating interest rates, amounted to PLN 11 637 925 thousand (2020: PLN 11 396 441 thousand), and the gross value of loans carrying fixed-to-floating interest rates amounted to PLN 62 977 thousand (2020: 0 TPLN).

The item "Other financial institution" includes cash collateral (Initial margin) placed by the Bank as a security for derivative transactions with the central clearing house.

Gross carrying amount of the retail portfolio acquired in cooperation with mBank S.A. as at December 31, 2021, it amounted to PLN 9 112 572 thousand (in 2020: PLN 8 333 218 thousand), including agency sales of PLN 5 646 476 thousand (in 2020: PLN 4 442 500 thousand) and as part of retail pooling PLN 3 466 096 thousand (in 2020: PLN 3 890 718 thousand).

Gross carrying amount of the commercial portfolio transferred as part of commercial pooling from mBank S.A. as at December 31, 2021, it amounted to PLN 42 627 thousand (in 2020: PLN 47 000 thousand).

Credit quality of financial assets measured at amortized cost according to internal rating as at December 31, 2021 and December 31, 2020

31.12.2021	Score from internals models		Stage 1	Stage 2	Stage 3	POCI	Total
	[SCORE min	SCORE max)					
Exposures permanently exempted from the IRB approach	no rating	no rating	166 002	5 297	1 012	-	172 311
Exposures temporarily exempted from the IRB approach — retail portfolio acquired in cooperation with mBank S.A.	-	-	9 012 529	70 030	29 598	1 268	9 113 425
Exposures subject to the IRB approach — specialised lending, including	-	-	1 452 133	487 873	360 084	22 448	2 322 538

for 2021 (in PLN thousand)

supervisory category 1	45	54	7 313	-	-	-	7 313
supervisory category 2	23	45	1 405 606	265 892	-	-	1 671 498
supervisory category 3	11	23	39 214	193 070	-	-	232 284
supervisory category 4	1	11	-	28 911	-	-	28 911
supervisory category 5	default	default	-	-	360 084	22 448	382 532
Total			**10 630 664**	**563 200**	**390 694**	**23 716**	**11 608 274**

31.12.2020	Score from internals models		Stage 1	Stage 2	Stage 3	POCI	Total
	[SCORE min	SCORE max)					
Exposures permanently exempted from the IRB approach	no rating	no rating	198 812	6 537	1 407	390	207 146
Exposures temporarily exempted from the IRB approach — retail portfolio acquired in cooperation with mBank S.A.	-	-	7 500 305	787 803	27 789	534	8 316 431
Exposures subject to the IRB approach — specialised lending, including	-	-	1 776 604	803 749	189 713	24 113	2 794 179
supervisory category 1	45	54	1 713	-	-	-	1 713
supervisory category 2	23	45	1 749 023	524 522	-	-	2 273 545
supervisory category 3	11	23	25 868	272 483	-	-	298 351
supervisory category 4	1	11	-	-	-	-	-
supervisory category 5	default	default	-	6 744	189 713	24 113	220 570
Total			**9 475 721**	**1 598 089**	**218 909**	**25 037**	**11 317 756**

To calculate the capital requirement for credit risk, the Bank uses the Internal Ratings-Based Approach (IRB) with the supervisory approach to assign risk categories to exposures under specialized lending. The assignment to the appropriate supervisory category takes place after the transaction risk is assessed with the use of internal rating models developed by the Bank and the transition function model, which transforms the score assigned to the given internal models into supervisory categories. The different supervisory categories listed in the table above determine the supervisory risk weights and expected losses.

Movements in the balance of loss allowances and provisions (31.12.2021)

	Opening balance	Transfered to stage 1	Transfered to stage 2	Transfered to stage 3	Increase due to given and repossess	Decreases caused by deletion from the balance sheet	Change due to modyfications that do not result in removal from the balance sheet (net)	Changes resulting from the update of the methodology for estimating write-offs (net)	Decreases due to amounts taken against allowances	Closing balance
Loans	**(107 928)**	**-**	**-**	**-**	**(326)**	**(17 435)**	**(12 983)**	**2 473**	**23 201**	**(112 998)**
Stage 1	(4 368)	(10 137)	444	20	(213)	267	8 259	517	-	(5 211)
Stage 2	(29 842)	9 238	(1 291)	8 401	(136)	459	(6 032)	679	-	(18 524)
Stage 3	(95 531)	899	847	(8 421)	(61)	(17 915)	(14 623)	1 209	22 939	(110 657)
POCI	21 813	-	-	-	84	(246)	(587)	68	262	21 394
Provision related to financial assets, total	**(107 928)**	**-**	**-**	**-**	**(326)**	**(17 435)**	**(12 983)**	**2 473**	**23 201**	**(112 998)**

The most significant changes affecting transfers between baskets in 2021 are presented below:

- Gradual abandonment of use additional premises allowing for maintenance loans subject to moratoria in the basket 2. Total gross carrying amount of the portfolio for this reason reclassified to Basket 1 amounted to PLN 391 million in 2021. Reclassification in 2021 resulted in the reversal of write-offs for expected credit losses in the total amount of PLN 0.6 million.
- In 2021 as part of the model management process The bank has implemented the changes improving the sensitivity of the quantitative model of allocation to baskets (setting the allocation level separately for individual segments or product portfolios), which resulted in reclassification PLN 86,2 million from Basket 2 to Basket 1 and PLN 7,9 million from Basket 1 to Basket 2. The above changes also included adjustments related to the implementation of Recommendation R (their detailed description is provided in Note 5). The impact of these changes on the expected credit loss has been presented in Note 2.8.

for 2021 (in PLN thousand)

Changes in the gross carrying amount of financial instruments as at December 31, 2021

2021	Opening balance	Transfered to stage 1	Transfered to stage 2	Transfered to stage 3	Increase due to given and repossess	Decreases caused by deletion from the balance sheet	Change due to modyfications that do not result in removal from the balance sheet (net)	Decreases due to amounts taken against allowances	Other adjustments	Closing balance
Receivables from banks	**323 133**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(170 465)**	**152 668**
Stage 1	323 133	-	-	-	-	-	-	-	(170 465)	152 668
Loans	**11 425 684**	**-**	**-**	**-**	**1 694 102**	**(678 038)**	**-**	**(23 201)**	**(697 274)**	**11 721 273**
Stage 1	9 480 090	880 219	(160 796)	(7 471)	1 687 674	(626 400)	-	-	(617 440)	10 635 876
Stage 2	1 627 931	(874 867)	166 287	(244 605)	5 424	(65 535)	-	-	(32 912)	581 723
Stage 3	314 440	(5 352)	(5 491)	252 076	302	14 041	-	(22 939)	(45 725)	501 352
POCI	3 223	-	-	-	702	(144)	-	(262)	(1 197)	2 322
Provision related to financial assets, total	**11 748 817**	**-**	**-**	**-**	**1 694 102**	**(678 038)**	**-**	**(23 201)**	**(867 739)**	**11 873 941**

Movements in the balance of loss allowances and provisions (31.12.2020)

	Opening balance	Transfered to stage 1	Transfered to stage 2	Transfered to stage 3	Increase due to given and repossess	Decreases caused by deletion from the balance sheet	Change due to modyfications that do not result in removal from the balance sheet (net)	Decreases due to amounts taken against allowances	Closing balance
Loans	**(117 961)**	**-**	**-**	**-**	**(977)**	**1 595**	**(29 179)**	**38 594**	**(107 928)**
Stage 1	(12 093)	(1 885)	2 442	14	(370)	2 671	4 853	-	(4 368)
Stage 2	(13 394)	1 487	(2 849)	2 995	(254)	2 122	(19 949)	-	(29 842)
Stage 3	(92 527)	398	407	(2 989)	(353)	(3 198)	(35 863)	38 594	(95 531)
POCI	53	-	-	(20)	-	-	21 780	-	21 813
Provision related to financial assets, total	**(117 961)**	**-**	**-**	**-**	**(977)**	**1 595**	**(29 179)**	**38 594**	**(107 928)**

The positive valuation of the accumulated impairment results from the presentation of the accrued interest in this item.

Changes in the gross carrying amount of financial instruments as at December 31, 2020

2020	Opening balance	Transfered to stage 1	Transfered to stage 2	Transfered to stage 3	Increase due to given and repossess	Decreases caused by deletion from the balance sheet	Decreases due to amounts taken against allowances	Other adjustments	Closing balance
Receivables from banks	**13 912**	**-**	**-**	**-**	**-**	**-**	**-**	**309 221**	**323 133**
Stage 1	13 912	-	-	-	-	-	-	309 221	323 133
Loans	**11 746 393**	**-**	**-**	**-**	**1 535 980**	**(1 438 745)**	**(38 594)**	**(379 350)**	**11 425 684**
Stage 1	10 491 496	201 529	(1 077 602)	(8 792)	1 484 238	(1 273 506)	-	(337 273)	9 480 090
Stage 2	940 227	(199 945)	1 087 213	(70 196)	50 457	(153 486)	-	(26 339)	1 627 931
Stage 3	290 266	(1 584)	(9 611)	78 406	1 285	(11 753)	(38 594)	6 025	314 440
POCI	24 404	-	-	582	-	-	-	(21 763)	3 223
Provision related to financial assets, total	**11 760 305**	**-**	**-**	**-**	**1 535 980**	**(1 438 745)**	**(38 594)**	**(70 129)**	**11 748 817**

Financial effect of collaterals

As at 31 December 2021	Gross amount	Established impairment write downs	impairment write downs without the collateral cash flows	Financial effect of collaterals
Balance sheet data				
Amounts due from other banks	**152 668**	**-**	**-**	**-**
Loans and advances to customers, including:	**11 721 273**	**(112 998)**	**146 139**	**(259 137)**
Corporate customers	2 477 150	(97 522)	120 480	(218 002)
Individual customers	9 151 775	(14 900)	25 083	(39 983)

for 2021 (in PLN thousand)

Public sector customers	71 977	(576)	576	(1 152)
Other receibles	20 371	-	-	-
Total balance sheet data	**11 873 941**	**(112 998)**	**146 139**	**(259 137)**
Off-balance sheet data				
Loan commitments	9 700	9	-	9
Total off-balance sheet data	**9 700**	**9**	**-**	**9**

As at 31 December 2020	Gross amount	Established impairment write downs	impairment write downs without the collateral cash flows	Financial effect of collaterals
Balance sheet data				
Amounts due from other banks	**323 133**	**-**	**-**	**-**
Loans and advances to customers, including:	**11 425 684**	**(107 928)**	**(144 179)**	**36 251**
Corporate customers	2 942 446	(85 945)	(110 129)	110 129
Individual customers	8 367 658	(21 377)	(33 444)	33 444
Public sector customers	86 337	(606)	(606)	606
Other receibles	29 243	-	-	-
Total balance sheet data	**11 748 817**	**(107 928)**	**(144 179)**	**36 251**
Off-balance sheet data				
Loan commitments	66 576	(223)	-	(223)
Total off-balance sheet data	**66 576**	**(223)**	**-**	**(223)**

The table below presents information on financial assets that were modified without derecognition from the balance sheet and for which expected credit losses were calculated as credit losses over the life of the exposure.

	31.12.2021	31.12.2020
Financial assets that were subject to modification in the period		
Gross carrying amount of financial assets at amortized cost vefore modification, for which the write-down for expected credit losses as calculated in the lifetime horizon	449 486	302 709
Net profit / loss due to modification	(2 677)	(1 449)
Financial assets modified from the moment of initial recognition		
Gross carrying amount of financial assets whose valuation horizon of the write-off for exected credit losses during the period changed from lifetime to 12-month	-	-

for 2021 (in PLN thousand)

25. Intangible assets

	31.12.2021	31.12.2020
Concessions, patents, licences and similar assets, including:	49 489	45 431
computer software	49 489	45 431
Intangible assets under development	2 999	8505
Intangible assets, total	**52 488**	**53 936**

Movements in intangible assets

Movements in the period from 01.01.2021 to 31.12.2021	Acquired computer software	Intangible assets under development	Total
Gross value of intangible assets as at the beginning of the period: 01.01.2021	**66 450**	**8 505**	**74 955**
Increase (due to)	**11 457**	**8 264**	**19 721**
-purchase	1 088	5 859	6 947
-transfer from intangible assets under development	10 369	-	10 369
-other increase	-	2 405	2 405
Decrease (due to)	**-**	**(13 770)**	**(13 770)**
-transfer from intangible assets under development	-	(10 369)	(10 369)
-other decreases	-	(3 401)	(3 401)
Gross value of intangible assets as at the end of the period 31.12.2021	**77 907**	**2 999**	**80 906**
Accumulated amortisation as at the beginning of the period: 01.01.2021	**(21 019)**	**-**	**(21 019)**
Amortisation for the period (due to):	(7 399)	**-**	(7 399)
-amortisation	(7 399)	**-**	(7 399)
Accumulated amortisation as at the end of the period : 31.12.2021	**(28 418)**	**-**	**(28 418)**
Net value of intangible assets as at the end of the period: 31.12.2021	**49 489**	**2 999**	**52 488**

Movements in the period from 01.01.2020 to 31.12.2020	Acquired computer software	Intangible assets under development	Total
Gross value of intangible assets as at the beginning of the period: 01.01.2020	**28 747**	**36 648**	**65 395**
Increase (due to)	**37 703**	**8 490**	**46 193**
-purchase	1 840	8 490	10 330
-transfer from intangible assets under development	35 863	-	35 863
Decrease (due to)	**-**	**(36 633)**	**(36 633)**
-transfer from intangible assets under development	-	(36 066)	(36 066)
-other decreases	-	(567)	(567)
Gross value of intangible assets as at the end of the period 31.12.2020	**66 450**	**8 505**	**74 955**
Accumulated amortisation as at the beginning of the period: 01.01.2020	**(16 775)**	**-**	**(16 775)**
Amortisation for the period (due to):	**(4 244)**	**-**	**(4 244)**
-amortisation	(4 244)	**-**	(4 244)
Accumulated amortisation as at the end of the period : 31.12.2020	**(21 019)**	**-**	**(21 019)**
Net value of intangible assets as at the end of the period: 31.12.2020	**45 431**	**8 505**	**53 936**

for 2021 (in PLN thousand)

26. Property, plant and equipment

	31.12.2021	31.12.2020
Technical equipment and machinery	**6 186**	**6 014**
Fixed assets under construction	**2 081**	**1 403**
The right to use under leasing contracts:	**21 167**	**5 419**
buildings	20 915	4 938
vehicals	252	481
Tangible fixed assets, total	**29 434**	**13 818**

On June 8, 2021, the Bank concluded with mBank S.A. a sublease agreement for space in the Mennica Tower GGH MT building located at ul. Prosta 18 in Warsaw, to which the seat of the Bank has been transferred. The agreement was concluded for a fixed period from June 8, 2021 to February 28, 2031. The value of the rights to use due to the above-mentioned the agreement was shown under the right of use under leasing agreements, where as at December 31, 2021 it amounted to PLN 16 934 thousand.

Movements in tangible fixed assets

Movements in the period from 01.01.2021 to 31.12.2021	Equipment	Other fixed assets	Fixed assets under construction	Right to use		Total
				Building	Vehicles	
Gross value of tangible fixed assets as at the beginning of the period: 01.01.2021	**24 663**	**6 549**	**1 403**	**9 664**	**865**	**43 144**
Increase (due to)	**2 678**	**1 929**	**400**	**18 654**	**22**	**23 683**
-purchase	2 678	126	202	-	-	3 006
-transfer from fixed assets under construction	-	1 803	-	-	-	1 803
-other increase	-	-	198	18 654	22	18 874
Decrease (due to)	**(5 099)**	**(4 975)**	**(1 803)**	**(4 867)**	**(237)**	**(16 981)**
-sale	(2 987)	(3 302)	-	-	(237)	(6 526)
-liquidation	(2 112)	(1 649)	-	-	-	(3 761)
-transfer from fixed assets under construction	-	-	(1 803)	-	-	(1 803)
-other decrease	-	(24)	-	(4 867)	-	(4 891)
Gross value of tangible fixed assets as at the end of the period: 31.12.2021	**22 242**	**3 503**	**-**	**23 451**	**650**	**49 846**
Accumulated amortisation as at the beginning of the period: 01.01.2021	**(18 649)**	**(5 567)**	**-**	**(4 726)**	**(384)**	**(29 326)**
Amortisation for the period (due to):	**2 593**	**4 145**	**-**	**2 190**	**(14)**	**8 914**
-amortization	(2 479)	(527)	-	(2 677)	(182)	(5 865)
-sale	2 960	3 298	-	-	-	6 258
-liquidation	2 112	1 350	-	-	-	3 462
-other changes	-	24	-	4 867	168	5 059
Accumulated amortisation as at the end of the period: 31.12.2021	**(16 056)**	**(1 422)**	**-**	**(2 536)**	**(398)**	**(20 412)**
Impairment charge as at the beginning of the period: 01.01.2021	**-**	**-**	**-**	**-**	**-**	**-**
decrease	**-**	**-**	**-**	**-**	**-**	**-**
Impairment charge as at the end of the period: 31.12.2021	**-**	**-**	**-**	**-**	**-**	**-**
Net value of tangible fixed assets as at the end of the period: 31.12.2021	**6 186**	**2 081**	-	**20 915**	**252**	**29 434**

Movements in the period from 01.01.2020 to 31.12.2020	Equipment	Other fixed assets	Fixed assets under construction	Right to use		Total
				Building	Vehicles	
Gross value of tangible fixed assets as at the beginning of the period: 01.01.2020	**22 980**	**6 706**	**1 711**	**8 413**	**635**	**40 445**
Increase (due to)	**1 750**	**267**	**584**	**1 251**	**333**	**4 185**
-purchase	1 169	64	584	-	-	1 817
-transfer from fixed assets under construction	556	-	-	-	-	556
-other increase	25	203	-	1 251	333	1 812
Decrease (due to)	**(67)**	**(424)**	**(892)**	**-**	**(103)**	**(1 486)**
-sale	(31)	(4)	-	-	-	(35)
-liquidation	(36)	(420)	-	-	-	(456)
-transfer from fixed assets under construction	-	-	(556)			(556)
-other decrease	-	-	(336)	-	(103)	(439)

for 2021 (in PLN thousand)

Gross value of tangible fixed assets as at the end of the period: 31.12.2020	**24 663**	**6 549**	**1 403**	**9 664**	**865**	**43 144**
Accumulated amortisation as at the beginning of the period: 01.01.2020	**(16 642)**	**(5 093)**	**-**	**(2 247)**	**(162)**	**(24 144)**
Amortisation for the period (due to):	**(2 007)**	**(474)**	**-**	**(2 479)**	**(222)**	**(5 182)**
-amortization	(2 074)	(721)	-	(2 479)	(252)	(5 526)
-sale	31	3	-	-	-	34
-liquidation	36	244	-	-	-	280
-other changes	-	-	-	-	30	30
Accumulated amortisation as at the end of the period: 31.12.2020	**(18 649)**	**(5 567)**	**-**	**(4 726)**	**(384)**	**(29 326)**
Impairment charge as at the beginning of the period: 01.01.2020	**-**	**-**	**-**	**-**	**-**	**-**
decrease	-	-	-	-	-	-
Impairment charge as at the end of the period: 31.12.2020	-	-	-	-	-	-
Net value of tangible fixed assets as at the end of the period: 31.12.2020	**6 014**	**982**	**1 403**	**4 938**	**481**	**13 818**

27. Other assets

	31.12.2021	31.12.2020
Other, including:	**25 904**	**5 349**
-other prepayments	1 238	2 794
-receivables from the portfolio of retail loans acquired as part of cooperation with mBank S.A.	5 504	1 959
-income receivable	201	116
-debtors	392	466
-asset for return	18 556	-
-other	13	14
Total other assetsTotal other assets	**25 904**	**5 349**
Short-term (up to 1 year)	7 348	3 422
Long-term (over 1 year)	18 557	1 927

The asset to be returned item relates to financial guarantees received by the Bank from mBank S.A. in accordance with the agreement of December 17, 2020. In 2021, the guarantee mechanism triggered the creation of an asset to be repaid as a result of offsetting an increase in write-offs for expected credit losses. The change in the value of the asset to be returned is reported in the income statement on the same line as expected credit loss costs (Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss in Note 24).

As at December 31, 2021 and December 31, 2020, the bank did not have any assets taken over for debts.

28. Financial liabilities measured at amortised cost

Amounts due to other banks and customers

31.12.2021	Amount due to banks	Amount due to customers	Individual customers	Corporate customers	Public sector customers
Loans received	**1 965 859**	**-**	**-**	**-**	**-**
Other financial liabilities	**2 015 156**	**1 933**	**53**	**1 849**	**31**
Liabilities with deferred payment term	1 312 874	-	-	-	-
Liabilities in respect of cash collateral	680 713	1 273	11	1 262	-
Leasing liabilities	21 569	257	-	257	-
Other liabilities	-	403	42	330	31
Total	**3 981 015**	**1 933**	**53**	**1 849**	**31**
Short-term (up to 1 year)	1 086 729	627			
Long-term (over 1 year)	2 894 286	1 306			

The increase in liabilities due to cash collateral concerns the deposit, which is a security for the guarantee granted by mBank.

for 2021 (in PLN thousand)

31.12.2020	Amount due to banks	Amount due to customers	Individual customers	Corporate customers	Public sector customers
Loans received	**2 455 117**	**-**	**-**	**-**	**-**
Other financial liabilities	**1 045 556**	**3 477**	**114**	**3 353**	
Liabilities with deferred payment term	275 907	-	-	-	-
Liabilities in respect of cash collateral	765 503	973	11	962	-
Leasing liabilities	4 146	1 733	-	1 733	-
Other liabilities	**-**	771	103	658	10
Total	**3 500 673**	**3 477**	**114**	**3 353**	**10**
Short-term (up to 1 year)	973 093	2 581			
Long-term (over 1 year)	2 527 580	896			

Deferred liabilities act as a bridge financing for the portfolio of credit receivables taken over from mBank S.A. The value of this category of liabilities will increase after taking over subsequent tranches of pooling and decrease after issuance of mortgage covered bonds or in the case of repayment of tranches from excess liquidity. The original maturity of the deferred liability is 24 months until the date of transfer of the pooling.

In 2021, the Bank took over tranches of pooling, which resulted in a deferred liability for the total amount of PLN 1 787 442 thousand. PLN. At the same time, the Bank repaid tranches of liabilities for the total amount 752 279 thousand PLN from excess liquidity and the Bank repaid tranche of liabilities from 2020 for a total amount of PLN 275 million from excess liquidity.

In the item other financial liabilities with deferred payment dates, they relate to the liabilities resulting from the agreement concluded with mBank S.A. on November 30, 2018, an agreement to transfer the retail mortgage-backed loan portfolio. Other financial liabilities with deferred payment terms were subject to a floating interest rate. The transactions are described in note 42.

Cash collateral liabilities relate to the value of the variable margin securing derivative instruments.

All loans received were based on a variable interest rate. mBank Hipoteczny S.A. it failed to provide collateral to its creditors.

The Bank did not register any breaches of contractual terms related to liabilities under contracted loans.

9 October 2016 was the effective date of the Act of 10 June 2016 on the Bank Guarantee Fund, Deposit Guarantee Scheme and Resolution, amending the Act on Covered Bonds and Mortgage Banks resulting in there no longer being a possibility for mortgage banks to offer bank accounts intended to support investment projects carried out using loans granted by mortgage banks, and to accept term deposits. Consequently, on 12 July 2016, the Bank's Management Board in its Resolution
No. 85/2016 adopted a decision to transfer the Bank's existing customer service in the area of escrow accounts and closed trust accounts to mBank by jointly offering to customers mBank S.A. products meeting the defined functionality requirements. In December 2016, pursuant to the decision of the President of the Bank's Management Board, the remaining escrow accounts, which had not been transferred, were closed.

In the above table, the item "Other liabilities" mainly presents funds that were not yet cleared after the closing of escrow accounts,and remained in the transitory account until the account holder made relevant instructions as to the balance settlement.

Leasing liabilities

Below are the liabilities due to leasing by maturity dates

	31.12.2021	31.12.2020
Leasing liabilities by maturity day (undiscointed)		
Up to 3 months	678	798
3-12 months	2 016	1 137
1-5 years	10 282	2 196
Over 5 years	9 287	1 748
Total	**22 263**	**5 879**

for 2021 (in PLN thousand)

Liabilities from debt securities in issue

Receivables secured with mortgage entered as the first position in the land and mortgage register were the basis for the issue of mortgage covered bonds.

The issue of covered bonds may also be based on the Bank's funds placed in Treasury Securities, in the National Bank of Poland or in cash, hereinafter referred to as "Substitute Collateral".

Rules of admissible amount of the Substitute Collateral

The Bank is obliged to keep, for mortgage covered bonds, a surplus created from the funds representing Substitute Collateral, of no less than the total amount of the nominal value of interest on mortgage covered bonds in trading, to be paid out within the next 6 months (hereinafter referred to as the "Surplus"). The funds representing the Surplus cannot represent the basis for issuing covered bonds.

Rules of statutory overcollateralisation for covered bonds

The sum of nominal amounts of the Bank's receivables from mortgage-backed loans and Substitute Collateral, entered in the register of collaterals of covered bonds, constituting the basis for issuing mortgage covered bonds, cannot be lower than 110% of the total amount of nominal values of the mortgage covered bonds currently traded on, and the sum of nominal amounts of the Bank's mortgage-backed receivables constituting the basis for issuing mortgage covered bonds cannot be lower than 85% of the total amount of nominal values of the mortgage covered bonds currently traded on.

Rules of loan refinancing from funds obtained from the issue of covered bonds

In accordance with the Act on Covered Bonds and Mortgage Banks, the Bank may use funds obtained from the issue of covered bonds to refinance mortgage-backed loans and other banks' receivables from mortgage-backed loans granted by them and acquired by the Bank; refinancing of an individual loan or individual amount receivable may not, however, exceed an amount representing 60% of the mortgage lending value of the real estate, and for residential real estates, 80% of the mortgage lending value of the real estate.

The tables below present data related to the issue of covered bonds as at 31 December 2021 and as at 31 December 2020.

Mortgage covered bonds	31.12.2021	31.12.2020
1. Nominal value of covered bonds listed on the market	7 355 232	7 554 014
2. The nominal value of receivables entered in the collateral register of covered bonds underlying the issue of covered bonds (value on not matured capital)	9 737 408	9 329 195
3. Cash in Bank, as a treasury bonds, entered in the collateral register of covered bonds additionaly underlying the issue of covered bonds (Substitute collateral)	98 732	104 889
4. Financial hedging instruments	100 890	105 510
5. Level of collateral the covered bonds by receivables (2/1)	132,39%	123,50%
6. Total covered bonds collateral level (2+3+4) / 1	135,10%	124,89%
7. The value of receivables as collateral issue of mortgage covered bonds to the part which not exceeding 60% of the mortgage lending value of real estate for commercial real estate	1 507 424	2 117 009
8. The value of receivables as collateral issue of mortgage covered bonds to the part which not exceeding 80% of the mortgage lending value of real estate for residential property	7 719 429	6 580 040

Permissible value of Substitute collateral as at 31.12.2018	31.12.2021	31.12.2020
1. Cash invested in treasury bonds	170 000	150 000
2. Interests from covered bonds on the market which will be paid in the next 6 months (Surplus)	71 268	45 111
3. Permissible value of Substitute collateral (1-2)	98 732	104 889

The total nominal value of covered bonds currently traded on, both as at 31 December 2021 and as at 31 December 2020 was listed on two markets as part of CATALYST: regulated market operated by BondSpot S.A. and regulated parallel market operated by Warsaw Stock Exchange.
On 11 July 2019, the Financial Supervision Authority in Luxembourg approved a new foreign base prospectus of mBank Hipoteczny S.A. establishing a mortgage bond issue programme of EUR 3,000,000,000.

for 2021 (in PLN thousand)

Debt financial instruments by type as at 31.12.2021	Nominal value	Interest rate as at 31.12. 2021	Guarantee / collateral	Redemption date	Liability amount measured at amortised cost	Hedge accounting adjustments related to fair value of hedged items	Carrying amount of liability
Long-term issues (with original maturity of over 1 year)							
Mortgage covered bonds (EUR)	20 000	1,14%	Mortgage covered bonds register	25.02.2022	92 853	145	92 998
Mortgage covered bonds (PLN)	200 000	1,71%	Mortgage covered bonds register	28.04.2022	200 567		200 567
Mortgage covered bonds (EUR)	100 000	0,61%	Mortgage covered bonds register	22.06.2022	461 316	1 432	462 748
Mortgage covered bonds (PLN)	300 000	1,18%	Mortgage covered bonds register	28.07.2022	301 413		301 413
Mortgage covered bonds (PLN)	500 000	3,02%	Mortgage covered bonds register	10.09.2022	500 694		500 694
Mortgage covered bonds (PLN)	200 000	1,18%	Mortgage covered bonds register	20.02.2023	200 721		200 721
Mortgage covered bonds (PLN)	1 000 000	3,13%	Mortgage covered bonds register	15.09.2023	1 000 407		1 000 407
Mortgage covered bonds (PLN)	250 000	1,69%	Mortgage covered bonds register	16.10.2023	250 619		250 619
Mortgage covered bonds (EUR)	24 900	0,94%	Mortgage covered bonds register	01.02.2024	115 412	1 817	117 229
Mortgage covered bonds (PLN)	40 000	2,85%	Mortgage covered bonds register	10.06.2024	40 036		40 036
Mortgage covered bonds (PLN)	900	2,85%	Mortgage covered bonds register	10.06.2024	901		901
Mortgage covered bonds (PLN)	208 000	2,85%	Mortgage covered bonds register	10.06.2024	208 188		208 188
Mortgage covered bonds (PLN)	51 100	2,85%	Mortgage covered bonds register	10.06.2024	51 083		51 083
Mortgage covered bonds (PLN)	10 000	2,85%	Mortgage covered bonds register	10.06.2024	9 991		9 991
Mortgage covered bonds (EUR)	300 000	1,07%	Mortgage covered bonds register	05.03.2025	1 390 191	32 379	1 422 569
Mortgage covered bonds (EUR)	11 000	1,29%	Mortgage covered bonds register	24.04.2025	50 899	972	51 871
Mortgage covered bonds (PLN)	300 000	0,24%	Mortgage covered bonds register	15.09.2025	1 378 639		1 378 639
Mortgage covered bonds (EUR)	13 000	1,18%	Mortgage covered bonds register	20.09.2026	59 867	458	60 325
Mortgage covered bonds (EUR)	35 000	1,18%	Mortgage covered bonds register	20.09.2026	161 211	2 232	163 443
Mortgage covered bonds (PLN)	100 000	3,15%	Mortgage covered bonds register	20.12.2028	99 887		99 887
Mortgage covered bonds (EUR)	8 000	3,50%	Mortgage covered bonds register	28.02.2029	37 478	5 087	42 565
Mortgage covered bonds (EUR)	15 000	3,50%	Mortgage covered bonds register	15.03.2029	70 265	9 593	79 858
Mortgage covered bonds (EUR)	20 000	3,20%	Mortgage covered bonds register	30.05.2029	92 777	12 880	105 657
Mortgage covered bonds (PLN)	5 000	2,65%	Mortgage covered bonds register	03.09.2026	5 003		5 003
Mortgage covered bonds (PLN)	95 000	2,65%	Mortgage covered bonds register	03.09.2026	95 066		95 066
Mortgage covered bonds (PLN)	500 000	2,81%	Mortgage covered bonds register	10.12.2026	500 797		500 797
Bonds (PLN)	35 000	0,69%	Unsecured	03.01.2022	35 061		35 061
Bonds (PLN)	65 000	0,85%	Unsecured	21.01.2022	65 246		65 246
Bonds (PLN)	60 000	0,84%	Unsecured	03.01.2023	60 094		60 094
Debt securities in issue (carrying value)					**7 536 682**	**66 995**	**7 603 677**

Debt financial instruments by type as at 31.12.2020	Nominal value	Interest rate as at 31.12.2020	Guarantee / collateral	Redemption date	Liability amount measured at amortised cost	Hedge accounting adjustments related to fair value of hedged items	Carrying amount of liability
Long-term issues (with original maturity of over 1 year)							
Mortgage covered bonds (EUR)	8 000	3.50%	Mortgage covered bonds register	28.02.2029	37 564	7 279	44 843
Mortgage covered bonds (EUR)	15 000	3.50%	Mortgage covered bonds register	15.03.2029	70 417	13 720	84 137
Mortgage covered bonds (EUR)	20 000	3.20%	Mortgage covered bonds register	30.05.2029	92 974	18 400	111 374
Mortgage covered bonds (PLN)	300 000	1.21%	Mortgage covered bonds register	28.07.2022	301 262	-	301 262
Mortgage covered bonds (PLN)	200 000	1.20%	Mortgage covered bonds register	20.02.2023	200 609	-	200 609
Mortgage covered bonds (PLN)	200 000	1.03%	Mortgage covered bonds register	28.04.2022	200 201	-	200 201
Mortgage covered bonds (EUR)	20 000	1.14%	Mortgage covered bonds register	25.02.2022	93 031	1 083	94 114

Mortgage covered bonds (PLN)	250 000	1.12%	Mortgage covered bonds register	16.10.2023	250 161	-	250 161
Mortgage covered bonds (EUR)	11 000	1.29%	Mortgage covered bonds register	24.04.2025	51 033	2 077	53 110
Mortgage covered bonds (PLN)	255 000	1.36%	Mortgage covered bonds register	20.09.2021	254 989	-	254 989
Mortgage covered bonds (PLN)	300 000	1.42%	Mortgage covered bonds register	05.03.2021	300 259	-	300 259
Mortgage covered bonds (EUR)	50 000	0.33%	Mortgage covered bonds register	21.06.2021	230 704	-	230 704
Mortgage covered bonds (EUR)	35 000	1.18%	Mortgage covered bonds register	20.09.2026	161 684	6 675	168 359
Mortgage covered bonds (EUR)	13 000	1.18%	Mortgage covered bonds register	20.09.2026	60 040	2 031	62 071
Mortgage covered bonds (EUR)	24 900	0.94%	Mortgage covered bonds register	01.02.2024	115 751	3 484	119 235
Mortgage covered bonds (PLN)	500 000	0.97%	Mortgage covered bonds register	10.09.2022	499 773	-	499 773
Mortgage covered bonds (PLN)	1 000 000	1.04%	Mortgage covered bonds register	15.09.2023	998 833	-	998 833
Mortgage covered bonds (EUR)	100 000	0.61%	Mortgage covered bonds register	22.06.2022	462 630	4 381	467 011
Mortgage covered bonds (EUR)	300 000	1.07%	Mortgage covered bonds register	05.03.2025	1 394 280	63 148	1 457 428
Mortgage covered bonds (PLN)	208 000	0.80%	Mortgage covered bonds register	10.06.2024	207 864	-	207 864
Mortgage covered bonds (PLN)	51 100	0.80%	Mortgage covered bonds register	10.06.2024	50 978	-	50 978
Mortgage covered bonds (PLN)	40 000	0.80%	Mortgage covered bonds register	10.06.2024	39 974	-	39 974
Mortgage covered bonds (PLN)	900	0.80%	Mortgage covered bonds register	10.06.2024	899	-	899
Mortgage covered bonds (PLN)	10 000	0.80%	Mortgage covered bonds register	10.06.2024	9 968	-	9 968
Mortgage covered bonds (PLN)	100 000	1.01%	Mortgage covered bonds register	20.12.2028	99 784	-	99 784
Mortgage covered bonds (EUR)	300 000	0.24%	Mortgage covered bonds register	15.09.2025	1 382 685	-	1 382 685
Bonds (PLN)	65 000	0.88%	Unsecured	21.01.2022	65 222	-	65 222
Bonds (PLN)	100 000	0.81%	Unsecured	28.06.2021	99 984	-	99 984
Bonds (PLN)	35 000	0.67%	Unsecured	03.01.2022	35 038	-	35 038
Bonds (PLN)	60 000	0.82%	Unsecured	03.01.2023	60 059	-	60 059
Debt securities in issue (carrying value)					**7 828 652**	**122 278**	**7 950 930**

Movements in the balance of debt securities issued

	Year ended 31 December	
	2021	2020
As at the beginning of the period	**7 950 930**	**8 857 401**
Increase (due to)	676 103	573 181
-issue	600 000	95 000
-accured interest, interest non-linearity adjustments, EIR commission	76 103	118 190
-exchange differences	-	333 506
-hedge accounting adjustments related to fair value of hedged items	-	26 485
Decrease (due to)	(1 023 356)	(1 479 652)
-redemption	(882 210)	(1 354 621)
-interest repayment, interest non-linearity adjustments, EIR commission,	(69 292)	(123 542)
-exchange differences	(16 572)	-
-hedge accounting adjustments related to fair value of hedged items	(55 282)	(1 489)
As at the end of the period	**7 603 677**	**7 950 930**
Short-term (up to 1 year)	1 740 373	1 022 656
Long-term (over 1 year)	5 863 304	6 928 274
Fixed interest rate debt securities issued	3 977 902	4 044 366
Floating interest rate debt securities issued	3 625 775	3 906 564

Subordinated financial liabilities

Subordinated liabilities	Nominal value	Currency	Interest rate as 31.12	Maturity / redemption date	Balance of liability (PLN '000)
As at 31 December 2021					
mBank S.A.	100 000	PLN	4.71%	15.12.2028	**100 218**

Subordinated liabilities	Nominal value	Currency	Interest rate as 31.12	Maturity / redemption date	Balance of liability (PLN '000)
As at 31 December 2020					
mBank S.A.	100 000	PLN	3.26%	15.12.2028	**100 149**

Both as at 31 December 2021 and as at 31 December 2020, subordinated liabilities were variable interest rate liabilities.

Movements in the balance of subordinated liabilities

	Year ended 31 December	
	2021	2020
As at the beginning of the period	**100 149**	**200 432**
Increase (due to)	**69**	**150**
-interest on a loan	69	150
Reductions (due to)	**-**	**(100 433)**
-repayment of interest on the loan	-	(433)
-repayment on a loan	-	(100 000)
Subordinated liabilities as at the end of the period	**100 218**	**100 149**
Short-term (up to 1 yeat)	218	149
Long-term (over 1 year)	100 000	100 000

29. Provisions

Mortgage covered bonds	31.12.2021	31.12.2020
Provision (due to)	**5 382**	**3 392**
off-balance sheet contingent liabilities granted	9	224
provisions for future liabilities	4 770	2 900
provisions for retirement and disability benefits	160	158
provisions for legal proceedings	443	110
Provision, in total	**5 382**	**3 392**
Short-term (up to 1 year)	367	410
Long-term (over 1 year)	5 015	2 982

In the judgment of 11 September 2019 in the case of a consumer loan fully repaid early C / 383/18, the CJEU ruled that "the consumer's right to a reduction in the total cost of the loan in the event of early repayment of the loan covers all costs that have been imposed on the consumer". In connection with the judgment, the Bank created a provision for the reimbursement of commission in the case of early loan repayments, which as at 31 December 2021 was in the amount PLN 4 770 thousand, (as at December 31, 2020: PLN 2 900 thousand). The above provision is presented in the item "provision for future liabilities".

for 2021 (in PLN thousand)

	2021			
	Off-balance sheet contingent liabilities granted	Provisions for future liabilities	Provisions for legal proceedings	Provisions for retirement and disability benefits
Provisions as at the beginning of the period	**224**	**2 900**	**110**	**158**
increase on provisions	-	1 870	333	13
release of provisions	(215)	-	-	-
other changes	-	-	-	(11)
Provisions as at the end of the period	**9**	**4 770**	**443**	**160**
Expected settlement period of provisions:				
Short-term (up to 1 year)	9	1 993	110	65
Long-term (over 1 year)	-	2 777	333	95

	2020			
	Off-balance sheet contingent liabilities granted	Provisions for future liabilities	Provisions for legal proceedings	Provisions for retirement and disability benefits
Provisions as at the beginning of the period	**1 568**	**476**	**88**	**147**
increase on provisions	702	2 427	25	11
release of provisions	(2 080)	-	(3)	3
other changes	34	-	-	(3)
Provisions as at the end of the period	**224**	**2 900**	**110**	**158**
Expected settlement period of provisions:				
Short-term (up to 1 year)	71	186	110	43
Long-term (over 1 year)	153	2 714	-	115

30. Other liabilities

	31.12.2021	31.12.2020
Other liabilities (due to)	**15 703**	**15 728**
-accrued expenses	10 220	9 918
-settlements due to tax from Bank balance sheet items	2 626	2 500
-provision for holiday equivalents	940	983
-deferred income	-	80
-settlements with insurers	916	979
-liabilities due to income tax on salaries, Social Security contributions and VAT	391	73
-other	610	1 195
Other liabilities, in total	**15 703**	**15 728**
Short-term (up to 1 year)	15 703	15 728

for 2021 (in PLN thousand)

31. Deferred income tax assets and provision

Deferred income tax assets and provision are calculated for all temporary differences in accordance with the balance sheet method, using an effective income tax rate that will be applicable in the year of the tax obligation arising (19% both in 2021 and 2020).
Changes in deferred tax assets and liabilities in the period from January 1, 2021 to December 31, 2021 are presented below.

Deferred income tax assets	As at 01.01.2021	Through the profit and loss account	Recognised in the income statement	As at 31.12.2021
Interest accrued	29 680	(9 053)	-	20 627
Valuation of derivative financial instruments	10 071	207	6 511	16 789
Valuation of debt financial instruments measured at fair value through other comprehensive income	6	-	5 518	5 524
Value of impairment losses on receivables and adjustment to fair values *	24 205	5 826	-	30 031
Provisions and other liabilities related to employment benefits	1 213	133	-	1 346
Accruals of costs	1 278	378	-	1 656
The difference between the depreciation of the right to use and the cost of financing the lease (IFRS 16)	1 117	3 030	-	4 147
Revenues to be settled (commissions settled using the effective interest rate method)	3 455	(390)	-	3 065
Total deferred income tax assets	**71 025**	**131**	**12 029**	**83 185**

Settled within 12 months	49 007
To be settled after more than 12 months	34 178

* Item "Value of write-downs on receivables and adjustment to fair value" refers to expected credit losses value of loans measured at amortized cost and fair value adjustments for loans that are mandatorily carried at fair value by the financial result for which the Bank expects that their uncollectibility will be documented.

Deferred income tax liabilities	As at 01.01.2021	Through the profit and loss account	Recognised in the income statement	As at 31.12.2021
Interest accrued	(10 440)	(1 032)	-	(11 472)
Valuation of derivative financial instruments	(35 159)	6 704	(2 362)	(30 817)
Valuation of debt financial instruments measured at fair value through other comprehensive income	(1 044)	-	833	(211)
Provisions and other liabilities related to employment benefits	(6)	-	(2)	(8)
Costs paid in advance	(18 542)	3 367	-	(15 175)
Difference between tax and balance sheet depreciation/amortisation	(1 823)	(3 719)	-	(5 542)
Total deferred income tax liabilities	**(67 014)**	**5 320**	**(1 531)**	**(63 225)**

Settled within 12 months	(57 683)
To be settled after more than 12 months	(5 542)

for 2021 (in PLN thousand)

Deferred income tax assets (net)	As at 01.01.2021	Through the profit and loss account	Recognised in the income statement	As at 31.12.2021
Total deferred income tax assets (net)	**4 011**	**5 451**	**10 498**	**19 960**

Settled within 12 months	(8 676)
To be settled after more than 12 months	28 636

Changes in deferred tax assets and liabilities in the period from January 1, 2020 to December 31, 2020 are presented below.

Deferred income tax assets	As at 01.01.2020	Impact MSSF 16	Recognised in the income statement	Trough other total income	Other changes	As at 31.12.2020
Accured interest	28 212	-	1 468	-	-	29 680
Valuation of derivative financial instruments	738	-	(29)	9 096	266	10 071
Measured of debt financial instruments measured at fair value trough other comprehensive income	44	-	-	(38)	-	6
Value of write-downs on receivables and adjustment to fair value*	25 874	-	(1 669)	-	-	24 205
Provisions and other benefit obligations employees	1 789	-	(576)	-	-	1 213
Accurals of costs	2 049	(1 343)	572	-	-	1 278
The difference between the depreciation of the right to use and the cost of financing the lease (IFRS16)	-	1 343	(226)	-	-	1 117
Income to be settled (commissions settled using the effective interest method)	5 638	-	(2 183)	-	-	3 455
Total deferred tax assets	**64 344**	**-**	**(2 643)**	**9 058**	**266**	**71 025**

Realized within 12 months	3 427
To be completed over 12 months	67 598

* Item "Value of write-downs on receivables and adjustment to fair value" refers to expected credit losses value of loans measured at amortized cost and fair value adjustments for loans that are mandatorily carried at fair value by the financial result for which the Bank expects that their uncollectibility will be documented.

Deferred income tax liabilities	As at 01.01.2020	Impact MSSF 16	Trough the profit and loss account	Trough other total income	Other changes	As at 31.12.2020
Accured interest	(13 715)	-	3 275	-	-	(10 440)
Valuation of derivative financial instruments	(17 388)	-	(4 814)	(12 957)	-	(35 159)
Measured of debt financial instruments measured at fair value trough other comprehensive income	(757)	-	-	(287)	-	(1 044)
Provisions and other benefit obligations employees	(6)	-	-	-	-	(6)
Up-front costs	(21 686)	1 261	1 883	-	-	(18 542)
The difference between the property’s carrying amount and tax amount fixed assets and intangible assets	(669)	(1 261)	107	-	-	(1 823)
Total provision for deferred income taxdown	**(54 221)**	**-**	**451**	**(13 244)**	**-**	**(67 014)**

Realized within 12 months	(65 191)
To be completed over 12 months	(1 823)

for 2021 (in PLN thousand)

Deferred tax assets (net)	As at 01.01.2020	Impact MSSF 16	Trough the profit and loss account	Trough other total income	Other changes	As at 31.12.2020
Total deferred tax assets (net)	**10 123**	**-**	**(2 192)**	**(4 186)**	**266**	**4 011**

Realized within 12 months	(61 764)
To be completed over 12 months	65 775

Deferred tax recognized in the income statement	Year ended 31 December	
	2021	2020
Interest accured	(10 085)	4 743
Valuation of derivative financial instruments	6 911	(4 843)
Amount of imprairment write-downa on receivables and adjustment to fair value	5 826	(1 669)
Provisions and other liabilities related to employment benefits	133	(576)
Accurals	378	572
Revenue to be settled (commissions settled using the effective interest rate method)	(390)	(2 183)
Prepaid costs	3 367	1 883
Difference between tax sheet depreciation/amortization	(689)	(119)
Total, deferred tax recognized in the income statement	**5 451**	**(2 192)**

* Item "Value of write-downs on receivables and adjustment to fair value" refers to expected credit losses value of loans measured at amortized cost and fair value adjustments for loans that are mandatorily carried at fair value by the financial result for which the Bank expects that their uncollectibility will be documented.

The Bank capitalises impairment write-downs on loans in the event of estimating that the most likely scenario will entail documenting non-recoverability in accordance with applicable tax laws as a result of undertaken debt collection activities.

Deferred tax assets are recognised when it is probable that taxable income will be generated in the future.

32. Proceedings pending before a court, an authority competent for arbitration proceedings or a public administration authority

In 2021, the Bank was not involved in any proceedings before a court, arbitration body, or public administration authority, where the value of such proceedings represented at least 10% of the Bank's equity. No significant actions were brought by the Bank or against the Bank within the presented reporting periods. The Bank made no provisions for ongoing disputes of that category.

33. Off-balance sheet commitments

Off-balance-sheet commitments of the Bank include:

- lending commitments

  The amounts and the relevant dates on which the Bank must meet the off-balance-sheet financial liabilities by granting loans are presented in the table below.
- liabilities received,
- liabilities in respect of derivative financial instruments.

for 2021 (in PLN thousand)

The tables below present the off-balance-sheet liabilities made and received by the Bank, and the nominal value of open derivative transactions of the Bank as at 31 December 2021.

31.12.2021	Up to 1 year	From 1 to 5 years	Over 5 years	Total
Off-balance sheet liabilities granted and received	**787 360**	**48**	**569 691**	**1 357 099**
Liabilities granted	**5 172**	**48**	**4 480**	**9 700**
Financial liabilities:	5 172	48	4 480	9 700
a) Lending commitments	5 172	48	4 480	9 700
Liabilities received:	**782 188**	**-**	**565 211**	**1 347 399**
a) Financial liabilities received	782 188	-	-	782 188
b) guarantee	-	-	565 211	565 211
Derivative financial instruments (nominal value of contracts)	**3 664 780**	**6 290 169**	**395 549**	**10 350 498**
1. Interest rate derivatives	1 103 856	3 631 419	395 549	5 130 824
2. Foreign exchange derivatives	2 560 924	2 658 750	-	5 219 674
Total off-balance sheet items	**4 452 140**	**6 290 217**	**965 240**	**11 707 597**

On December 17, 2020, the Bank concluded with mBank S.A. a bank guarantee agreement for selected commercial credit exposures of the Bank with a total amount of over PLN 590 million. The purpose of entering into the guarantee is to improve the risk profile of exposures with the highest risk of deteriorating the economic situation of debtors.

	Nominal amount of off-balance sheet loan commitments				Provisions for off-balance sheet loan commitments			
	Stage 1	Stage 2	Stage 3	POCI	Stage 1	Stage 2	Stage 3	POCI
Lending commitments	9 382	101	217	-	9	-	-	-

Off-balance sheet exposures: credit commitments. Change in reserves									
31.12.2021	Opening balance	Transfer to Stage 1	Transfer to Stage 2	Transfer to Stage 3	Increases due to the grant and takeover	Decreases due to derecognition	Changes due to change in credit risk (net)	Changes resulting from the update of the methodology for estimating write-offs (net)	Decreases in write-offs	Closing balance
Lending commitments	**223**	**-**	**-**	**-**	**-**	**(167)**	**(47)**	**-**	**-**	**9**
Stage 1	223	-	-	-	-	(167)	(47)	-	-	9
Stage 2	-	-	-	-	-	-	-	-	-	
Stage 3	-	-	-	-	-	-	-	-	-	
POCI	-	-	-	-	-	-	-	-	-	
Total	**223**	**-**	**-**	**-**	**-**	**(167)**	**(47)**	**-**	**-**	**9**

for 2021 (in PLN thousand)

The tables below show off-balance sheet commitments to grant credit and provisions for off-balance sheet commitments granted by the levels of the internal rating system on December 31, 2021.

Nominal amount of off-balance sheet loan commitments	Stage 1	Stage 2	Stage 3	POCI	Total
1	2 463	-	-	-	2 463
2	1 593	-	-	-	1 593
3	74	-	-	-	74
4	5 172	-	-	-	5 172
5	80	-	-	-	80
6	-	-	-	-	-
7	-	101	-	-	101
8	-	-	-	-	-
default	-	-	217	-	217
Total	**9 382**	**101**	**217**	**-**	**9 700**

Provisions for off-balance sheet loan commitments	Stage 1	Stage 2	Stage 3	POCI	Total
1	-	-	-	-	-
2	-	-	-	-	-
3	-	-	-	-	-
4	9	-	-	-	9
5	-	-	-	-	-
6	-	-	-	-	-
7	-	-	-	-	-
8	-	-	-	-	-
default	-	-	-	-	-
Total	**9**	**-**	**-**	**-**	**9**

The tables below present the off-balance sheet commitments granted and received by the Bank, the nominal value of the Bank's open derivative transactions and the change in provisions for loan commitments as at December 31, 2020.

31.12.2020	Up to 1 year	From 1 to 5 years	Over 5 years	Total
Off-balance sheet liabilities granted and received	**816 963**	**24 301**	**617 010**	**1 458 274**
Commitment granted	**35 174**	**24 301**	**7 101**	**66 576**
1. Financial liabilities:	35 174	24 301	7 101	66 576
a) Lending commitments	35 174	24 301	7 101	66 576
Liabilities received:	**781 789**	**-**	**609 909**	**1 391 698**
a) Financial liabilities received	781 789	-	-	781 789
b) Guarantee	-	-	609 909	609 909
Pochodne instrumenty finansowe (wartość nominalna kontraktów)	**2 443 031**	**6 871 144**	**839 894**	**10 154 069**
1. Interest rate derivatives	-	4 207 774	839 894	5 047 668
2. Foreign exchange derivatives	2 443 031	2 663 370	-	5 106 401
Total off-balance sheet	**3 259 994**	**6 895 445**	**1 456 904**	**11 612 343**

31.12.2020	Nominal amount of off-balance sheet loan commitments				Provisions for off-balance sheet loan commitments			
	Stage 1	Stage 2	Stage 3	POCI	Stage 1	Stage 2	Stage 3	POCI
Lending commitments	65 940	636	-	-	221	2	-	-

for 2021 (in PLN thousand)

Off-balance sheet exposures: credit commitments. Change in reserves										
31.12.2020	**Opening balance**	**Transfer to Stage 1**	**Transfer to Stage 2**	**Transfer to Stage 3**	**Increases due to the grant and takeover**	**Decreases due to derecognition**	**Changes due to change in credit risk (net)**	**Changes resulting from the update of the methodology for estimating write-offs (net)**	**Other**	**Closing balance**
Loan commitments	**1 568**	**-**	**-**	**-**	**194**	**(1 098)**	**(441)**	**-**	**-**	**223**
Stage 1	1 418	-	-	-	194	(952)	(437)	-	-	223
Stage 2	150	-	-	-	-	(146)	(4)	-	-	-
Stage 3	-	-	-	-	-	-	-	-	-	-
POCI	-	-	-	-	-	-	-	-	-	-
Total	**1 568**	**-**	**-**	**-**	**194**	**(1 098)**	**(441)**	**-**	**-**	**223**

The tables below show off-balance sheet commitments to grant credit and provisions for off-balance sheet commitments granted by the levels of the internal rating system on December 31, 2020.

Nominal amount of off-balance sheet loan commitments	Stage 1	Stage 2	Stage 3	POCI	Total
1	2 398	-	-	-	2 398
2	1 938	339	-	-	2 277
3	129	-	-	-	129
4	61 475	-	-	-	61 475
5	-	297	-	-	297
6	-	-	-	-	-
7	-	-	-	-	-
8	-	-	-	-	-
default	-	-	-	-	-
Total	**65 940**	**636**	**-**	**-**	**66 576**

Provisions for off-balance sheet loan commitments	Stage 1	Stage 2	Stage 3	POCI	Total
1	-	-	-	-	-
2	-	-	-	-	-
3	-	-	-	-	-
4	223	-	-	-	223
5	-	-	-	-	-
6	-	-	-	-	-
7	-	-	-	-	-
8	-	-	-	-	-
default	-	-	-	-	-
Total	**223**	**-**	**-**	**-**	**223**

34. Pledged assets

The Bank secured the issued mortgage bonds with receivables from credits and loans granted, which are described in note 28. Moreover, the Bank entered the CIRS hedging transaction in the covered bond collateral register.

The mortgage bank is obliged to keep in the collateral register created with the funds referred to in Art. 18 (3) of the Act, a surplus in the amount not lower than the total amount of the nominal value of interest on traded mortgage covered bonds to be paid within the next 6 months. The funds allocated to the surplus may not constitute the basis for the issue of mortgage bonds.

for 2021 (in PLN thousand)

The amount of the substitute security may be withdrawn from the register at any time (released), provided that the trustee agrees. The amount of the excess varies over time and must remain in the register in accordance with Art. 18 sec. 3a of the Act, until all mortgage bonds are purchased.

The Bank secured the issued mortgage covered bonds with Treasury bonds with a carrying amount as at December 31, 2021, TPLN 165 189 (as at December 31, 2020: TPLN 151 009).

35. Registered share capital

As at 31 December 2021 and at 31 December 2020 the total number of ordinary shares was 3,360,000 shares with the nominal value of PLN 100 per share (as at 31 December 2020: 3 360 000). All shares in issue are fully paid up.

REGISTERED SHARE CAPITAL (STRUCTURE) AS AT 31 DECEMBER 2021							
Share type	**Type of preference**	**Type of restrictions**	**Number of shares**	**Series / issue at par value (PLN)**	**Means of covering share capital**	**Registration date**	**Right to dividend**
registered	-	-	500 000	50 000 000	cash	16.04.1999	01.01.2000
registered	-	-	850 000	85 000 000	cash	20.09.2000	01.01.2001
registered	-	-	400 000	40 000 000	cash	24.04.2006	01.01.2006
registered	-	-	1 000 000	100 000 000	cash	08.01.2013	01.01.2013
registered	-	-	100 000	10 000 000	cash	30.12.2014	01.01.2015
registered	-	-	140 000	14 000 000	cash	19.08.2015	01.01.2016
registered	-	-	100 000	10 000 000	cash	01.08.2016	01.01.2017
registered	-	-	120 000	12 000 000	cash	03.04.2017	01.01.2017
registered	-	-	150 000	15 000 000	cash	09.05.2019	01.01.2019
Total number of shares			**3 360 000**	-	-		
Total registered share capital				**336 000 000**	-		

The shareholders of mBank Hipoteczny S.A. as at December 31,2021 and Decenmer 31,2020 are presented in the table below:

Shareholder's name	Equity (PLN)	Shares		Voting rights at the General Shareholders' Meeting	
		Numbers of shares	%	Numbers of vote	%
mBank S.A.	336 000 000	3 360 000	100,00	3 360 000	100,00
Total	**336 000 000**	**3 360 000**	**100,00**	**3 360 000**	**100,00**

36. Supplementary capital from the sale of shares above their nominal value

Supplementary capital from the sale of shares above their nominal value in 2021 and 2020 was 548 631 TPLN, it is created from the surplus achieved by issuing shares above their nominal value, remaining after covering the issue costs,
intended to cover balance sheet losses that may arise in connection with the activities of the Bank.

37. Retained earnings

	31.12.2021	31.12.2020
Other supplementary capital	**342 910**	**338 032**
General banking risk reserve	44 800	44 800
Profit for the current year	18 802	4 878
Total retained earnings	**406 512**	**387 710**

Other supplementary capital and the General Risk Fund are created as a result of profit appropriation and are intended for the purposes specified in the Memorandum of Association or other legal regulations.

for 2021 (in PLN thousand)

The Bank is obliged to transfer at least 8% of its net profit to its statutory supplementary capital until it has reached the level of one-third of the Bank's share capital. The Bank may also transfer a part of its net profit to the General Risk Fund to cover unforeseen losses.

- Distribution of profit for 2021

On May 26, 2021, the Ordinary General Meeting of mBank Hipoteczny S.A. adopted a resolution on the distribution of the net profit for 2020. The Bank's net profit for 2020 in the amount of PLN 4.878 thousand was allocated entirely to the supplementary capital of the Bank.

38. Other components of equity

	31.12.2021	31.12.2020
Financial assets at fair value through other comprehensive income	**(22 652)**	**4 423**
Unrealised gains on debt instruments	(22 652)	4 423
Actuarial gains and losses on post-employment benefits	**36**	26
Actuarial gains of the defined benefit pension plan	36	26
Zabezpieczenie przepływów pieniężnych	(4 237)	13 450
Other components of equity, total	**(26 853)**	**17 899**

39. Dividend per share

mBank Hipoteczny S.A. does not plan to pay a dividend for 2021, nor did it pay any for 2020.

40. Notes to the statement of cash flows

Cash and cash equivalents

For the purpose of the statement of cash flows, the balance of cash and cash equivalents includes the following balances with maturities of up to three months.

	31.12.2021	31.12.2020
Cash and balances with the central bank (note 20)	114 658	29 393
Amount due from the banks (note 24)	152 668	323 133
Money bills	-	34 999
Total cash and cash equivalents	**267 326**	**387 525**

Supplementary information to the statement of cash flows

Change in the status of items of operational activity

The following table provides additional information to the statement of cash flows and presents differences between the balance-sheet changes in items and changes in such items recognised under operating activities in the statement of cash flows.

	Year ended 31 December 2021	Year ended 31 December 2020
Financial assets and liabilities held for trading and derivative hedging instruments – change in balance due to balance sheet balances	**73 414**	**(15 581)**
The difference between the interest accrued and paid in cash in the period	17 691	21 424
Valuation recognised in other comprehensive income	(21 836)	20 319
Financial assets and liabilities held for trading and derivative hedging instruments, total	**69 269**	**(109 838)**
Loans and advances to clients, change resulting from balance-sheet values	**(276 886)**	**334 552**
The difference between the interest accrued and paid in cash in the period	(25 108)	(19 480)
Change in loans and advances to clients, total	**(301 994)**	**315 072**
Financial assets at fair value through other comprehensive income - change resulting from balance-sheet values	**58 652**	**430 690**
Exclusion of change in cash and cash equivalents	(34 999)	(184 983)

for 2021 (in PLN thousand)

Valuation recognised in other comprehensive income	(33 426)	1 707
Result on disposal	-	4 243
The difference between the interest accrued and paid in cash in the period	(376)	(2 127)
Change in respect Financial assets at fair value through other comprehensive income, total	**(10 149)**	**249 530**
Debt securities issued at amortised cost - change resulting from balance-sheet values	**(347 253)**	**(906 471)**
The difference between the interest accrued and paid in cash in the period	(36 820)	(32 648)
Exclusion of change in cash from financing activities	282 210	1 259 621
(Zyski) straty z tytułu różnic kursowych	13 042	(319 565)
Change in debt securities in issue at amortised cost, total	**(88 821)**	**937**
Amounts due to other banks, change resulting from balance-sheet values	**480 342**	**683 851**
The difference between the interest accrued and paid in cash in the period	(5 366)	(3 108)
Exclusion of change in cash from financing activities	140 942	1 310 240
Change in amounts due to banks, in total	**615 918**	**1 990 983**
Debt securities in issue - change resulting from balance-sheet values	**(1 544)**	**(5 457)**
The difference between the interest accrued and paid in cash in the period	(6)	(514)
Transfer to cash flows from financing activities - leasing	1 412	3 151
Change in amounts due to clients, in total	**(138)**	**(2 821)**

Interest received and paid with respect to the operational activity

	Year ended 31 December	
	2021	2020
Interest received from:		
Cash and balances with the Central Bank	41	15
Loans and advances to banks	2	107
Loans and advances to customers	268 878	339 774
Financial assets at fair value through other comprehensive income	4 464	16 280
Derivative instruments classified to the banking book	(6 488)	3 142
Income from interest received, total	**266 897**	**359 318**

	Year ended 31 December	
	2021	2020
Interest paid on account:		
Settlements with banks on account of received credits, security deposits with the original maturity below 1 year, liabilities on account of deferred payment	18 432	25 895
Total costs of interest received	**18 432**	**25 895**

Cash flows from financing activities

The following tables present a change in liabilities in connection with the financing activities

	OB. 01.01.2021	Cash flow	Other changes	CB. 31.12.2021
Debt securities in issue (long-term)	7 950 930	(282 210)	(1 805 416)	5 863 304
Amounts due to banks (long-term) (Note 28)	2 731 024	(139 136)	283 275	2 875 163
Leasing liabilities (Note 28)	5 879	(3 219)	16 573	19 233
Subordinate liabilities(Note 28)	100 149	-	(149)	100 000

	OB. 01.01.2020	Cash flow	Other changes	CB. 31.12.2020
Debt securities in issue (long-term)	8 857 401	(1 264 972)	358 501	7 950 930
Amounts due to banks (long-term)	2 769 787	(83 562)	44 799	2 731 024
Leasing liabilities (Note 28)	7 067	(3 151)	1 963	5 879
Subordinate liabilities(Note 28)	200 432	(100 432)	149	100 149

Column "Other Changes" shows non-cash flows resulting from accrued interest, commissions accounted for with the effective interest rate method, exchange differences, changes in hedge accounting adjustments related to fair value of hedged items, financial liabilities with deferred maturity resulting from agreements concluded with mBank S.A. on the transfer of a portfolio of retail loans secured with a mortgage on real estate.

41. Incentive plan for the Bank’s Management Board and employees having a material impact on the risk profile of the Bank

The rules for determining the variable remuneration components of persons holding positions that have a significant impact on the Bank's risk profile are set out in the "Remuneration policy for persons having a significant impact on the risk profile at mBank Hipoteczny S.A." hereinafter referred to as the "Policy", adopted for the first time by the Resolution of the Supervisory Board no. 21/2012 of 19 September 2012. Since then, the Policy has been subject to annual verification and modification by the Management Board and Supervisory Board of the Bank.

2015, 2016 and 2017 incentive program for members of the Bank's Management Board and employees who have a significant impact on the Bank's risk profile

On June 26, 2015, the Supervisory Board of the Bank adopted the "Policy of remuneration of persons having a significant impact on the Bank's risk profile at mBank Hipoteczny S.A.", which entered into force on July 1, 2015.
On April 18, 2016, by Resolution No. 14/2016 of the Supervisory Board, the amended "Remuneration policy for persons having a significant impact on the Bank's risk profile at mBank Hipoteczny S.A." was approved, which entered into force on May 1, 2016 and repealed the previous policy in this regard. The change concerned the calculation of the average value of phantom shares for the payment of the non-deferred non-cash part and the deferred non-cash tranches. Before the change, the value of the shares was understood as the value at the end of the annual period preceding the payment date. After the change, the average value of the phantom share is calculated as the sum of the value of the phantom share at the end of the annual period preceding the payment date and the value of the phantom share at the end of the first half of the year in which the payment is to take place, divided by two.
On March 27, 2017, the Supervisory Board, by Resolution No. 13/2017, changed the Remuneration Policy for persons having a significant impact on the Bank's risk profile by introducing a limit of PLN 200 thousand PLN for the payment of variable remuneration. If the amount is equal to or less than PLN 200,000 The Bank's Management Board may decide not to postpone the variable remuneration for subsequent years and grant the entire variable remuneration in the form of non-deferred cash. The above rule does not apply to members of the Bank's Management Board.
Pursuant to the Policy, the variable remuneration includes a bonus granted to a member of the Management Board or other employees for a given financial year. Variable remuneration is determined in a transparent, verifiable manner, ensuring effective implementation of the Policy. The maximum level of the variable remuneration components of persons covered by the Policy may not exceed 100% of the value of the base remuneration paid to a member of the Management Board or other employees for a given financial year. Variable remuneration is part of the total remuneration (annual base salary and variable remuneration) awarded to a member of the Management Board or other employees. It is fixed taking into account market practices, both in the banking sector and on the Polish market, verified on the basis of market salary reports and the remuneration policy of mBank Group.

<u>The process of granting and deferring variable remuneration for members of the Bank's Management Board:</u>

The Supervisory Board determines the amount of bonuses for individual members of the Bank's Management Board, taking into account whether the Management Board member has achieved the agreed annual / long-term business and development goal - Management By Objective ("MBO"). The decision on granting the bonus and its amount is at the sole discretion of the Bank's Supervisory Board, which, according to its own assessment and decision, confirms the achievement of MBO, taking into account the situation on financial markets in the last / previous financial periods.

<u>Variable remuneration is awarded in accordance with the following principles:</u>

- 60% of the bonus amount will be paid in the year it was granted (non-deferred part), in the following way:
  - 50% in the form of a cash withdrawal and
  - 50% in phantom shares.
- 40% of the bonus amount will be paid, in three equal installments (deferred part) in the three years following the granting of the premium, as follows:
  - 50% in the form of a cash withdrawal and
  - 50% in the form of a cashless payment in phantom shares.

Phantom shares granted both in the non-deferred and deferred part may be paid out at the earliest in the 6th month after the month of granting the phantom shares.
The Supervisory Board may decide to suspend in whole or reduce the amount of the deferred tranche, if:

- states that in a longer time horizon (at least 3 years), the Management Board member, through his actions or omissions, had a direct and negative impact on the financial result and market position of the Bank, or
- at least one of the elements included in the scorecard is not met (ie if there is at least one "YES" answer to the questions posed in it) or
- the management contract will expire or be terminated for reasons other than:
  - expiry of the term for which the contract was concluded,
  - dismissal of a Management Board member from the Bank's Management Board during the term of the contract, except for the reasons specified in detail in the contract,
  - taking on new responsibilities within the mBank Group,
  - retirement of the Management Board member.

As part of the program described above, Members of the Management Board were awarded a bonus for 2015, 2016 and 2017. The last settlements of this program are in 2021. The program is now over.

2018 and 2019 incentive program for members of the Bank's Management Board and employees who have a significant impact on the Bank's risk profile

On November 23, 2018, the Supervisory Board, by Resolution No. 37/2018, approved the amended Remuneration Policy for people who have a significant impact on the Bank's risk profile at mBank Hipoteczny S.A. and repealed the Policy of March 2017. The provisions of the adopted Policy apply from the bonus for 2018. The changes concerned, among others:

- Extension of the retention period from 6 to 12 months, phantom shares awarded to both as part of the non-deferred and deferred part, they can be paid at the earliest 12 months after the month of granting phantom shares,
- changes in the rules for calculating the equivalent for phantom shares - to calculate the average value of phantom shares, the sum of the value of the phantom shares at the end of the last two annual periods preceding the payment date is taken into account,
- detailing the provisions regarding the conditions for receiving a bonus in the so-called scorecard,
- introducing clawback, on the basis of which the Supervisory Board in relation to members of the Management Board, the Management Board in relation to employees who have a significant impact on the Bank's risk profile may request the return of the bonus granted and paid for a given calendar year (i.e. deferred).

On December 14, 2018, the Supervisory Board adopted Resolution No. 39/2018 introducing order corrections to the content of the Policy adopted with Resolution No. 37/2018.
The amount of the bonus for a given calendar year is determined based on the assessment of the achievement of the set MBO goals for the last three calendar years, the Supervisory Board for members of the Management Board, the Bank's Management Board for employees who have a significant impact on the Bank's risk profile, the so-called Risk Taker.
The bonus consists of a non-deferred portion representing 60% of the bonus and a deferred portion representing 40% of the bonus.
The deferred and non-deferred part is divided into the cash part (50%) and the non-cash part allocated in phantom shares (50%). The non-deferred cash portion is payable in the year of granting the bonus. The other half of the non-deferred portion (50%) is paid in the form of an equivalent for phantom shares not earlier than 12 months after the date of the Ordinary General Meeting of Shareholders.
The deferred part, both in cash and in the form of phantom shares, is paid after approval of the Bank's financial statements for the previous calendar year, and the part is paid in the form of phantom shares not earlier than 12 months after the approval of the Bank's financial statements.
If the amount of the bonus for a given calendar year, determined for an employee having a significant impact on the risk profile of the Bank who is not a member of the Management Board, does not exceed PLN 200 thousand. on the basis of a decision made by the Bank's Management Board, the bonus may be paid in full in cash in a non-deferred form.

The deferred part of the bonus of both the Management Board members and other Risk Takers in terms of determination and payment is subject to assessment. Accordingly, the Supervisory Board in relation to members of the Management Board, the Management Board of the Bank in relation to employees identified as Risk Takers, may decide to suspend in whole or reduce the amount of the deferred tranche if it finds that in a longer time horizon than 1 financial / financial year, i.e. for a period of at least 3 years, Risk Taker had a direct and negative impact on the financial result or market position of the Bank, violated the rules and standards adopted in mBank Group, directly led to significant financial losses, when at least one of the elements included in the scorecard failed has been met or any of the conditions referred to in art. 142 sec. 2 of the Banking Law.

In case of the occurrence of the events referred to above at the stage of determining the amount of bonus for Risk Takers, the Bank's Supervisory Board/Board of Executives may decide not to grant in full or to reduce the bonus for a given calendar year.
Moreover, the Risk Taker may be obliged, on terms and within the time limit determined in a decision of the Bank's Supervisory Board/Board of Executives, to return the bonus granted and paid for a given calendar year (i.e.: non deferred part and all deferred parts), if he/she violated rules and standards adopted in mBank Group, committed a material breach of generally applicable laws or directly led to significant financial losses resulting from deliberate negative actions to the detriment of mBank Group, or led to financial sanctions imposed on the Bank by supervisory authorities on the basis of a valid decision.
The decision on the occurrence of the events described above may be made until the end of the calendar year in which the last tranche of the part of the bonus granted for the year in which the event occurred is paid.

2020 incentive program for members of the Bank's Management Board and employees having a significant impact on the Bank's risk profile

On February 3, 2020, the Supervisory Board, by Resolution No. 5/2020, approved the amended Remuneration Policy for people with a significant impact on the Bank's risk profile at mBank Hipoteczny S.A. and repealed the Policy of December 2018. The most important changes in the Policy result from the recommendations of the Polish Financial Supervision Authority:

- the previous limit of 200,000 PLN. has been replaced with a relative value for Risk Takers (not applicable to Management Board Members), for whom their annual variable remuneration does not exceed one third of the annual total remuneration. As a result, such employees may receive variable remuneration for a given calendar year, based on a decision made by the Management Board, in full in cash and in a non-deferred form. The provision is directly and explicitly confirmed in the content of the relevant provisions of Directive 2019/878 / EU (CRD V Directive).

The Bank introduced a change to the Remuneration Policy for Persons having a significant impact on the Bank's risk profile in force in 2020. The change is related to the Recommendation of the Polish Financial Supervision Authority on the expected actions of banks regarding the payment of variable remuneration components in order to effectively respond to the economic effects of the COVID-19 pandemic.
The Policy introduces provisions that will enable the Supervisory Board to decide on granting the Management Board Members the entire bonus for 2020 only in the form of phantom shares. This change is aimed at minimizing the risk associated with maintaining a solid capital base of the Bank in order to be able to effectively respond to the economic situation of the country related to the COVID-19 pandemic.
Bonus for 2020 Members of the Management Board were awarded in full in phantom shares. The implementation of the first tranche is scheduled for 2022.
Starting with the bonus that will be granted for 2021, the deferral period for the cash part and the part paid in the form of phantom shares for members of the Management Board of companies is extended from three to five years for the remaining Risk Takers from three to four years.

for 2021 (in PLN thousand)

Appointment of the Remuneration Committee

As at 31 December 2021, the composition of the Remuneration Committee is as follows:

1.	Andreas Boeger	-	Chairman of the Committee
2.	Frank Bock	-	Vice-chairman of the Committee
3.	Marek Lusztyn	-	Member of the Committee

As at December 31, 2020, the composition of the Remuneration Committee was as follows:

1.	Frank Bock	-	Chairman of the Committee
2.	Andreas Boeger	-	Vice-chairman of the Committee
3.	Marek Lusztyn	-	Member of the Committee

Accounting for incentive programs

The benefits of the remuneration program for members of the Management Board and employees who have a significant impact on the Bank's risk profile are accounted for in accordance with IAS 19 Employee Benefits. Both the cash part of the program and the part in phantom shares settled in cash increase the cost of a given period in correspondence with liabilities. Costs are recognized over time throughout the vesting period and are recorded under 'General administrative expenses'. Liabilities due to incentive programs are presented in the statement of financial position under "Other liabilities".

42. Related party transactions

All transactions between the Bank and related entities were typical transactions and routine, concluded in the opinion of the Management Board on conditions not deviating from market ja terzby the Bank. Transactions with related entities carried out in the ordinary course of business include loans, debt securities issued and derivative transactions.

The following table presents financial liabilities towards mBank S.A., broken down by contractual maturity dates.

31.12.2021	Up to 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 year	Over 5 years	Total
Loans received	-	-	-	-	1 965 859	**1 965 859**
Covered bonds and bonds in issue	3 011	-	214 147	860 797	25 072	**1 103 027**
Subordinated liabilities	-	-	-	-	100 218	**100 218**
Liabilities in respect of cash collateral	591 892	-	-	-	-	**591 892**
Other financial liabilities with deferred payment date	-	-	-	1 312 875	-	**1 312 875**
Derivative financial instument	2 114	4 932	-	-	-	**7 046**

31.12.2020	Up to 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 year	Over 5 years	Total
Loans received	-	-	-	100 039	2 355 078	**2 455 117**
Covered bonds and bonds in issue	-	21 018	-	527 979	100	**549 097**
Subordinated liabilities	-	-	-	-	100 149	**100 149**
Liabilities in respect of cash collateral	672 126	-	-	-	-	**672 126**
Other financial liabilities with deferred payment date	-	-	-	275 907	-	**275 907**
Derivative financial instument	4 421	221	-	-	-	**4 642**

Other financial liabilities with deferred payment term related to a liability resulting from agreements concluded with mBank S.A. on 30 November 2018 on the transfer of retail loans secured with a mortgage on real estate.

The table below presents the amounts of the Bank’s transactions with related entities. The transaction value covers assets and liabilities’ balances as at 31 December 2021 and 31 December 2020, and related costs and income for 2021 and 2020.

(PLN `000)	Supervisory and managmend board members of mBank S.A., management personel of mBank Hipoteczny		Other persons and entitis related*		mBankGroup companies***		mBank S.A.		Commerzbank Group companies***	
As at the end of the period	**31.12.2021**	**31.12.2020**	**31.12.2021**	**31.12.2020**	**31.12.2021**	**31.12.2020**	**31.12.2021**	**31.12.2020**	**31.12.2021**	**31.12.2020**
Statement of financial positions										
Total assets	**-**	**-**	**169**	**251**	**252**	**481**	**207 270**	**402 994**	**-**	**-**
Receivables from Banks	-	-	-	-	-	-	152 880	323 133	-	-
Derivative financial instruments held for trading	-	-	-	-	-	-	57	28 323	-	-
Receivables from credits	-	-	**169**	251	-	-	-	-	-	-
Derivative hedging instruments	-	-	-	-	-	-	33 369	47 564	-	-
Intangible assets	-	-	-	-	-	-	49	49	-	-
Other assets	-	-	-	-	-	-	-	7	-	-
Fixed assets	-	-	-	-	252	481	20 915	3 918	-	-
Total liabilities	**-**	**-**	**-**	**-**	**257**	**487**	**5 102 487**	**4 061 185**	**301 999**	**535 683**
Derivative financial instruments held for trading	-	-	-	-	-	-	7 046	4 642	-	-
Liabilities due to loans received from the financial sector	-	-	-	-	-	-	1 965 859	2 455 117	-	-
Cash collateral liabilities	-	-	-	-	-	-	591 892	672 126	-	-
Liabilities due to deferred payment (retail pooling)	-	-	-	-	-	-	1 312 875	275 907	-	-
Subordinated loan	-	-	-	-	-	-	100 218	100 150	-	-
Covered bonds and bonds	-	-	-	-	-	-	1 103 027	549 097	301 999	535 683
Liabilities for the right of use - buildings	-	-	-	-	-	-	21 570	4 146	-	-
Liabilities due to the right to use - means of transport	-	-	-	-	257	487	-	-	-	-
Contingent liabilities										
Liabilities received	-	-	-	-	-	-	782 188	781 789	-	-
Guarantee received	-	-	-	-	-	-	565 211	609 909	-	-
Derivatives (purchase, sales)										
IRS contracts	-	-	-	-	-	-	680 711	682 990	-	-
FX SWAP contracts	-	-	-	-	-	-	2 556 787	2 437 063	-	-

Property, plant and equipment include lease contracts classified in accordance with IFRS 16, relating to buildings, i.e. rental of office space in Warsaw and Łódź and redemption of the above-mentioned asset components.

The item "Off-balance sheet liabilities granted and received - Guarantee received" relates to a bank guarantee agreement concluded on December 17, 2020 with mBank S.A. on selected commercial credit exposures. Detailed information on the guarantee is described in Note 5.

(PLN '000)	Supervisory and managmend board members of mBank S.A., management personel of mBank Hipoteczny		Other persons and entitis related*		mBankGroup companies***		mBank S.A.		Commerzbank Group companies***	
Year ended	**31.12.2021**	**31.12.2020**	**31.12.2021**	**31.12.2020**	**31.12.2021**	**31.12.2020**	**31.12.2021**	**31.12.2020**	**31.12.2021**	**31.12.2020**
Income statement										
Interest income	-	-	-	10	291	315	6 149	9 930	-	-
Interest expense	-	-	-	-	(6)	(12)	(52 622)	(67 480)	(2 345)	(3 471)
Fee and commission income	-	-	-	-	-	-	-	-	-	-
Fee and commission expenses	-	-	-	-	-	(5)	(7 665)	(5 449)	-	-
Net trading income	-	-	-	-	-	-	(42 366)	28 498	-	-
Other operating income	-	-	-	-	-	-	29	65	-	-
Overhead costs, amortisation and depreciation	-	-	-	-	(370)	(487)	(3 317)	(1 620)	-	-

* Other persons and related parties encompass the loan extended to the a close relative of a member of Supervisory Board of mBank S.A.

** The item "mBank Group companies" includes transactions with the following mBank Group companies: mFinanse S.A., mCentrum Operacji Sp. z o.o., mCorporate Finance S.A., mLeasing Sp. z o.o

*** The item "Commerzbank Group companies" includes transactions of acquisition of mortgage covered bonds on the secondary market by Commerzbank AG and Future Tech.

for 2020 (in PLN thousand)

Composition and remuneration of Members of the Bank’s Management Board

As at 31 December 2021, the composition of the Management Board was as follows:

Piotr Cyburt — President of the Management Board
Krzysztof Dubejko — Member of the Management Board
Andrzej Kulik — Member of the Management Board

As of September 30, 2020, Mr. Marcin Wojtachnio resigned from the position of a member of the Management Board.

Information on the value of remuneration and bonuses paid to the Management Board Members who held their positions at the end of 2020 as at December 31, 2021 is presented below and December 31, 2020.

		Remuneration paid in 2021 (in PLN)		
		Gross remuneration	Other benefits*	Settlement of incentive programme in 2021
1	Piotr Cyburt	756 000	39 042	225 134
2	Krzysztof Dubejko	408 000	24 588	62 790
3	Andrzej Kulik	510 000	38 629	103 247
	Total	**1 674 000**	**102 259**	**391 171**

* "Other benefits" include co-financing for medical care, insurance, multisport card, company car

Remuneration of former Management Board members paid in 2021

		Remuneration paid in 2021 (in PLN)		
		Gross remuneration	Other benefits*	Settlement of incentive programme in 2021
1	Marcin Wojtachnio	-	-	163 220
2	Grzegorz Trawiński	-	-	85 746

Remuneration of members of the Management Board paid in 2020

		Remuneration paid in 2020 (in PLN)		
		Gross remuneration	Other benefits*	Settlement of incentive programme in 2020
1	Piotr Cyburt	756 000	24 224	350 940
2	Krzysztof Dubejko	418 000	24 582	66 364
3	Andrzej Kulik	510 000	48 457	136 363
	Total	**1 684 000**	**97 263**	**553 667**

* “Other benefits” include co-financing of medical care, insurance, multisport cards, company car

Remuneration of former Management Board members paid in 2020

		Remuneration paid in 2020 (in PLN)		
		Gross remuneration	Other benefits*	Settlement of incentive programme in 2020
1	Marcin Wojtachnio	382 500	12 732	271 778
2	Grzegorz Trawiński	-	-	208 188

As at 31 December 2021, the amount of the provision for bonuses / bonuses for employees and the Bank's Management Board was TPLN 5 985, including the amount of the provision for variable remuneration for Members of the Bank's Management Board and employees who have a significant impact on the Bank's risk profile was TPLN 3 985 (as at December 31, 2020, TPLN 5 243; TPLN 3 654, respectively).

The variable remuneration program for Members of the Management Board and employees who have a significant impact on the Bank's risk profile is described in Note 41.

for 20210 (in PLN thousand)

Composition and remuneration of Members of the Bank's Supervisory Board

Changes in the composition of the Bank's Supervisory Board

On May 26, 2021, the Ordinary General Meeting of Shareholders elected the Supervisory Board of mBank Hipoteczny S.A. new term.

By Resolution No. 2 of the Extraordinary General Meeting of Shareholders of August 31, 2021 as a member of the Supervisory Board of mBank Hipoteczny S.A. Mr. Grzegorz Ostrowski was appointed.

The composition of the Supervisory Board of mBank Hipoteczny S.A. as at 31 December 2021:

1.	Andreas Boeger	-	Chairman of the Supervisory Boar
2.	Marek Lusztyn	-	Vice-chairman of the Supervisory Board
3.	Frank Bock	-	Member of the Supervisory Board
4.	Aleksandra Buczkowska	-	Member of the Supervisory Board
5.	Paweł Graniewski	-	Independent Member of the Supervisory Board
6.	Michał Popiołek	-	Member of the Supervisory Board
7.	Mariusz Tokarski	-	Independent Member of the Supervisory Board
8.	Mikołaj Tatarkiewicz		Member of the Supervisory Board
9.	Grzegorz Ostrowski	-	Member of the Supervisory Board

In 2021, the Supervisory Board worked without remuneration, except for Mr. Paweł Graniewski and Mr. Mariusz Tokarski, who, as Supervisory Board Members, received remuneration for 2020 in the amount of PLN 120 thousand (respectively PLN 60 thousand).

The composition of the Supervisory Board of mBank Hipoteczny S.A. as at 31 December 2020:

1.	Frank Bock	-	Chairman of the Supervisory Boar
2.	Marek Lusztyn	-	Vice-chairman of the Supervisory Board
3.	Aleksandra Buczkowska	-	Member of the Supervisory Board
4.	Andreas Boeger	-	Member of the Supervisory Board
5.	Paweł Graniewski	-	Independent Member of the Supervisory Board
6.	Michał Popiołek	-	Member of the Supervisory Board
7.	Mariusz Tokarski	-	Independent Member of the Supervisory Board
8.	Łukasz Witkowski	-	Member of the Supervisory Board

On March 19, 2020, Mr. Paweł Przybyłek resigned from the position of a Member of the Supervisory Board of mBank Hipoteczny S.A., effective from March 19, 2020.

On April 24, 2020, Mr. Cezary Kocik resigned from the position of a Member of the Supervisory Board of mBank Hipoteczny S.A., with effect from May 15, 2020.

By Resolution No. 1 of the Extraordinary General Meeting of Shareholders of May 15, 2020 as a member of the Supervisory Board of mBank Hipoteczny S.A. Mr. Łukasz Witkowski was appointed.

By Resolution No. 2 of the Extraordinary General Meeting of Shareholders of November 13, 2020 as a member of the Supervisory Board of mBank Hipoteczny S.A. Mr. Marek Lusztyn was appointed in connection with the resignation of Ms. Lidia Jabłonowska-Luba on October 22, 2020.

In 2020, the Supervisory Board worked without remuneration, except for Mr. Paweł Graniewski and Mr. Mariusz Tokarski, who, as Supervisory Board Members, received remuneration for 2020 in the amount of PLN 120 thousand. (respectively PLN 60 thousand).

Pursuant to the wording of paragraph 14 section 1 point 5 of the By-laws of mBank Hipoteczny S.A., In the form of a resolution, the General Meeting decides on the election and dismissal of members Of the Supervisory Board and determining the principles of their remuneration.

Pursuant to the wording of paragraph 3 section 1 point 9 of the Regulations of the Supervisory Board mBank Hipoteczny S.A. determining the terms of contracts and remuneration for members of the Bank's Management Board is within the competence of the Supervisory Board.

43. Information on the registered audit company

By Resolution No. 20/2020 of March 26, 2020, the Supervisory Board of mBank Hipoteczny S.A., acting on the basis of paragraph 26 sec. 8 of the Bank's Articles of Association, selected Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością spółka komandytowa (EY) as the auditor to audit the Bank's financial statements for the years 2020-2022.

On June 29, 2020, mBank Hipoteczny S.A. concluded an agreement with EY to audit the financial statements for 2020-2022.

On October 28, 2021, an agreement was concluded between Ernst & Young Audyt Polska Sp. z o.o. Sp.k. and mBank Hipoteczny S.A. on the termination of the agreement with EY in the part covering the audit of the Bank's financial statements for 2022, the review of the Bank's condensed financial statements for 2022 and the verification of the Bank's consolidation packages for 2022.

Termination of the Agreement on October 28, 2021, it took place by agreement of the parties. Details related to the agreement concluded by the companies are described in note 45.

Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością spółka komandytowa with its seat in Warsaw, Rondo ONZ 1, 00-124 Warsaw, is entered on the list of auditors authorized to audit financial statements under number 130.

The total amount of EY's remuneration in 2021 was PLN 550 thousand gross (in 2020 it was PLN 522 thousand gross), including:

- due to the audit of the financial statements of mBank Hipoteczny S.A. and the examination of reporting packages for 2021 amounted to PLN 214 thousand gross (for 2020 it was PLN 189 thousand gross),
- due to the review of the financial statements of mBank Hipoteczny S.A. for the first half of 2021 and the reporting packages for mBank S.A. as at December 31, 2021, it amounted to PLN 109 thousand gross (respectively for 2020 it amounted to PLN 106 thousand gross).

44. Capital adequacy

One of the Bank’s main tasks is to ensure an appropriate level of capital. Within the framework of the capital management policy, the Bank prepares the guidelines for the most effective planning and use of capital basis which:

- are compliant with external and internal regulations in force,
- guarantee a continuity of financial targets, which render an appropriate rate of return for shareholders,
- ensure the maintenance of a strong capital basis being a fundamental support for business development.

The Bank’s capital management policy is based on two basic pillars:

- maintenance of an optimal level and structure of own funds with the application of available methods and means, like 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 effective 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 foundation of reinforcement of the capital basis in future periods. This helps to maintain the Tier 1 common equity ratio (calculated as the quotient of Tier 1 common equity and total amount of risk exposure), Tier 1 capital ratio (calculated as the quotient of Tier 1 capital and total amount of risk exposure), and combined capital ratio (calculated as the quotient of own funds and total amount of risk exposure), at a level significantly higher than required by the regulatory authority.

for 20210 (in PLN thousand)

The strategic capital objectives of the Bank are aimed at maintaining both the combined capital ratio and the Common Equity Tier 1 capital ratio at a level significantly higher than required by the regulatory authority. This permits a safe growth of the business while meeting supervision standards in long term.

Capital ratios

The measurement of own funds adequacy, including i.a. calculation of capital ratios and leverage ratio, own funds and the Bank's total exposure to risk, is performed on the basis of the following regulations:

- 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 as amended (hereinafter referred to as CRR Regulation) and other Commission (EU) implementing regulations to the CRR Regulation,
- Commission Implementing Regulation (EU) No 2021/451 of 17 December 2020 laying down implementing technical standards for the application of Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to supervisory reporting by institutions and repealing Implementing Regulation (EU) No 680/2014,
- Act of August 29, 1997 — Banking Law (Journal of Laws of 2002 No 72, item 665) as amended,
- Act of August 5, 2015 (Journal of Laws 2015, item 1513) on the macro-prudential oversight of the financial system and crisis management in the financial system ("Macro Prudential Oversight Act"),
- Regulation of the Minister of Development and Finance of May 25, 2017 on the application of higher risk weights to credit exposures secured by mortgages on real estate property,
- Regulation of the Minister of Finance of March 18, 2020 repealing the regulation on the systemic risk buffer.

In connection with the Macro-Prudential Oversight Act coming into force as of 1 January 2016, which transposes CRD IV into the Polish legal regime, as at 31 December 2019 the Bank was compelled to maintain own funds as such a level as would permit covering the conservation buffer determined under the Act at 2.5% of the total exposure to risk.

In accordance with the decision of the Financial Stability Committee, the anti-cycle buffer imposed on the Bank as at 31 December 2021 was 0%.

On March 19, 2020, the repeal of the regulation on the systemic risk buffer entered into force. The value of the systemic buffer as at 31 December 2020 is 0% of the total risk exposure amount.

Ultimately, the combined buffer requirement for mBank Hipoteczny S.A. at the end of 2021 it was 2.5%

Capital ratios both as at the end of 2021 and at the end of 2020 were above the minimum required values, which was presented in the table below. In 2021 and 2020, the Bank met external capital requirements.

	31.12.2021	
	Minimum ratio	Presented ratio
Total capital ratio	10,50%	18,73%
Equiety Tier 1 capital ratio	8,50%	17,17%
Equiety Tier 1 core capital ratio	7,00%	17,17%

	31.12.2020	
	Minimum ratio	Presented ratio
Total capital ratio	10,50%	19,22%
Equiety Tier 1 capital ratio	8,50%	17,73%
Equiety Tier 1 core capital ratio	7,00%	17,73%

The Bank decided that for the purposes of capital adequacy calculation, including the calculation of own funds, based on Article 1(9) of the Regulation (EU) No 2017/2395 of the European Parliament and of the Council of December 12, 2017 (Regulation) amending the CRR, it will not apply the transitional period, which permits to alleviate the impact on capital, connected with the implementation of IFRS 9.

The capital ratios, own funds, leverage ratio reported in this document fully reflect the impact of IFRS 9.

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 mBank Hipoteczny S.A. does not identify items that could be treated as Additional Tier 1 capital.

Common Equity Tier 1 capital of mBank Hipoteczny S.A. encompasses:

- paid-up equity instruments and the related share premium accounts,
- earnings retained in previous years,
- independently verified interim profits,
- other accumulated comprehensive income,
- other capital reserves,
- general risk funds,
- items reducing the Common Equity Tier 1 capital (value adjustments due to the requirements regarding prudent valuation, intangible assets, deficiency in credit risk adjustments in light of anticipated losses, regulatory adjustments concerning other accumulated comprehensive income, and net write-downs).

Tier 2 capital of mBank Hipoteczny S.A. encompasses subordinated liabilities.

The Bank's own funds as at December 31, 2021 amounted to PLN 1 199 622 thousand (as at December 31, 2020, they amounted to PLN 1 289 735 thousand). At the same time, the Common Equity Tier I capital amounted to PLN 1 099 622 thousand (as at December 31, 2020 it was PLN 1 189 735 thousand).

Leverage ratio

The regulatory leverage ratio as at 31 December 2021 was calculated on the basis of the provisions of 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 (hereinafter: "Regulation 2015/62").

The leverage ratio is calculated as a measure of Tier 1 capital divided by the total exposure measure and is expressed as a percentage. The total exposure measure is the sum of the exposure values specified in accordance with Regulation 2015/62 in respect of all assets and off-balance sheet items not deducted when determining the measure of Tier 1 capital.

Tier 1 capital to the leverage ratio was calculated in accordance with Regulation CRR using national options defined in the Banking Law, Art. 171a. The financial leverage ratio at the end of 2021 was 8.58%, at the end of 2020 it was 9.46%.

Total risk exposure amount (TREA)

The total amount of risk exposure of the Bank consists of:

- risk-weighted exposure amount for credit risk, counterparty credit risk, calculated using the IRB slotting approach and a standardised approach for exposures permanently excluded from the IRB approach as well as exposures subject to temporary exclusion,
- operational risk exposure amount.

There is no trading portfolio in the Bank, therefore, the Bank does not calculate risk-weighted exposure amounts in relation to other types of risks.

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In calculation of the Bank’s capital ratios, the total risk exposure amount is determined taking into account the credit risk exposure amount, applying the internal ratings based approach, with the use of the supervisory approach, in regard to assigning specialised lending exposures to risk categories (IRB slotting approach).

As at 31 December 2021, the Bank’s total risk exposure amount was PLN 6 404 577 thousand, including the credit risk exposure amount at PLN 5 901 513 thousand (including other noncredit obligations assets – PLN 86 430 thousand).

The table below presents credit exposures for which the requirement was calculated using the IRB slotting approach broken down into supervisory categories of risk and standardised approach as at 31 December 2021.

IRB slotting approach

31.12.2021						
Regulatory categories	**Remaining maturity**	**On-Balance - shet amount**	**Off-Balance - shet amount**	**Risk weight**	**Exposure amount**	**RWAs**
Category 1	Equal to or more than 2.5 years	7 313	-	70%	7 314	5 120
Category 2	Less than 2,5 years	216 056	5 162	70%	216 964	151 875
	Equal to or more than 2.5 years	1 527 123	-	90%	1 534 200	1 380 780
Category 3	Less than 2,5 years	95 765	-	115%	98 914	113 751
	Equal to or more than 2.5 years	169 769	-	115%	173 646	199 693
Category 4	Equal to or more than 2.5 years	28 911	-	250%	34 313	85 781
Category 5	Less than 2,5 years	141 176	-	-	178 783	-
	Equal to or more than 2.5 years	256 630	-	-	335 440	-
Total	**Less than 2,5 years**	**452 997**	**5 162**		**494 661**	**265 626**
	Equal to or more than 2.5 years	**1 989 746**	**-**		**2 084 913**	**1 671 374**

Standardised approach

31.12.2021	**Exposures before CCF and CRM**		**Exposures post CCF and CRM**		**RWAs**
Regulatory categories	**On-Balance -shet amount**	**Off-Balance - shet amount**	**On-Balance - shet amount**	**Off-Balance -shet amount**	
Central governments or central banks	863 723	-	863 723	-	41 679
Regional goverrment or local authorities	36 068	-	127 618	-	25 524
Public sector entities	34 820	-	-	-	-
Institutions	516 231	-	516 231	-	121 859
Corporates	56 730	-	-	-	-
Retail	1 129 201	490	1 129 201	245	847 084
Secured by mortgages on immovable property	7 979 715	4 039	7 979 715	2 020	2 811 989
Exposures in default	29 515	-	29 515	-	29 938
Equity	9	-	9	-	9
Total	**10 646 012**	**4 529**	**10 646 012**	**2 265**	**3 878 082**

The total amount of exposure to the Bank's risk as at December 31, 2020 was PLN 6 711 021 thousand, of which the amount of exposure to risk due to credit risk was PLN 6 229 822 thousand (including other assets that do not generate a credit obligation PLN 56 540 thousand).

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The tables below present the credit exposures for which the requirement was calculated using the standard method and the IRB slotting approach, broken down by supervisory risk categories as at December 31, 2020.

IRB slotting approach

31.12.2020							
Regulatory categories	**Remaining maturity**	**On-Balance -shet amount**	**Off-Balance -shet amount**	**Risk weight**	**Exposure amount**	**RWAs**
Category 1	Equal to or more than 2.5 years	1 713	-	70%	1 715	1 200
Category 2	Less than 2,5 years	279 897	37 589	70%	281 081	196 757
	Equal to or more than 2.5 years	2 100 160	23 662	90%	2 118 003	1 906 203
Category 3	Less than 2,5 years	82 655	-	115%	84 417	97 079
	Equal to or more than 2.5 years	229 412	-	115%	236 819	272 341
Category 4	Equal to or more than 2.5 years	4 976	-	250%	5 027	12 569
Category 5	Less than 2,5 years	42 819	-	-	52 394	-
	Equal to or more than 2.5 years	186 385	-	-	274 920	-
Total	**Less than 2,5 years**	**405 371**	**37 589**		**417 892**	**293 836**
	Equal to or more than 2.5 years	**2 522 646**	**23 662**		**2 636 484**	**2 192 313**

Standardised approach

31.12.2020	**Exposures before CCF and CRM**		**Exposures post CCF and CRM**		**RWAs**
Categories exposure	**On-Balance - shet amount**	**Off-Balance - shet amount**	**On-Balance -shet amount**	**Off-Balance -shet amount**	
Central governments or central banks	825 079	-	825 079	-	11 320
Regional goverrment or local authorities	42 180	-	145 987	-	29 197
Public sector entities	43 064	-	-	-	-
Institutions	737 928	-	737 928	-	104 360
Corporates	60 743	-	-	-	-
Retail	1 443 302	618	1 443 302	309	1 082 708
Secured by mortgages on immovable property	6 878 804	4 484	6 878 804	2 242	2 431 610
Exposures in default	27 537	0	27 537	-	27 929
Equity	9	0	9	-	9
Total	**10 058 646**	**5 102**	**10 058 646**	**2 551**	**3 687 133**

Internal capital

The purpose of the ICAAP process (Internal Capital Adequacy Assessment Process), implemented in the Bank, is to keep own funds at the level adequate to the risk profile and the risk level stemming from the Bank’s operations.

Due to the fact that the total capital requirement of Bank calculated according to the CRR Regulation and internal capital assessed for the Bank according to the Regulation of the Minister of Development and Finance of 6 March 2017 on the risk management system and internal control system, remuneration policy and detailed method of estimation of internal capital in banks, are lower than the value of the Bank’s own funds, as at 31 December 2021 the Bank maintained own funds at a level consistent with the CRR.

The internal capital of the Bank as at 31 December 2021 amounted to PLN 370 333 thousand, (per day On December 31, 2020, it amounted to PLN 376 123 thousand).

mBank Hipoteczny S.A. introduced a temporary treatment for unrealized gains and losses measured at fair value through other comprehensive income in connection with the COVID-19 pandemic, which is enabled by Art. 1 of the Regulation of the European Parliament and of the Council (EU) 2020/873 of June 24, 2020. Temporary mitigation of the negative impact of unrealized losses caused by debt instruments government sector during a pandemic the Covid-19 has been implemented in Art. 468 of Regulation 575/2013 (COVID Quick-Fix).

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The decision to apply the modified Art. 468 means that the Bank during the "temporary treatment period" will be able to limit the impact of a significant portion of the market valuation volatility of the portfolio of government bonds classified as at fair value through equity (FVOCI).

The table below presents the values of Own Funds with and without the use of COVID Quick-Fix.

Capital adequacy	**31.12.2021 with the use of Covid Quick-Fix**	**31.12.2021 without the use of Covid Quick-Fix**	**31.12.2020**
Common Equity Tier 1 Capital	**1 099 622**	**1 080 386**	**1 189 735**
Own funds	**1 099 622**	**1 180 386**	**1 289 735**
Risk weighted exposure amounts for credit risk, counterparty credit risk, dilution risk and deliveries with deferred settlement date:	5 901 513	5 912 793	6 229 822
-using internal rating method	2 023 431	2 023 431	3 542 689
-using standard method	3 878 082	3 889 362	3 687 133
Total operational risk exposure amount	324 456	324 456	318 441
Total CVA exposure amount	178 608	178 608	162 758
The total amount of risk exposure	**6 404 577**	**6 415 857**	**6 711 021**
Common Equity Tier 1 capital ratio	**17,17%**	**16,84%**	**17,73%**
Total capital ratio	**18,73%**	**18,40%**	**19,22%**
Internal capital	**370 333**	**371 235**	**376 123**

Own funds	**31.12.2021 with the use of Covid Quick-Fix**	**31.12.2021 without the use of Covid Quick-Fix**	**31.12.2020**
Own funds	**1 199 622**	**1 180 386**	**1 289 735**
TIER 1 CAPITAL	**1 099 622**	**1 080 386**	**1 189 735**
Common Equity Tier 1 Capital	**1 099 622**	**1 080 386**	**1 189 735**
Capital instruments eligible as CET1 Capital	884 631	884 631	884 631
Paid up capital instruments	336 000	336 000	336 000
Share premium	548 631	548 631	548 631
Other accumulated comprehensive income	(3 381)	(22 616)	4 450
Other reserves	342 910	342 910	338 032
General banking risks founds	44 800	44 800	44 800
(-) Value adjustments due to the requirements for prudent valuatio	(1 036)	(1 036)	(1 217)
(-) Intangible assets	(20 860)	(20 860)	(16 415)
(-) Other intangible assets gross amount	(22 084)	(22 084)	(16 546)
Deferred tax liabilities related to other intangible assets	1 224	1 224	516
(-) IRB shortfall of credit risk adjustments to expected losses	(143 819)	(143 820)	(64 546)
Other transitional adjustments to CET1 Capital	(3 623)	(3 623)	-
Additional Tier 1 capital			
TIER 2 CAPITAL	**100 000**	**100 000**	**100 000**
Capital instruments and subordinated loans eligible as T2 capital	100 000	100 000	100 000

45. Other information

1. On October 28, 2021, an agreement was concluded between Ernst & Young Audyt Polska Sp. z o.o. Sp.k. and mBank Hipoteczny S.A.

a) On June 29, 2020, the parties concluded an agreement covering the audit of the Bank's financial statements, review of the Bank's condensed financial statements and verification of the Bank's consolidation packages for the years 2020-2022. Due to the decision of mBank S.A. on the re-selection of the auditing company by the General Meeting of mBank to audit the financial statements of the parent company and the consolidated financial statements of mBank Group companies for 2022 and subsequent years, resulting in the termination of the existing agreement with Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp.k. in order to enable re-election by the Supervisory Board of mBank Hipoteczny SA an audit firm to audit the Bank's financial statements for 2022 and subsequent years, ensuring the best level of coordination of the audit of the Bank's financial statements with the audit of the financial statements of the Bank's parent entity (bearing in mind that this circumstance was taken into account when selecting the audit firm that audited the financial statements of the Bank and mBank Group), it became necessary to terminate the contract with EY.
The parties decided to terminate the Agreement in the part covering the audit of the Bank's financial statements for 2022, the review of the Bank's condensed financial statements for 2022 and the verification of the Bank's consolidation packages for 2022. Termination of the Agreement on October 28, 2021, it took place by agreement of the parties.

b) During the term of the Agreement, there were no cases of resignation from expressing opinions / motions, issuing negative opinions / motions or opinions / motions with reservations about the correctness and reliability of the Bank's financial statements.

c) During the term of the Agreement, there were no discrepancies in the interpretation and application of the provisions of law or the provisions of the Articles of Association regarding the subject and scope of the audit, review or other services between the persons managing the Bank and EY Audyt Polska.

2. As of January 1, 2020, mBank Hipoteczny S.A. joined the Tax Capital Group ("PGK"), established pursuant to the provisions of the Corporate Income Tax Act. The PGK consists of: mBank S.A. as the parent entity and representing the PGK within the scope provided for by tax law and other subsidiaries of mBank Group: mFinanse S.A. and mLeasing Sp. z o. o. In the year preceding the establishment of the PGK there were no tax losses in the companies forming it. The PGK agreement was concluded for 4 years.

46. Post balance-sheet date events

1. 1 On January 3, 2022, the Bank issued unsecured bonds in the total amount of PLN 35,000 thousand as part of an unprospectus offering.
2. On February 24, 2022, the Bank issued mortgage bonds in the total amount of PLN 500,000 thousand as part of an unprospectus offering.
3. On February 24, 2022 Russia invaded Ukraine, therewith starting large scale war activities in Ukraine. The international community reacted with implementation of sanctions against Russia. As of the date of approving of these financial statements it cannot be predicted how the armed conflict as well as the international reaction to it will further develop.

   The mBankHipoteczny S.A. does not have direct operations in Ukraine nor in Russia. The credit exposure of mBank Hipoteczny to Ukrainian and Russian institutions, companies and natural persons on December 31, 2021 is represented 1.009% of the Bank's total credit exposure (loans to Ukrainian individuals with Polish tax residency).

   These financial statements of mBank Hipotecznego for the year 2021 do not require any adjustments due to the above events.

   mBank Hipoteczny is closely monitoring the development of the situation related to the armed conflict in Ukraine as well as analyzing its potential negative consequences to the overall client portfolio of the Group A reliable assessment of the impact on the mBank Hipoteczny future operations and an estimate of the impact on the future financial statements of mBank Hipoteczny are at this stage not yet possible, as these are highly dependent on the further development of the war in Ukraine, the reaction of international community as well as the impact of those on the Polish economy and the clients of mBank Hipoteczny.