mBank S.A. Group

IFRS Consolidated Financial Statements 2020

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

Selected financial data

The selected financial data are supplementary information to these Consolidated Financial Statements of mBank S.A. Group for 2020.

		in PLN '000		in EUR '000	
		Year ended 31.12.2020	Year ended 31.12.2019 -restated	Year ended 31.12.2020	Year ended 31.12.2019 -restated
I.	Interest income	4 688 353	5 071 664	1 047 864	1 178 963
II.	Fee and commission income	2 244 561	2 010 656	501 668	467 399
III.	Net trading income	184 752	134 516	41 293	31 270
IV.	Operating profit	1 141 110	2 013 703	255 042	468 107
V.	Profit before income tax	609 731	1 555 045	136 277	361 487
VI.	Net profit attributable to Owners of mBank S.A.	103 831	1 010 350	23 207	234 867
VII.	Net profit attributable to non-controlling interests	(74)	(98)	(17)	(23)
VIII.	Net cash flows from operating activities	1 328 005	546 809	296 814	127 112
IX.	Net cash flows from investing activities	(444 346)	(449 578)	(99 313)	(104 509)
X.	Net cash flows from financing activities	(4 944 884)	(1 691 110)	(1 105 200)	(393 117)
XI.	Total net increase / decrease in cash and cash equivalents	(4 061 225)	(1 593 879)	(907 699)	(370 514)
XII.	Basic earnings per share (in PLN/EUR)	2.45	23.86	0.55	5.55
XIII.	Diluted earnings per share (in PLN/EUR)	2.45	23.85	0.55	5.54
XIV.	Declared or paid dividend per share (in PLN/EUR)	-	-	-	-

		in PLN '000		in EUR '000	
		31.12.2020	31.12.2019	31.12.2020	31.12.2019
I.	Total assets	180 136 294	158 720 583	39 034 475	37 271 477
II.	Amounts due to other banks	2 399 740	1 166 871	520 010	274 010
III.	Amounts due to customers	137 698 668	116 661 138	29 838 491	27 394 890
IV.	Equity attributable to Owners of mBank S.A.	16 673 133	16 151 303	3 612 970	3 792 721
V.	Non-controlling interests	1 934	2 002	419	470
VI.	Share capital	169 468	169 401	36 723	39 779
VII.	Number of shares	42 367 040	42 350 367	42 367 040	42 350 367
VIII.	Book value per share (in PLN/EUR)	393.54	381.37	85.28	89.56
IX.	Total capital ratio	19.86	19.46	19.86	19.46

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

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

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Consolidated income statement

	Note	Year ended 31 December	
		2020	2019 - restated
Interest income, including:	6	4 688 353	5 071 664
Interest income accounted for using the effective interest method		*4 207 276*	*4 523 483*
Income similar to interest on financial assets at fair value through profit or loss		*481 077*	*548 181*
Interest expenses	6	(679 053)	(1 068 892)
Net interest income		**4 009 300**	**4 002 772**
Fee and commission income	7	2 244 561	2 010 656
Fee and commission expenses	7	(736 276)	(740 039)
Net fee and commission income		**1 508 285**	**1 270 617**
Dividend income	8	4 926	4 220
Net trading income	9	184 752	134 516
Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss	10	15 572	69 259
Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss	11	93 527	34 832
Other operating income	12	218 052	234 487
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss	15	(1 225 642)	(712 337)
Result on provisions for legal risk related to foreign currency loans	30	(1 021 714)	(387 786)
Overhead costs	13	(1 980 500)	(1 953 657)
Depreciation	25, 26	(430 628)	(375 498)
Other operating expenses	14	(234 820)	(307 722)
Operating profit		**1 141 110**	**2 013 703**
Tax on the Bank's balance sheet items		(531 379)	(458 658)
Profit before income tax		**609 731**	**1 555 045**
Income tax expense	16	(505 974)	(544 793)
Net profit		**103 757**	**1 010 252**
Net profit attributable to:			
- Owners of mBank S.A.		103 831	1 010 350
- Non-controlling interests		(74)	(98)

Net profit attributable to Owners of mBank S.A.		**103 831**	**1 010 350**
Weighted average number of ordinary shares	**17**	**42 355 695**	**42 340 263**
Earnings per share (in PLN)	**17**	**2.45**	**23.86**
Weighted average number of ordinary shares for diluted earnings	**17**	**42 379 726**	**42 358 529**
Diluted earnings per share (in PLN)	**17**	**2.45**	**23.85**

Notes presented on pages 10–179 constitute an integral part of these Consolidated Financial Statements.

IFRS Consolidated Financial Statements 2020 (PLN '000)

Consolidated statement of comprehensive income

	Note	Year ended 31 December	
		2020	2019
Net profit		**103 757**	**1 010 252**
Other comprehensive income net of tax, including:	**18**	**407 791**	**(38 128)**
Items that may be reclassified subsequently to the income statement			
Exchange differences on translation of foreign operations (net)		3 043	32
Cash flows hedges (net)	20	299 988	35 499
Change in valuation of debt instruments at fair value through other comprehensive income (net)		111 012	(71 657)
Items that will not be reclassified to the income statement			
Actuarial gains and losses relating to post-employment benefits (net)		(6 252)	(2 002)
Total comprehensive income (net)		**511 548**	**972 124**
Total comprehensive income (net), attributable to:			
- Owners of mBank S.A.		511 622	972 222
- Non-controlling interests		(74)	(98)

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IFRS Consolidated Financial Statements 2020 (PLN '000)

Consolidated statement of financial position

ASSETS	Note	31.12.2020	31.12.2019
Cash and balances with the Central Bank	19	3 968 691	7 897 010
Financial assets held for trading and hedging derivatives	20	2 586 721	2 866 034
Non-trading financial assets mandatorily at fair value through profit or loss, including:	21	1 784 691	2 267 922
Equity instruments		*202 304*	*162 616*
Debt securities		*76 068*	*133 774*
Loans and advances to customers		*1 506 319*	*1 971 532*
Financial assets at fair value through other comprehensive income	22	35 498 061	22 773 921
Financial assets at amortised cost, including:	23	131 444 579	118 779 885
Debt securities		*15 952 501*	*11 234 873*
Loans and advances to banks		*7 354 268*	*4 341 758*
Loans and advances to customers		*108 137 810*	*103 203 254*
Non-current assets and disposal groups classified as held for sale	24	-	10 651
Intangible assets	25	1 178 698	955 440
Tangible assets	26	1 514 577	1 262 397
Current income tax assets		23 957	12 662
Deferred income tax assets	31	853 880	937 712
Other assets	27	1 282 439	956 949
TOTAL ASSETS		**180 136 294**	**158 720 583**
LIABILITIES AND EQUITY			
LIABILITIES			
Financial liabilities held for trading and hedging derivatives	20	1 338 564	948 764
Financial liabilities measured at amortised cost, including:	28	156 673 052	137 763 369
Amounts due to banks		*2 399 740*	*1 166 871*
Amounts due to customers		*137 698 668*	*116 661 138*
Debt securities issued		*13 996 317*	*17 435 143*
Subordinated liabilities		*2 578 327*	*2 500 217*
Fair value changes of the hedged items in portfolio hedge of interest rate risk		59 624	136
Liabilities included in disposal groups classified as held for sale	24	-	1 315
Provisions	30	1 766 368	739 296
Current income tax liabilities		225 796	161 534
Deferred income tax liabilities	31	690	82
Other liabilities	29	3 397 133	2 952 782
TOTAL LIABILITIES		**163 461 227**	**142 567 278**
EQUITY			
Equity attributable to Owners of mBank S.A.		**16 673 133**	**16 151 303**
Share capital:		**3 587 035**	**3 579 818**
Registered share capital	35	169 468	169 401
Share premium	36	3 417 567	3 410 417
Retained earnings:	**37**	**12 501 597**	**12 394 775**
Profit from the previous years		12 397 766	11 384 425
Profit for the current year		103 831	1 010 350
Other components of equity	**38**	**584 501**	**176 710**
Non-controlling interests		**1 934**	**2 002**
TOTAL EQUITY		**16 675 067**	**16 153 305**
TOTAL LIABILITIES AND EQUITY		**180 136 294**	**158 720 583**

Total capital ratio (%)	**45**	**19.86**	**19.46**
Common Equity Tier 1 capital ratio (%)	**45**	**16.99**	**16.51**
Book value		**16 673 133**	**16 151 303**
Number of shares	**35**	**42 367 040**	**42 350 367**
Book value per share (in PLN)		**393.54**	**381.37**

Notes presented on pages 10–179 constitute an integral part of these Consolidated Financial Statements.

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Consolidated statement of changes in equity

Changes in equity from 1 January to 31 December 2020

	Share capital		Retained earnings					Other components of equity				Equity attributable to Owners of mBank S.A., total	Non-controlling interests	Total equity
	Registered share capital	Share premium	Other supplementary capital	Other reserve capital	General banking risk reserve	Profit from the previous years	Profit for the current year attributable to Owners of mBank S.A.	Exchange differences on translation of foreign operations	Valuation of financial assets at fair value through other comprehensive income	Cash flows hedges	Actuarial gains and losses relating to post-employment benefits			
Equity as at 1 January 2020	**169 401**	**3 410 417**	**9 826 282**	**98 316**	**1 153 753**	**1 316 424**	**-**	**(5 435)**	**74 321**	**119 142**	**(11 318)**	**16 151 303**	**2 002**	**16 153 305**
Total comprehensive income	**-**	**-**	**-**	**-**	**-**	**-**	**103 831**	**3 043**	**111 012**	**299 988**	**(6 252)**	**511 622**	**(74)**	**511 548**
Issuance of ordinary shares	67	-	-	-	-	-	-	-	-	-	-	67	-	67
Transfer to supplementary capital	-	-	85 682	-	-	(85 682)	-	-	-	-	-	-	-	-
Other increase or decrease in equity	-	-	-	-	-	(18)	-	-	-	-	-	(18)	6	(12)
Stock option program for employees	**-**	**7 150**	**-**	**3 009**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**10 159**	**-**	**10 159**
- value of services provided by the employees	-	-	-	*10 159*	-	-	-	-	-	-	-	*10 159*	-	*10 159*
- settlement of exercised options	-	*7 150*	-	*(7 150)*	-	-	-	-	-	-	-	-	-	-
Equity as at 31 December 2020	**169 468**	**3 417 567**	**9 911 964**	**101 325**	**1 153 753**	**1 230 724**	**103 831**	**(2 392)**	**185 333**	**419 130**	**(17 570)**	**16 673 133**	**1 934**	**16 675 067**

Changes in equity from 1 January to 31 December 2019

	Share capital		Retained earnings					Other components of equity				Equity attributable to Owners of mBank S.A., total	Non-controlling interests	Total equity
	Registered share capital	Share premium	Other supplementary capital	Other reserve capital	General banking risk reserve	Profit from the previous years	Profit for the current year attributable to Owners of mBank S.A.	Exchange differences on translation of foreign operations	Valuation of financial assets at fair value through other comprehensive income	Cash flows hedges	Actuarial gains and losses relating to post-employment benefits			
Equity as at 1 January 2019	**169 348**	**3 405 338**	**9 826 282**	**93 448**	**1 153 753**	**306 100**	**-**	**(5 467)**	**145 978**	**83 643**	**(9 316)**	**15 169 107**	**2 100**	**15 171 207**
Total comprehensive income	**-**	**-**	**-**	**-**	**-**	**-**	**1 010 350**	**32**	**(71 657)**	**35 499**	**(2 002)**	**972 222**	**(98)**	**972 124**
Issuance of ordinary shares	53	-	-	-	-	-	-	-	-	-	-	53	-	53
Other increase or decrease in equity	-	-	-	-	-	(26)	-	-	-	-	-	(26)		(26)
Stock option program for employees	**-**	**5 079**	**-**	**4 868**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**9 947**	**-**	**9 947**
- value of services provided by the employees	-	-	-	*9 947*	-	-	-	-	-	-	-	*9 947*	-	*9 947*
- settlement of exercised options	-	*5 079*	-	*(5 079)*	-	-	-	-	-	-	-	-	-	-
Equity as at 31 December 2019	**169 401**	**3 410 417**	**9 826 282**	**98 316**	**1 153 753**	**306 074**	**1 010 350**	**(5 435)**	**74 321**	**119 142**	**(11 318)**	**16 151 303**	**2 002**	**16 153 305**

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Consolidated statement of cash flows

	Note	Year ended 31 December 2020	2019 - restated
Profit before income tax		**609 731**	**1 555 045**
Adjustments:		***718 274***	***(1 008 236)***
Income taxes paid		(444 196)	(705 191)
Depreciation, including depreciation of fixed assets provided under operating lease	25, 26	466 724	423 463
Foreign exchange (gains) losses related to financing activities		942 252	107 844
(Gains) losses on investing activities		(94 232)	(37 663)
Dividends received	8	(4 926)	(4 220)
Interest income (income statement)	6	(4 688 353)	(5 071 664)
Interest expense (income statement)	6	679 053	1 068 892
Interest received		5 446 532	5 358 232
Interest paid		(694 825)	(1 096 272)
Changes in loans and advances to banks		(3 157 249)	(2 122 441)
Changes in financial assets and liabilities held for trading and hedging derivatives		1 166 492	(625 899)
Changes in loans and advances to customers		(4 670 867)	(10 535 348)
Changes in financial assets at fair value through other comprehensive income		(13 167 129)	1 127 294
Changes in securities at amortised cost		(4 716 586)	(2 234 334)
Changes of non-trading equity securities mandatorily at fair value through profit or loss		10 211	(154 430)
Changes in other assets		(396 254)	216 394
Changes in amounts due to banks		1 448 331	(1 399 697)
Changes in amounts due to customers		20 784 682	14 874 358
Changes in issued debt securities		354 706	(224 425)
Changes in provisions		1 027 072	481 013
Changes in other liabilities		426 836	(454 142)
A. Cash flows from operating activities		**1 328 005**	**546 809**
Disposal of shares in subsidiaries, net of cash disposed		7 807	-
Disposal of intangible assets and tangible fixed assets		95 620	72 599
Dividends received	8	4 926	4 220
Acquisition of shares in subsidiaries		-	(25 636)
Purchase of intangible assets and tangible fixed assets		(552 487)	(500 761)
Other investing outflows		(212)	-
B.Cash flows from investing activities		**(444 346)**	**(449 578)**
Proceeds from loans and advances from banks		500	-
Proceeds from other loans and advances		-	544 735
Issue of debt securities	28	60 000	2 318 586
Issue of ordinary shares		67	53
Repayments of loans and advances from banks		(196 140)	(560 027)
Repayments of other loans and advances		-	(1 058 369)
Redemption of debt securities	28	(4 605 077)	(2 723 575)
Payments of lease liabilities		(119 501)	(122 539)
Interest paid from loans and advances received from banks and from subordinated liabilities		(84 733)	(89 974)
C. Cash flows from financing activities		**(4 944 884)**	**(1 691 110)**
Net increase / decrease in cash and cash equivalents (A+B+C)	**40**	**(4 061 225)**	**(1 593 879)**
Effects of exchange rate changes on cash and cash equivalents		30 883	(9 408)
Cash and cash equivalents at the beginning of the reporting period		8 279 388	9 882 675
Cash and cash equivalents at the end of the reporting period	**40**	**4 249 046**	**8 279 388**

Notes presented on pages 10–179 constitute an integral part of these Consolidated Financial Statements.

Explanatory notes to the consolidated financial statements

1. Information regarding the Group of mBank S.A.

The Group of mBank S.A. ("Group", "mBank Group") consists of entities under the control of mBank S.A. ("Bank", "mBank") of the following nature:

- strategic: shares and equity interests in companies supporting particular business segments of mBank S.A. (corporates and financial markets segment, retail banking segment and other) with an investment horizon not shorter than 3 years. The formation or acquisition of these companies was intended to expand the range of services offered to the clients of the;
- other: shares and equity interests in companies acquired in exchange for receivables, in transactions resulting from composition and work out agreements with debtors, with the intention to recover a part or all claims to loan receivables and insolvent companies under liquidation or receivership.

The parent entity of the Group is mBank S.A., which is a joint stock company registered in Poland and a part of Commerzbank AG Group.

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

The shares of the Bank are listed on the Warsaw Stock Exchange.

As at 31 December 2020, mBank S.A. Group covered by the Consolidated Financial Statements comprised the following companies:

mBank S.A., the parent entity

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

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

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

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

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

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

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

As at 31 December 2020 the headcount of mBank S.A. amounted to 6 034 FTEs (Full Time Equivalents) and of the Group to 6 688 FTEs (31 December 2019: Bank 6 072 FTEs, Group 6 771 FTEs).

As at 31 December 2020 the employment in mBank S.A. was 7 065 persons and in the Group 9 426 persons (31 December 2019 Bank 7 106 persons, Group 9 352 persons).

The business activities of the Group are conducted in the following business segments presented in detail in Note 5.

<u>Corporates and Financial Markets Segment, including:</u>

Corporate and Investment Banking

- mBank Hipoteczny S.A., subsidiary (the corporate segment of the company's activity).

The core business of mBank Hipoteczny S.A. is to ensure stable and long-term financing of the Group by issuing covered bonds. At the end of 2019, the company did not conduct independent credit operations, but used the pooling model in cooperation with mBank. The company performs market analysis and provides consultancy services addressed to investors and commercial real estate sector entities.

- mFaktoring S.A., subsidiary

The company operates in Poland and provides factoring services for domestic, export and import transactions. It is a member of the Polish Factors Association and Factors Chain International.

- mLeasing Sp. z o.o., subsidiary (the corporate segment of the company's activity)

The company's core business is to lease machinery, equipment, technology lines, passenger cars, vans and trucks, tractors, trailers and semi-trailers, buses, vehicles, special equipment, ships, aircraft, rolling stock, office equipment, computer hardware. mLeasing's offer for corporate clients includes leasing of real estate, mainly offices, hotels, warehouses and logistics centres, petrol stations, public buildings and municipal infrastructure. The company has a network of offices in the largest cities of Poland.

- Asekum Sp. z o.o., subsidiary (the corporate segment of the company's activity)

The company operates as an insurance agent, mainly in the field of insurance of leasing objects. The Bank holds indirectly through mLeasing Sp. z o.o. 100% shares in the company.

- G-INVEST Sp. z o.o. (previously Garbary Sp. z o.o.), subsidiary

The company's line of business is other financial service activities.

- Tele-Tech Investment Sp. z o.o., subsidiary

The company's business includes investing funds in securities, trading in receivables, proprietary trading in securities, managing controlled enterprises, business and management consultancy. The company has no employees.

Financial Markets

- mBank Hipoteczny S.A., subsidiary (with regard to activities concerning funding).
- mLeasing Sp. z o.o., subsidiary (with regard to activities concerning funding).

<u>Retail Banking Segment (including Private Banking)</u>

- mFinanse S.A., subsidiary

mFinanse S.A. offers mBank S.A. and third party banks' products. Its offer includes mortgage loans, business products, cash loans, insurance products and leasing. Distribution is carried out throughout the whole country in 42 offices of mFinanse and 161 mKiosks placed in shopping centers.

- mBank Hipoteczny S.A., subsidiary (the retail segment of the company's activity).
- mLeasing Sp. z o.o., subsidiary (the retail segment of the company's activity).
- Asekum Sp. z o.o., subsidiary(the retail segment of the company's activity)
- Leaselink Sp. z o.o., subsidiary

LeaseLink is a company operating in the fintech area in the leasing of low-value items, specialises in providing leasing as a payment method for e-commerce. The Bank holds indirectly through mLeasing Sp. z o.o. 100% shares in the company.

- mElements S.A., subsidiary

Beginning from January 2020, the Group started to consolidate the company mElements S.A., operating in the construction of dedicated solutions for e-commerce trade and new technologies. The company develops and develops IT solutions including API solutions, online and mobile payments as well as services dedicated to online sellers, including the Paynow payment integrator. In October 2019, mElements S.A. received from the Polish Financial Supervision Authority permission to operate as a National Payment Institution. The Bank holds 100% shares in the company.

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Other

- Future Tech Fundusz Inwestycyjny Zamknięty, subsidiary

The Fund was established as an investment vehicle within the mAccelerator project, which focuses on developing and commercialising high-potential projects in the field of new technologies for the financial services sector (fintech). The Bank held 98.04% of the Fund's investment certificates, while the remaining 1.96% was owned by minority shareholders. The entity managing the Fund is Quercus Towarzystwo Funduszy Inwestycyjnych S.A.

Other information concerning companies of the Group

As of December 2020, the consolidation of mFinance France S.A. was discontinued. Discontinuation of consolidation resulted from the substitution described in detail in Note 28. The business activities of the company was conducted in the bussines segment "Financial Market". In November 2020, the liquidation of the company began.

On 16 December 2020, mBank S.A. and Archicom Polska S.A. signed a share sale agreement, under which mBank sold 100% of shares in the share capital of BDH Development Sp. z o.o. The sale transaction was described in Note 24. The business activities of the company was presented in the business segment "Other".

Beginning from January 2020, the Group started to consolidate the company mElements S.A.

Beginning from March 2019, the Group started to consolidate the company Leaselink Sp. z o.o.

Information concerning the business conducted by the Group's entities is presented under Note 5 "Business Segments" of these consolidated financial statements.

The consolidated financial statements of the Bank cover the following companies:

Company	31.12.2020		31.12.2019	
	Share in voting rights (directly and indirectly)	Consolidation method	Share in voting rights (directly and indirectly)	Consolidation method
mBank Hipoteczny S.A.	100%	full	100%	full
mLeasing Sp. z o.o.	100%	full	100%	full
mFinanse S.A.	100%	full	100%	full
mFaktoring S.A.	100%	full	100%	full
Future Tech Fundusz Inwestycyjny Zamknięty	98.04%	full	98.04%	full
Tele-Tech Investment Sp. z o.o.	100%	full	100%	full
G-INVEST Sp. z o.o. (previously Garbary Sp. z o.o.)	100%	full	100%	full
Asekum Sp. z o.o.	100%	full	100%	full
LeaseLink Sp. z o.o.	100%	full	100%	full
mElements S.A.	100%	full	-	-
mFinance France S.A.*	99.998%	-	99.998%	full
BDH Development Sp. z o.o.	-	-	100%	full

*The company is in the liquidation process starting from November 2020.

These consolidated financial statements have been approved by the Management Board of mBank S.A. on 24 February 2021.

2. Description of relevant accounting policies

The most important accounting policies applied to the drafting of these consolidated financial statements are presented below. These principles were applied consistently over all presented periods, except for the accounting principles applied since the beginning of 2020, which changes the recogition of FX margin on spot transactions as well as the change in the accounting principles introduced from the end of 2020, consisting in changing the classification of assets financial to cash equivalents. These changes are described in Note 2.30.

2.1. Accounting basis

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

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

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

The preparation of the financial statements in compliance with IFRS requires the application of specific accounting estimates. It also requires the Management Board to use its own judgment when applying the accounting policies adopted by the Group. 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 consolidated financial statements are disclosed in Note 4.

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

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

2.2. Consolidation

Subsidiaries

Subsidiaries comprise entities, regardless of the nature of the involvement with an entity (including special purpose vehicles) over which the Group controls the investee. The control is achieved when the Group has power over the investee, is exposed or has rights, to variable returns from its involvement with the investee and has the ability to use its power over the investee to affect its returns. When the Group has less than a majority of the voting rights of an investee, it considers all relevant facts and circumstances in assessing whether it has power over the investee, including a contractual arrangements between the Group and other vote holders, rights arising from other contractual arrangements, the Group's voting rights and potential voting rights. If facts and circumstances indicate that there are changes in at least one of the three elements of control listed above, the Group reassess whether it controls an investee. The consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. The consolidated financial statements combine items of assets, liabilities, equity, income and expenses of the parent with those of its subsidiaries eliminating the carrying amount of the parent's investment in each subsidiary and the parent's portion of equity of each subsidiary. Thus arises goodwill. If goodwill has negative value, it is recognised directly in the income statement. The profit or loss and each component of other comprehensive income is attributed to the Group's owners and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. If the Group loses control of a subsidiary, it shall account for all amounts previously recognised in other comprehensive income in relation to that subsidiary on the same basis as would be required if the Group had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group shall reclassify the gain or loss from equity to profit or loss (as a reclassification adjustment) when it loses control of the subsidiary. If a revaluation surplus previously recognised in other comprehensive income would be transferred directly to retained earnings on the disposal of the assets, the Group shall transfer the revaluation surplus directly to retained earnings when it loses control of the subsidiary.

Non-controlling interest is equity in a subsidiary not attributable, directly or indirectly, to a parent. The Group presents non-controlling interest in the consolidated statement of financial position within equity, separately from the equity of the owners of the parent. Changes in a parent's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transaction (i.e. transactions with owners in their capacity as owners). In such cases, the Group adjusts the carrying amount of the controlling and non-controlling interests to reflect the changes in their relative interests in the subsidiary. The Group recognises directly in the equity any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received and attributes it to the owners of the parent.

In case when an acquirer made a bargain purchase, which is a business combination, and a result of that is a gain, the acquirer recognises the resulting gain in profit or loss on the acquisition date. Before recognising a gain on a bargain purchase, the acquirer reassesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and recognises any additional assets and liabilities that are identified in that review. The acquirer then reviews the procedures used to measure the amounts required to be recognised at the acquisition date to ensure that the measurements appropriately reflect consideration of all available information as of the acquisition date.

Intra-group transactions, balances and unrealised gains on transactions between companies of the Group are eliminated in full. Unrealised losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

The Group applies predecessor accounting method for combinations of businesses under common control. The method stipulates that assets and liabilities of the acquired arrangements are not measured at fair value, but the acquirer includes them in its financial statements based on the value of the acquired arrangements stemming from the consolidated financial statements of the consolidating entity that prepares the consolidated financial statements at the higher level and exercises the common control under which the transaction takes place.

Consolidation does not cover those companies whose scale of business operations is immaterial in relation to the volume of business of the Group.

2.3. Interest income and expenses

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

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

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

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

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

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

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

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

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

2.4. Fee and commission income

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

<u>Step 1: Identifying the contract's with a customer</u>

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

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

<u>Step 2: Identifying performance obligations in the contract</u>

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

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

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

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

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

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

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

<u>Step 3: Determining the transaction price</u>

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

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

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

<u>Step 4: Allocating the transaction price to the preformance obligations</u>

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

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

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

Accounting principles related to recognition of fee income from sale of assurance products bundled with loans and advances are described in a separate Note 2.5.

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

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

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

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

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

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

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

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

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

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

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

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

2.6. Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the Group), whose operating results are regularly reviewed by the Group's chief operating decision-maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker is the person or group that allocates resources to and assesses the performance of the operating segments of an entity. As defined in IFRS 8, the Group has determined the Management Board of the Bank as its chief operating decision-maker.

In accordance with IFRS 8, the Group has the following business segments: Corporates and Financial Markets including the sub-segments *Corporate and Investment Banking* as well as *Financial Markets*, Retail Banking (including Private Banking), and the Other business.

2.7. Financial assets

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

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

Derecognition of financial asset is when and only when the contractual rights to the cash flows from the financial assets expire or when the Group transfers the financial asset and the transfer qualifies for derecognition.

<u>Financial assets measured 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.

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

The Group may, at the initial recognition, irrevocably designate a financial asset at fair value through profit or loss when doing so results in more relevant information, because 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.

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

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

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

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

Interest income on financial assets measured at fair value through profit or loss (Note 2.4), except for derivatives the recognition of which is discussed in Note 2.14, is recognized in net interest income. The valuation and result on disposal of financial assets measured at fair value through profit or loss is recognized in trading income for financial assets held for trading or in gains or losses on non-trading financial assets mandatorily at fair value through profit or loss.

Financial assets measured at amortized cost

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

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

Financial assets measured at fair value through other comprehensive income

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

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

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

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

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

Equity instruments

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

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

Modification of contractual terms for financial assets

The Group 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 Group defines such a modification that meets one of the following criteria:

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

In the event of substantial modification the deferred income and expense related to this asset is 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 and are recognised in net interest income. The result on modification is the difference between present value of the modified cash flows discounted using the old effective interest rate and the effective loan exposure. Commissions received related to minor modification are settled over time using effective interest rate. All identified substantial modifications of cash flows are treated as related to credit risk. In case of substantial modification in stage 2, for which as a consequence, the exposure was moved to stage 1, the adjustment to fair value of the exposure at the initial recognition, adjusts the interest result in the subsequent periods.

Purchased or originated credit impaired financial assets (POCI assets)

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

Reclassification of financial assets

Debt financial assets are reclassified when, and only when, the Group 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.

Finacial liabilities are not subject to reclassification by the Group.

2.8. Offsetting of financial instruments

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

2.9. Impairment of financial assets

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

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

How exposures are classified to stages

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

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

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

Stage 3 contains exposures identified as credit-impaired.

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

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

Significant deterioration in credit quality

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

Rebuttable presumption

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

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

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

Low credit risk

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

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

Impairment

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

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

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

Estimating expected credit losses (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 on and off-balance-sheet exposures. The calculation of expected credit losses uses:

- portfolio approach: concerning exposures for which no loss event was identified at the reporting date and exposures from the retail portfolio with identified loss event (excluding exposures for which an individual approach is used);

- individual approach: concerning all corporate exposures and all Private Banking customer exposures registered in corporate systems for which a loss event was identified, as well as in specific cases of retail microfirms exposures for which a loss event was identified.

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

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. Lack of recovery e.g.:
   a. the enforcement proceedings have been completed and the whole debt was not recovered - then the unrecovered portion is written off,
   b. bankruptcy proceeding has been rejected or has been completed due to debtors lack of liquidation assets to cover the costs of the proceedings,
   c. the conclusion is that a claim is as a bad debt.

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

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

1. all options to recover the debt have been exercised:
   a. bankruptcy proceedings ended, the debtor was removed from the National Court Register and the debt was not recovered in whole,
   b. bankruptcy proceedings were discontinued on account of the debtor having no assets to cover the costs of the proceedings or having only enough assets to cover these costs,
   c. petition for bankruptcy was dismissed on account of the debtor having insufficient assets to cover the costs of the proceedings,
   d. during judicial restructuring proceedings the terms and conditions of an arrangement assuming partial cancellation of the debt were approved,
   e. enforcement proceedings were considered ineffective and discontinued on account of the debtor having no assets,
   f. the debt was considered irrecoverable as the costs of recovering it exceed the potential proceeds;
2. when it is impossible to pursue the debt, e.g.
   a. the debtor challenges the debt in court. The debt was cancelled by a court decision.

2.10. Financial guarantee contracts

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

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

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

2.11. 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 and amounts due from other banks.

2.12. Sale and repurchase agreements

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

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

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

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

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

2.13. 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 Group recognises the respective gains or losses from the first day in accordance with the principles described under Note 2.14.

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

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

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

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

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

The method of recognising the resulting fair value gain or loss depends on whether the given derivative instrument is designated as a hedging instrument, and if it is, it also depends on the nature of the hedged item. The 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).

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

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

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

The Group 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 Group also documents its own assessment of the effectiveness of fair value hedging and cash flow hedging transactions, measured both prospectively and retrospectively from the time of their designation and throughout the period of duration of the hedging relationship between the hedging instrument and the hedged item.

Due to the split of derivatives classified into banking book and into trading book, the Group applies a different approach to the presentation of interest income/expense for each of these groups of derivatives that is described in Note 2.3 "Interest income and expenses". The remaining result from fair value measurement of derivatives is recognised in "Net trading income".

Fair value hedges

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

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

Cash flow hedges

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

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

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

Derivative instruments not fulfilling the criteria of hedge accounting

Changes of the fair value of derivative instruments that do not meet the criteria of hedge accounting are recognised in the income statement of the current period.

The Group holds the following derivative instruments in its portfolio:

Market risk instruments:

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

Interest rate risk instruments:

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

Foreign exchange risk instruments:

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

2.14. Gains and losses on initial recognition

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

The transaction for which the fair value determined using a valuation model (where inputs are both observable and non-observable data) and the transaction price differ, the initial recognition is at the transaction price. The 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.

2.15. 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.

2.16. Intangible assets

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

Goodwill

Goodwill as of the acquisition date is initially measured at cost of acquisition that comprises the excess of the aggregate of the consideration transferred, the amount of any non-controlling interest in the acquiree and in a business combination achieved in stages, the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

Goodwill on acquisition of subsidiaries is included in "Intangible assets". Goodwill is not amortised, but it is tested annually for impairment and if there have been any indication that it may be impaired, it is carried in the statement of financial position at cost reduced by accumulated impairment losses. The Group assesses at the end of each reporting period whether there is any indication that cash generaing unit to which goodwill is allocated may be impaired. If any such indication exists, the Group estimates the recoverable amount of the asset. Goodwill impairment losses should not be reversed.

Gains and losses on the disposal of the activity include the carrying amount of goodwill relating to the sold activity. Goodwill is allocated to cash generating units or groups of cash generating units for the purpose of impairment testing. The allocation is made as at the date of purchase to those cash-generating units or groups of cash generating units that are expected to benefit from the business combination in which the goodwill arose, not bigger than operating segments in accordance with IFRS 8 irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Computer software

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

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

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

Development costs

The Group 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 Group has the intention and technical feasibility to complete and to use the intangible asset, the availability of adequate technical, financial and other resources to complete and to use the intangible asset and the ability to measure reliably the expenditure attributable to the intangible asset during its development.

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

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

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

2.17. Tangible fixed assets

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

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

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

- Buildings and structures	25-40 years,
- Equipment	2-15 years,
- Vehicles	4-5 years,
- Information technology hardware	2-10 years,
- Investments in third party fixed assets	5-20 years, no longer than the period of the lease contract,
- Office equipment, furniture	2-10 years.

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

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

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

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

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

2.18. Inventories

Inventories comprise land and rights to perpetual usufruct of land designated for use as part of construction projects carried out. They also comprise assets held for lease as well as assets taken over as a result of terminated lease agreementsInventories are stated at the lower of: cost of purchase/cost of construction and net realisable value. Cost of construction of inventories comprises direct construction costs, the relevant portion of fixed indirect production costs incurred in the construction process and the borrowing costs, which can be directly allocated to the purchase or construction of an asset. 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 and they are classified as other operating costs. Reversals of inventory write-downs resulting from increases in their net realisable value are recorded as a reduction of the inventories recognised as cost of the period in which the reversals took place. Inventory issues are valued through detailed identification of the individual purchase prices or costs of construction of the assets which relate to the realisation of the individual separate undertakings. Inventories comprise land and rights to perpetual usufruct of land designated for use as part of construction projects carried out. They also comprise assets held for lease as well as assets taken over as a result of terminated lease agreements. When the inventories are sold, the carrying amount of the inventories is recognized as other operating expenses in the period in which the related revenue is recognized, which is recognized as other operating income.

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

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

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

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

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

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

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

2.20. Deferred income tax

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

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

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

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

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

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

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

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

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

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

2.21. Assets repossessed for debt

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

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

2.22. 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 Group 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".

2.23. Leasing

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

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

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

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

The Group 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.

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

The Group 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 Group 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 Group 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 Group 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 Group shall revise the lease term if there is a change in the non-cancellable period of a lease.

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

- the amount of the initial measurement of the lease liability,
- any lease payments made at or before the commencement date, less any lease incentives received,
- initial direct costs incurred by the 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 Group applies the depreciation requirements in IAS 16 Property, Plant and Equipment in depreciating the right-of-use asset and requirements in IAS 36 Impairment of Assets to determine whether the right-of-use asset is impaired.

At the commencement date, the 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 Group 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.

The discount rates calculated by the Group were:

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

All assets due to the right to use are recognized in tangible assets.

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.

mBank S.A. Group as a lessor

- In operating lease

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

- In finance lease

At the commencement date the Group shall recognise assets held under a finance lease as receivable at an amount equal to the net investment in the lease. Initial direct costs are included in the initial measurement of the net investment in the lease and reduce the amount of income recognised over the lease term. A Group recognises finance income over the lease term on a systematic and rational bais. The lease payments relating to the period reduce gross investment in the lease both the principal and the unearned finance income. The Group applies the derecognition and impairment requirements in IFRS 9 to the net investment in the lease.

2.24. 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 Group 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.

2.25. Post-employment employee benefits and other employee benefits

Post-employment employee benefits

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

Equity-settled share-based payment transactions

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

Cash-settled share-based payment transactions

In case of the part of the programme based on cash-settled share-based payments based on shares of the ultimate parent of the Group, the fair value of the service rendered by employees in return for right to options/share appreciation rights increases the costs of the respective period, corresponding to liabilities. Until the liability related to the cash-settled share-based payments transactions is settled, the Group measures the fair value of the liability at the end of each reporting period and at the date of settlement, with any changes in fair value recognised in profit or loss for the period.

Other employee benefits

From September 2012, the incentive programme based on phantom shares in mBank Hipoteczny has been functioning in this bank which is considered as incentive programme according to IAS 19.

2.26. 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 or the Company Articles of Association.

Registered share capital

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

- Own shares

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

Share premium

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

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

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

Retained earnings

Retained earnings include:

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

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

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

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

Other components of equity

Other components of equity result from:

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

2.27. Valuation of items denominated in foreign currencies

Functional currency and presentation currency

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

Transactions and balances

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

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

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

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

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

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

Companies belonging to the Group

The performance and the financial position of all the entities belonging to the Group, none of which conduct their operations under hyperinflationary conditions, the functional currencies of which differ from the presentation currency, are converted to the presentation currency as follows:

- assets and liabilities in each presented statement of financial position are converted at the average rate of exchange of the National Bank of Poland (NBP) in force at the end of this reporting period,
- revenues and expenses in each income statement are converted at the rate equal to the arithmetical mean of the average rates quoted by NBP on the last day of each of 12 months of each presented periods,
- all resulting foreign exchange differences are recognised as a distinct item of other comprehensive income.

Upon consolidation, foreign exchange differences arising from the conversion of net investments in companies operating abroad are recognised in other comprehensive income. Upon the disposal of a foreign operation, such foreign exchange differences are recognised in the income statement as part of the profit or loss arising upon disposal.

Leasing business

In the case of mBank Group as a lessee, the profit and loss account includes negative or positive foreign exchange differences from the conversion of the lease liability expressed in a foreign currency after conversion into PLN at the time of initial recognition.

In the case of mBank Group as a lessor in finance lease, exchange rate differences from the valuation of receivables in the amount equal to the net investment in the lease in a foreign currency are charged to the income statement at the end of the reporting period.

In the case of mBank Group as the lessor in operating lease, exchange rate differences from the valuation of the leased asset in a foreign currency at the initial recognition date are posted to the profit and loss account at the end of the reporting period.

2.28. Trust and fiduciary activities

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

The Bank provides custody, trustee, corporate administration, investment management and advisory services to third parties. Fee and commission income from trust and fiduciary activities is recognised in accordance with IFRS 15 using a 5-step model for revenue recognition, described in the Note 2.4. In connection with these, the Bank makes decisions concerning the allocation, purchase and sale of a wide variety of financial instruments. Assets held in a fiduciary capacity are not included in these financial statements. The assets concerned are not shown in these financial statements as they do not belong to the Group.

Other companies belonging to the Group do not conduct any trust or fiduciary activities.

2.29. New standards, interpretations and amendments to published standards

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

Standards and interpretations endorsed by the European Union

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

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

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

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

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

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

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

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

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

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

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

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

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

The Group analysed the impact of the application of amendments to the standards on the financial statements in the period of their initial application. Detailed information on this analysis is presented later in this Note.

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.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The interest rate benchmark reform

mBank, as an entity providing services in the area of both transactions in financial instruments and loan origination, is exposed to risks posed by the evolution of rates and the market’s transition to rates that are in line with BMR. The interest rate benchmark reform (IBOR reform) has the biggest impact on financial instruments, in particular loans, which are based on LIBOR because this benchmark will be discontinued from 2022. mBank has a large portfolio of CHF mortgages based on CHF LIBOR (accounting for 34.5% of the gross value of its portfolio of mortgages for individuals and micro-enterprises as at the end of 2020). At the same time, the share of loans based on EUR LIBOR, EURIBOR and USD LIBOR in the value of the credit portfolio stands at 4%, 12% and 1%, respectively. In addition, mBank raised LIBOR-based subordinated funding and took out EURIBOR-based loans. Most of the other financial exposures are in principal based on WIBOR rate .From mBank’s point of view, the IBOR reform will have the greatest impact on LIBOR-based contracts as, in the Bank’s opinion, these are the rates for which there is a significant risk of no quotation after 31 December 2021. In mBank’s opinion, the risk posed by the discontinuation of rates is lower for transactions in financial instruments as such transactions have shorter tenors and, in the majority of cases, are concluded with professional market participants.

mBank Hipoteczny is a member of mBank Group providing services connected with servicing mortgage portfolios, issuing securities, and concluding derivative transactions (only on own account). Consequently, it is exposed to risks posed by the evolution of rates and the market’s transition to rates that are in line with BMR.

At mBank Hipoteczny, the IBOR reform has the biggest impact on financial instruments, in particular loans and securities, based on WIBOR, EURIBOR, and USD LIBOR. Out of the three benchmarks, the highest risk of an event affecting the benchmark (i.e. a situation where a benchmark is not published, is no longer provided, cannot be used, is changed), in the opinion of mBank Hipoteczny, is posed by USD LIBOR. The legal risk attributable to the method of substituting this benchmark is limited due to the low value of loans based on it (approx. USD 9.6 million, which accounts for approx. 0.3% of the entire portfolio). At mBank Hipoteczny, the IBOR reform will affect older credit contracts (signed before 2018) the most because these contracts do not specify how the rates should be changed following the discontinuation or a major change of the contractual benchmark.

The vast majority of mBank Hipoteczny’s credit portfolio is based on WIBOR (80.3%) and EURIBOR (19.4%). In addition, mBank Hipoteczny has 15 issues of securities with interest based on WIBOR, the longest of which matures in 2028, and one issue based on EURIBOR maturing in 2021.

Moreover, mBank Hipoteczny has a portfolio of derivatives hedging issues of fixed-rate securities through fixed to floating interest rate swaps.

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

Neither mBank nor mBank Hipoteczny identify material risks for instruments based on the Polish zloty. This is attributable to the fact that in a decision issued on 16 December 2020 the Polish Financial Supervision Authority (KNF) authorised GPW Benchmark S.A. to act as the administrator of interest rate benchmarks, including the key benchmark WIBOR, the quotation method of which has been adjusted to BMR. This decision has removed the material regulatory risk related to this benchmark. As regards EURIBOR, the process of adjusting the rate to BMR ended in June 2019.

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

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

Moreover, both mBank and mBank Hipoteczny have reliable written plans in case of a major change or discontinuation of a benchmark.

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

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

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

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

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

(PLN million)	The contractual amount of non-derivative financial asset	The contractual amount of non-derivative financial liabilities	Nominal amount of derivatives as a net amount of receivables and liabilities for derivative transactions
PLN WIBOR	79 088	(9 029)	(18 774)
EUR EURIBOR	12 015	(1 655)	(2 552)
EUR LIBOR	3 239	(16)	-
USD LIBOR	921	(5)	(45)
CHF LIBOR	12 320	(1 706)	(10 228)
GBP LIBOR	79	-	-
JPY LIBOR	6	-	-
CZK PRIBOR	462	-	567
Other	2	(859)	(213)

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2.30. Comparative data

- The recognition of FX margin on spot transactions

From January 2020, the Group changed the rules for presenting the FX margin on spot transactions. So far, the FX margin was presented in the Net trading income as part of the Foreign exchange result. After the change, the FX margin is part of the Net fee and commission income and is recognized in the item "Commissions from currency transactions". The change was caused by adjusting the presentation of the FX margin in the income statement to the prevailing market practice. The comparative data for the period from 1 January to 31 December 2019 have been appropriately restated, which resulted in an increase in Fee and commission income and a decrease in the Net trading income by PLN 306 014 thousand

Restatement of consolidated income statement for 2019

	Period from 01.01.2019 to 31.12.2019 before restatement	Restatement	Period from 01.01.2019 to 31.12.2019 after restatement
Interest income, including:	5 071 664	-	5 071 664
Interest income accounted for using the effective interest method	*4 523 483*	-	*4 523 483*
Income similar to interest on financial assets at fair value through profit or loss	*548 181*	-	*548 181*
Interest expenses	(1 068 892)	-	(1 068 892)
Net interest income	**4 002 772**	**-**	**4 002 772**
Fee and commission income	1 704 642	306 014	2 010 656
Fee and commission expenses	(740 039)	-	(740 039)
Net fee and commission income	**964 603**	**306 014**	**1 270 617**
Dividend income	4 220	-	4 220
Net trading income	440 530	(306 014)	134 516
Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss	69 259	-	69 259
Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss	34 832	-	34 832
Other operating income	234 487	-	234 487
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss	(712 337)	-	(712 337)
Result on provisions for legal risk related to foreign currency loans	(387 786)	-	(387 786)
Overhead costs	(1 953 657)	-	(1 953 657)
Depreciation	(375 498)	-	(375 498)
Other operating expenses	(307 722)	-	(307 722)
Operating profit	**2 013 703**	**-**	**2 013 703**
Tax on the Bank's balance sheet items	(458 658)	-	(458 658)
Profit before income tax	**1 555 045**	**-**	**1 555 045**
Inome tax expense	(544 793)	-	(544 793)
Net profit	**1 010 252**	**-**	**1 010 252**
Net profit attributable to:			
- Owners of mBank S.A.	1 010 350	-	1 010 350
- Non-controlling interests	(98)	-	(98)

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

- Cash equivalents

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

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Restatement in the Consolidated statement of cash flows for 2019

	Period from 01.01.2019 to 31.12.2019 before restatement	Restatement	Period from 01.01.2019 to 31.12.2019 after restatement
Profit before income tax	**1 555 045**	**-**	**1 555 045**
Adjustments:	***(425 989)***	***(582 247)***	***(1 008 236)***
Changes in financial assets and liabilities held for trading and hedging derivatives	(43 652)	(582 247)	(625 899)
Changes in other liabilities	(382 337)	-	(382 337)
A. Cash flows from operating activities	**1 129 056**	**(582 247)**	**546 809**
B.Cash flows from investing activities	**(449 578)**	**-**	**(449 578)**
C. Cash flows from financing activities	**(1 691 110)**	**-**	**(1 691 110)**
Net increase / decrease in cash and cash equivalents (A+B+C)	**(1 011 632)**	**(582 247)**	**(1 593 879)**
Effects of exchange rate changes on cash and cash equivalents	(9 408)	-	(9 408)
Cash and cash equivalents at the beginning of the reporting period	10 630 969	(748 294)	9 882 675
Cash and cash equivalents at the end of the reporting period	**9 609 929**	**(1 330 541)**	**8 279 388**

The changes in the comparative data, as described above, has been included in these financial statements in all the notes to which these change referred.

3. Risk management

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

3.1. Risk management in mBank Group in 2020 – external environment

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

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

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

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

The amendments to the CRD IV, published in 2019, include more detailed guidelines on restrictions on profit-sharing. The provisions on the use of supervisory tools for micro and macro prudential purposes have been clarified and changes in the calibration of capital buffers have been proposed. Supervisory expectations have been addressed as to the need for a standardized methodology of interest rate risk management in the banking portfolio in order to identify, assess, manage and mitigate risk. Amended provisions of CRD IV should be introduced to the Polish regulations by the end of 2020.

In light of the publication of Directive (EU) 2019/879 of the European Parliament and of the Council of 20 May 2019 amending BRRD (Bank Recovery and Resolution Directive), the requirements regarding recovery and resolution also changed. New provisions require transposition into the national law. The Directive proposed changes to the design of the MREL ratio to make it consistent with TLAC ratio (total loss absorbing capacity). The amendments to the BRDD are expected to be implemented in the legislation in Poland by the end of 2020.

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

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

Due to potentially wide range of changes that will be necessary in order to implement regulations by banks, they will be implemented within the timeframe envisaged by the EBA.

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

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

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

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

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

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

3.2. Principles of risk management

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

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

- tightened criteria of granting new financing,

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

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

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

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

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

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

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

3.2.1. Risk culture

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

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

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

3.2.2. Division of responsibilities in the risk management process

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

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

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

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

Committees:

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

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

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

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

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

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

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

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

Material risks in the mBank Group's operations

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

As at 31 December 2020, the following types of risk were considered significant in the activities of mBank Group: credit risk, market risk, operational risk, business risk (including strategic risk), liquidity risk, reputation risk, model risk, capital risk (including excessive leverage), tax risk and foreign currency loan portfolio risk.

3.2.4. Risk appetite

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

Capital and liquidity buffers

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

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

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

Risk Bearing Capacity

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

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

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

Risk limit system

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

3.2.5. Stress tests within ICAAP and ILAAP

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

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

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

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

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

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

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

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

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

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

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

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

3.3. Credit risk

3.3.1. Organization of risk management

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

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

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

3.3.2. Credit Policy

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

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

3.3.3. Collateral accepted

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

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

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

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

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

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

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

Collaterals accepted by the mBank Group subsidiaries. The mBank Group subsidiaries accept various forms of legal collateral of credit risk-bearing products. Their list depends on the specific nature of activities, type of offered products and transaction risk.

mBank Hipoteczny applies mortgage on the financed real estate as the basic collateral. Additional collateral may include bills of exchange or civil surety by the borrowing company's owners, as well as pledge on shares in the borrower's company. Loan insurance in an insurance company approved by the Bank may be accepted for a period necessary to effectively set up collateral.

mFaktoring accepts only highly liquid collateral. Apart from own blank bills of exchange, these are mainly bill of exchange surety of the owners of the customer's company, cession of receivables from bank accounts (mainly those maintained by mBank), insurance of receivables, cession of rights from insurance policies in respect of receivables, concluded by customers.

mLeasing applies types of collateral that are most similar to those of mBank. It accepts both standard personal collateral: bill of exchange and civil surety, letters of comfort, guarantees, assuming the debt, debt take over, and tangible collateral: mortgage, registered liens, transfer of ownership of collateral, transfer of receivables and cession of receivables and rights to an insurance policy, and deposits. The company manages the residual value risk based on Eurotax Glas's Forecast. The residual value calculations includes the lease subject, lease term, estimated mileage, estimated condition of the vehicle after the lease term. The residual value also includes factors such as retrofitting, color and year of manufacture (if the vehicle was manufactured earlier than the lease year). The obtained value is reduced by a safety factor to cover the risks associated with the fact that the user of the vehicle is not also its owner, i.e. the vehicle is the subject of the long-term rental. In the final stage, the residual value calculation is verified with the prices observed in the used car market and approved by authorized personnel. During the term of the contract, if for six-month periods, counting from the date of handover of the vehicle, the proportional mileage of the vehicle differs from the one agreed by the parties by more than 10%, the financing party has the right to recalculate the amount of the remuneration installments based on the new estimated mileage of the vehicle. After the end of the contract, the company settles possible excess consumption and possible excess mileage by applying additional fees.

3.3.4. Rating system

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

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

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

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

Sub-portfplio	1				2			3		4		5			6	7	8	
PD rating	1,0 - 1,2	1,4	1,6	1,8	2	2,2	2,4 - 2,6	2,8	3	3,2 - 3,4	3,6 - 3,8	4	4,2 - 4,6	4,8	5	5,2 - 5,8	No rating	6,1 - 6,5
S&P	AAA	AA+	AA, AA-	A+, A	A-	BBB+	BBB	BBB-	BB+	BB	BB-	B+	B	B-	B-	CCC+ till C	*n/a*	D
	Investment Grade								**Subinvestment Grade**			**Non-investment Grade**						**Default**

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

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

Estimation of loss level takes place in homogenous segments, taking into account the type of product and the type of collateral. Separate models are in place for non-default and default portfolio.

- Exposure at Default (EAD) model, which includes Credit Conversion Factor (CCF) model, Limit Utilization (LU) model and Prepayments model. The components are based on contract and customer characteristics,
- PD model with a modular structure, which integrates results of scoring cards dedicated to the retail area:
  - application scoring cards (based on socio-demographic factors, factors describing the characteristics of business activity and factors related to the specificity of applied credit products),
  - behavioural scoring cards (based on information on the history of credit and deposit relation with the Bank),
  - internal scoring card based on Credit Information Bureau data (regarding the data about liabilities held outside the Bank).

All mBank Group subsidiaries, whose operations are burdened with credit risk, before concluding an agreement and upon its performance, apply a monitoring process to estimate the risk using rating systems applied by the mBank Group. Rating systems that are used by the Group subsidiaries are due to the nature of their business; at the same time the factoring and leasing companies use the PD-rating of the customer, and the leasing company applies additionally credit rating (EL-rating). A rating based on supervisory measures (slotting approach) is applied in the case of mortgage loans and real estate leasing.

3.3.5. Monitoring and validation of models

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

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

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

Validation

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

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

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

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

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

IRB Method Change Policy

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

3.3.6. Calculating expecting credit losses

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

3.3.6.1. How exposures are classified to stages

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

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

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

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

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

1. the loss events that caused the classification of a client to the stage 3 do not longer exist, and

2. the economic and financial situation of the debtor has improved to the extent which gives a high probability of repayment of all credit obligations in accordance with the conditions resulting from the original agreement or from the contract specifying the restructuring terms, and
3. the overdue debt has been repaid, and
4. the indebtedness is timely handled for at least 12 months after the change of contractual terms, or
5. the balance of the client's credit and non-credit obligations equals to zero as a result of: their total repayment by the customer, recovery of the Bank's receivables as a result of the debt collection activities or the receivables write-off.

3.3.6.1.1. Significant deterioration of credit quality (classification to stage 2)

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

Qualitative criteria are:

- More than 30 days past due, involving materiality threshold - the number of days for which the longest overdue amount of the exposure concerned is greater than or equal to 31 days, at the same time, the amount of capital or an off-balance-sheet commitment is greater than or equal to PLN 500 in case of retail exposure (or CZK 3 000 or EUR 120 in Bank's foreign branches in Czech Republic and Slovakia respectively) and greater than or equal to PLN 3 000 in case of corporate exposure.
- Occurrence of the Forborne flag (the client status shows that he or she is experiencing difficulties in repaying the loan commitment, as defined by the Bank).
- Occurrence of the Watch flag (the Bank's internal process designed to identify corporate clients who are subject to increased monitoring in terms of changes in credit quality, in accordance with the Watch List classification rules adopted by the Bank).

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

3.3.6.1.2. Low credit risk criteria

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

3.3.6.1.3. Impairment triggers – corporate portfolio

The list of definite loss events in corporate portfolio:

1. The number of days past due is above 90 days (14 days in the case of banks) and the overdue amount exceeds PLN 3 000 for corporate customers and PLN 500 for Private Banking.
2. The Bank has sold exposures with a significant economic loss related to the decrease of the debtor creditworthiness.
3. The Bank performed enforced restructuring of the exposure, which resulted in the change of the loan/transaction service schedule due to the lack of possibility of the obligor to meet his obligations under loan/transaction agreement, as initially stipulated, which resulted in:
    a. reduction of financial liabilities by remitting part of these obligations, or
    b. postponing the repayment of the substantial part of the principal, interest or (if it refers to) commission; provided that the lack of approval for restructuring would cause more than 90 calendar days delay in repayment of substantial part of the obligation.

4. Filing by the debtor or filing by the Bank, the parent or subsidiary entity of the Bank a bankruptcy motion against debtor or filing similar motion in respect of credit obligations of the debtor towards the Bank, the parent or subsidiary entity of the Bank.
5. Bankruptcy of debtor or acquiring by him a similar legal protection resulting in his evasion of or delay in repayment of credit obligations towards the Bank, the parent or subsidiary entity of the Bank.
6. Termination of part or whole credit agreement by the Bank or the beginning of restructuring/collection procedures.
7. Client's fraud.
8. Bank's expectation of loss on a client's exposure.

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

3.3.6.1.4. Impairment triggers - retail receivables

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

The list of definite loss events in retail portfolio:

1. The main impairment trigger is delay in repayment. Impairment trigger is identified, when the total of all customer's exposures past due more than 30 days exceeds PLN 500 (or CZK 3 000 or EUR 120 in Bank's foreign branches in Czech Republic and Slovakia respectively), and the eldest delay exceeds 90 days;
2. Enforced restructuring of debt;
3. Bankruptcy of debtor;
4. Recognition of the contract as fraudulent;
5. Sale of the exposure with considerable economic loss;
6. Uncollectable status of debt;
7. Payout of low downpayment insurance.

3.3.6.2. Calculation of expected credit losses

Expected credit losses (ECL) are measured at the level of a single contract or exposure (agreement). In the portfolio approach, expected credit losses are the multiplication of individual for each exposure estimated value of PD, LGD and EAD and the final value of expected credit losses is the sum of expected credit losses in particular periods discounted with the effective interest rate. The calculation of expected credit losses does not use a collective approach (assigning one parameter value to selected portfolios). If on the reporting date the exposure credit risk did not increase significantly since the initial recognition, expected credit losses are calculated in 12-month horizon (12m ECL). If the exposure credit risk increased significantly since the initial recognition (exposure is in the stage 2), the Bank calculates expected credit losses in the life-time horizon (Lt ECL). The parameters used to calculate an expected credit loss in Stage 1 are identical to those used to calculate a long-term credit loss in Stage 2 for t=1, where 't' stands for the first year of the forecast.

The individual approach concerns all balance sheet and off-balance sheet credit exposures with an impairment in the corporate loan portfolio and Private Banking loan portfolio, which is registered in corporate systems, as well as selected credit exposures with an impairment in the retail microfirms loan portfolio (used in the case of exposures with mortgage collateral with a debt balance over PLN 300 thousand and arrears over 1 year). The expected credit losses are calculated as a difference between the gross carrying amount of the asset and the present value of the estimated future cash flows discounted with the effective interest rate. The method of calculating the expected recoveries takes place in scenarios and depends on the Bank's chosen strategy for the client. In case of restructuring strategy, considered scenarios are developed for exposures and assume a significant share of recoveries from the customer's own payments. In case of debt collection strategy, the scenarios are developed for each recovery source (collateral) separately. Bank identifies scenarios per exposure/recovery source, minimum 2 are considered obligatory, provided one of them reflects a partial loss on exposure/recovery source. Weight of scenario results from an expert assessment of the likelihood of scenarios based on the relevant facts of the case, in particular, on existing security and their type, client's financial situation, client's willingness to cooperate, the risks that may occur in the case and micro- and macroeconomic factors.

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

3.3.6.2.1. Use of macroeconomics scenarios in ECL estimation

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

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

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

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

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

3.3.6.2.2. Significant model changes

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

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

Total impact of the above changes to the level of expected credit loss amounted to PLN 89 million (negative impact). Additionally, the impact on the fair value valuation of the non-mortgage portfolio amounted to PLN 9 million (negative impact).

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

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

Major changes include:

- change in the method of calculating days past due;
- determination of the materiality threshold (relative and absolute) in accordance with the Regulation of the Minister of Finance, Investment and Development of 3 October 2019 (paragraph 2), i.e :
  1. the sum of all amounts past due that are related to any credit obligation of the obligor to the bank will exceed:
     a) PLN 400 - in the case of retail exposures,
     b) PLN 2 000 - for exposures other than retail exposures,
  2. the amount of overdue credit obligations of the debtor in relation to the total amount of all the bank's balance sheet exposures to this debtor will exceed 1%;
- guidelines on forced restructuring. The materiality threshold from which the Bank considers a reduced financial liability to be defaulted is 1%;
- introducing a quarantine (trial period), the time during which the Bank assesses the behavior and financial situation of the debtor. The quarantine period is calculated from the moment when the event causing the trigger of default has ceased to apply. The duration of the quarantine is 12 months in the case of a forced restructuring, and 3 months in the case of other triggers. Proper handling of obligations by the debtor during the trial period is the basis for reclassifying him to the non-default status;
- consistent application of the definition of default - the EBA guidelines oblige institutions to implement appropriate processes ensuring that the default by one obligor is consistently identified across the entire capital group;
- detailed rules for the treatment of joint credit obligations - the bank uses the definition of default at the level of the obligor in the retail area, therefore it is obliged to apply the provisions of par. 95 - 105, on the basis of which it should define in its internal rules and procedures the rules for the treatment of joint credit obligations and for the transfer of default status between exposures.

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

The impact of the implementation of the EBA guidelines on the credit risk costs at mBank entity level – estimated at approx. PLN 32 million and at the consolidated level – estimated at approx. PLN 37 million (the amount estimated at the moment of implementation of the guidelines, which will be taken into account in the result of 2021).

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3.3.6.3. Provision coverage of individual sub-portfolios

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

Portfolio measured at amortized cost

Sub - portfolio	31.12.2020		31.12.2019	
	Exposure (%)	Provision coverage (%)	Exposure (%)	Provision coverage (%)
1	16.52	0.01	14.32	0.01
2	27.80	0.07	28.13	0.06
3	12.72	0.21	16.61	0.15
4	25.59	0.55	25.05	0.48
5	7.38	2.31	6.17	1.62
6	0.42	5.31	0.76	3.43
7	2.27	7.01	2.00	7.84
8	0.58	0.18	0.69	0.49
Other	3.29	0.14	3.19	0.04
Default category	3.43	58.25	3.08	60.57
Total	**100.00**	**2.54**	**100.00**	**2.31**

As at 31 December 2020, 44.32% of the loans and advances portfolio for balance sheet and off-balance sheet exposures is categorized in the top two grades of the internal rating system (31 December 2019: 42.45%).

3.3.7. Fair value for credit assets

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

3.3.7.1. Fair value valuation of non-impaired credit assets

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

Future cash flows are determined taking into account:

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

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

3.3.7.2. Fair value valuation of impaired credit assets

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

3.3.8. Repossessed collateral

The Group classifies repossessed collaterals as assets repossessed for debts and measures them in accordance with the adopted accounting policies described in paragraph 2.21. Assets repossessed for debts classified as assets held for sale will be put up for sale on an appropriate market and sold at the soonest possible date. The process of selling collaterals repossessed by the Bank is arranged in line with the policies and procedures specified for individual types of repossessed collaterals.

The policy of the companies of the Group is to sell repossessed assets or - in the case of leases - lease them out again to another customer. Cases in which the repossessed collateral is used for own needs are rare – such a step must be economically justified and reflect the Group companies' urgent need, and must at each time be approved by their Management Boards. In 2020 and 2019, the Group did not have any repossessed collaterals that were difficult to sell. As at 31 December 2020, value of repossessed collaterals was PLN 103 730 thousand (31 December 2019: PLN 70 262 thousand) included mainly leasing assets. The value of repossessed collaterals was included in the item inventories (Note 27).

3.3.9. mBank Group Forbearance Policy

Definition

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

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

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

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

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

Instruments used

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

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

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

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

- maturity extension/extension of loan duration,
- restructuring (medium or long term refinancing),
- capitalization of interest,
- interest deferrals,
- principal deferrals,
- suspension, withdrawal from the implementation of activities resulting from additional conditions contained in the contract (covenant waiver),
- standstills.

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

The supporting measures offered by the Group till the end of September 2020 were in line with the banks' position regarding the unification of the rules for offering supporting measures in the banking sector. This position was a non-legislative moratorium within the meaning of the European Banking Authority

(EBA) guidelines on legislative and non-legislative moratoria on loan repayments applied in the light of the COVID-19 crisis notified by the Polish Financial Supervision Authority to the European Banking Authority.

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

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

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

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

Risk management

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

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

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

Forborne exit conditions – corporate banking area

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

- debtor financial situation's analysis showed improvement and the exposure has been recognised as performing,
- at least two years after exposure had been recognised as performing have passed (probation period),
- for the last 12 months of probation period significant and regular capital or interest payments have been made by the borrowers,
- none of the debtor exposures is overdue more than 30 days at the end of probation period.

Forborne exit conditions – retail banking area

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

- the contract is recognised as performing,
- at least two years (probation period) have passed since the exposure was recognised as performing,
- at least from the middle of the abovementioned probation period regular capital or interest payments were made (lack of significant delays in repayment longer than 30 days),
- none of the debtor's exposures are overdue more than 30 days and at the same time the due amount does not exceed PLN 500 at the end of the 2-year probation period.

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Portfolio characteristics

	31.12.2020			31.12.2019		
	Gross carrying amount	Accumulated impairment	Net value/ fair value	Gross carrying amount	Accumulated impairment	Net value/ fair value
Loans and advances to customers at amortised cost	**111 778 636**	**(3 640 826)**	**108 137 810**	**106 393 532**	**(3 190 278)**	**103 203 254**
of which: forborne exposures	2 284 573	(497 959)	1 786 614	2 118 673	(626 254)	1 492 419
of which: defaulted	*1 044 713*	*(454 351)*	*590 362*	*1 232 518*	*(603 456)*	*629 062*
Loans and advances to customers mandatorily at fair value through profit or loss			**1 506 319**			**1 971 532**
of which: forborne exposures			109 927			123 818
of which: defaulted			*97 187*			*103 286*
Forborne exposures, total			**1 896 541**			**1 616 237**
of which: defaulted			*687 549*			*732 348*

Change of carrying value of forborne exposures	31.12.2020	31.12.2019
As at the begining of the period	**1 616 237**	**1 376 680**
Outflow from forborne exposures	(343 811)	(301 593)
Inflow to forborne exposures	752 777	664 882
Changes in existing exposures	(128 662)	(123 732)
As at the end of the period	**1 896 541**	**1 616 237**

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

Forborne exposures by client segment	31.12.2020	31.12.2019
Loans and advances to customers		
Loans to individuals	820 285	609 041
including: housing and mortgage loans	*593 019*	*537 252*
Loans to corporate clients	1 076 256	1 007 196
Loans and advances to public sector	-	-
Total	**1 896 541**	**1 616 237**

Forborne exposures by the type of concession	31.12.2020	31.12.2019
Refinancing	101 739	159 214
Modification of terms and conditions	1 794 802	1 457 023
Total	**1 896 541**	**1 616 237**

Froborne exposures by geographical breakdown	31.12.2020	31.12.2019
Poland	1 848 693	1 561 030
Other countries	47 848	55 207
Total	**1 896 541**	**1 616 237**

Forborne exposures by days past due	31.12.2020	31.12.2019
Not past due	458 309	1 071 540
Past due less than 30 days	1 126 249	176 597
Past due 31 - 90 days	65 090	73 577
Past due over 90 days	246 893	294 523
Total	**1 896 541**	**1 616 237**

Forborne exposures by industry	31.12.2020	31.12.2019
Natural persons	820 034	609 040
Construction	427 707	195 145
Real estate	197 431	148 249
Food sector	101 992	86 417
Financial sector	99 280	101 841
Wood, furniture and paper products	54 931	51 759
Textiles and wearing apparel	45 616	65 377
Automotive	38 384	28 493
Professional activity	25 680	103 741
Hotels and restaurants	17 924	19 020
Other industry	67 562	207 155
Total	**1 896 541**	**1 616 237**

3.3.10. Counterparty risk that arises from derivatives transactions

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

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

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

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

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

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

**negative exposure means overcollateralization*

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

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

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

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

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

Geographic concentration risk

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

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

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

Sector concentration risk

Monitoring exposures in sectors, defined in line with Polish Classification of Economic Activities, is carried out in individual subsidiaries of the Group.

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

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

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

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

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

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

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The table includes loans and advances at amortized cost and does not include the loans and advances measured at fair value through profit or loss

The structure of concentration of carrying amounts of exposure of mBank Group:

No.	Sectors	Gross value 31.12.2020	%	Gross value 31.12.2019	%
1.	Household customers	65 999 453	59.04	58 674 891	55.15
2.	Real estate	7 211 368	6.45	6 305 974	5.93
3.	Construction	4 843 129	4.33	5 160 496	4.85
4.	Food sector	2 869 995	2.57	3 017 507	2.84
5.	Transport and logistics	2 758 935	2.47	2 825 670	2.66
6.	Metals	2 159 089	1.93	2 331 810	2.19
7.	Construction materials	1 908 325	1.71	2 178 231	2.05
8.	Chemicals and plastic products	1 836 669	1.64	1 915 441	1.80
9.	Motorisation	1 800 110	1.61	2 240 037	2.11
10.	Wood, furniture and paper products	1 682 940	1.51	1 782 443	1.68
11.	Financial sector	1 668 335	1.49	1 766 892	1.66
12.	Power, power and heating distribution	1 358 741	1.22	1 126 577	1.06
13.	Scientific and technical activities	1 350 347	1.21	1 406 065	1.32
14.	Retail trade	1 332 389	1.19	1 231 428	1.16
15.	Wholesale trade	1 231 929	1.10	1 427 747	1.34
16.	IT	1 077 032	0.96	1 172 087	1.10
17.	Pharmacy	895 675	0.80	894 470	0.84
18.	Retail and leasing activities	871 694	0.78	1 116 106	1.05
19.	Hotels and restaurant	789 496	0.71	748 789	0.70
20.	Healthcare	778 940	0.70	670 328	0.63

As at 31 December 2020, the total exposure of the Bank in the above sectors (excluding household customers) amounted to 34.38% of the credit portfolio (31 December 2019 – 36.97%).

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

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

**n/a* means that the Bank's exposure did not exceed 5% of the corporate portfolio, the industry was not limited.

Large exposures concentration risk

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

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

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

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

The Bank monitors large exposures that are subject to exposure limit i.e. exposures after taking into account the effect of the credit risk mitigation (in accordance with art. 401-403 CRR Regulation) and exemptions (art. 390 paragraph 6, Art. 400, Art. 493, paragraph 3 of CRR Regulation), which are equal or exceed 10% of the eligible capital. At the end of 2020 and at the end of 2019 there was no exposure in line with the above definition.

The Credit Committee of mBank Group is responsible for the supervision over risk concentration and large exposures at the level of mBank subsidiaries.

3.5. Market risk

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

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

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

3.5.1. Organisation of market risk management

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

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

3.5.2. Tools and measures

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

3.5.3. Risk measurement

mBank's positions are the main source of market risk for mBank Group.

Value at Risk

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

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

PLN 000's	2020				2019			
	mBank Group		mBank		mBank Group		mBank	
	31.12.2020	Mean	31.12.2020	Mean	31.12.2019	Mean	31.12.2019	Mean
VaR IR	11 332	9 169	11 091	9 365	4 294	3 840	3 778	3 759
VaR FX	2 333	1 478	2 196	1 390	767	957	728	961
VaR EQ	-	-	-	-	-	-	-	-
VaR CS	77 291	53 573	76 296	52 497	21 908	21 927	20 989	21 241
VaR	**66 246**	**47 259**	**66 191**	**46 512**	**22 494**	**21 999**	**21 978**	**21 344**
Stressed VaR	**154 612**	**134 063**	**152 842**	**130 963**	**97 073**	**108 369**	**94 229**	**104 269**

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

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

The value at risk (VaR) was largely influenced by the portfolios of instruments sensitive to interest rates and the credit spread - mainly the portfolios of Treasury debt securities (in the banking and trading book) and positions resulting from interest rate exchange transactions.

Sensitivity measures

The table presents the values of IR BPV and CS BPV (+1 b.p.) measures for the Group's and mBank's portfolios, broken down into the banking and trading book.

mln zł	IR BPV				CS BPV			
	mBank Group		mBank		mBank Group		mBank	
	31.12.2020	31.12.2019	31.12.2020	31.12.2019	31.12.2020	31.12.2019	31.12.2020	31.12.2019
Banking book	(1 197)	257	(1 195)	263	(13 934)	(8 302)	(13 739)	(8 075)
Trading book	(2)	56	(2)	56	(205)	(504)	(205)	(504)
Total	**(1 199)**	**313**	**(1 197)**	**319**	**(14 139)**	**(8 806)**	**(13 944)**	**(8 579)**

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

Economic capital for market risk

The Bank calculates economic capital to cover market risk with taking into account the modelling of stable parts of capital and current accounts, insensitive to changes in interest rates.

As of the end of 2020 the economic capital for market risk for the mBank Group was PLN 1 266.4 million and for mBank was PLN 1 202.8 million. For comparison, at the end of 2019, values of this measure amounted to PLN 1 162.8 million and PLN 1 134.8 million, respectively. The amount of economic capital for market risk in 2020 was determined mainly by an increase in volatility of interest rates due to market turmoil after the pandemic, an increase in the volume and duration of the portfolio of treasury bonds with a fixed rate, as well as changes in the economic capital calculation method for market risk. The changes consisted in the inclusion of items resulting from the modelling of stable parts of capital and current accounts, insensitive to changes in interest rates.

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3.6. Currency risk

The Group is exposed to changes in currency exchange rates due to its financial assets and liabilities other than PLN. The following tables present the exposure of the Group to currency risk as at 31 December 2020 and 31 December 2019. They present carrying amount of assets and liabilities of the Group broken down by currency.

31.12.2020	PLN	EUR	USD	CHF	CZK	Other	Total
ASSETS							
Cash and cash balances with central banks	3 428 994	291 572	53 085	3 244	178 384	13 412	3 968 691
Financial assets held for trading and hedging derivatives	1 887 804	565 596	67 746	57 654	3 718	4 203	2 586 721
Non-trading financial assets mandatorily at fair value through profit or loss, including:	1 540 163	149 691	94 837	-	-	-	1 784 691
Equity instruments	*198 715*	*3 589*	-	-	-	-	*202 304*
Debt securities	-	-	*76 068*	-	-	-	*76 068*
Loans and advances to customers	*1 341 448*	*146 102*	*18 769*	-	-	-	*1 506 319*
Financial assets at fair value through other comprehensive income	34 720 158	462 708	114 762	-	200 433	-	35 498 061
Financial assets at amortised cost, including:	87 374 611	17 550 391	999 457	13 930 304	11 461 886	127 930	131 444 579
Debt securities	*15 952 501*	-	-	-	-	-	*15 952 501*
Loans and advances to banks	*244 491*	*604 971*	*151 508*	*1 455*	*6 311 745*	*40 098*	*7 354 268*
Loans and advances to customers	*71 177 619*	*16 945 420*	*847 949*	*13 928 849*	*5 150 141*	*87 832*	*108 137 810*
Intangible assets	1 178 538	25	-	-	135	-	1 178 698
Tangible assets	1 483 763	6 183	-	-	24 631	-	1 514 577
Current income tax assets	1 131	-	-	-	22 826	-	23 957
Deferred income tax assets	851 308	-	-	-	2 572	-	853 880
Other assets	1 024 049	171 826	4 837	345	63 229	18 153	1 282 439
TOTAL ASSETS	**133 490 519**	**19 197 992**	**1 334 724**	**13 991 547**	**11 957 814**	**163 698**	**180 136 294**
LIABILITIES							
Financial liabilities held for trading and hedging derivatives	856 806	442 381	35 062	-	-	4 315	1 338 564
Financial liabilities measured at amortised cost, including:	107 859 995	27 447 847	4 882 012	6 178 648	9 614 564	689 986	156 673 052
Amounts due to banks	*1 095 748*	*623 569*	*40 631*	*639 714*	-	*78*	*2 399 740*
Amounts due to customers	*101 858 798*	*18 401 715*	*4 841 381*	*2 292 302*	*9 614 564*	*689 908*	*137 698 668*
Debt securities issued	*3 393 727*	*8 422 563*	-	*2 180 027*	-	-	*13 996 317*
Subordinated liabilities	*1 511 722*	-	-	*1 066 605*	-	-	*2 578 327*
Fair value changes of the hedged items in portfolio hedge of interest rate risk	48 638	-	-	-	10 986	-	59 624
Provisions	1 718 915	43 365	1 972	883	1 152	81	1 766 368
Current income tax liabilities	199 852	-	-	-	25 944	-	225 796
Deferred income tax liabilities	601	89	-	-	-	-	690
Other liabilities	2 729 771	278 920	294 428	3 524	75 882	14 608	3 397 133
TOTAL LIABILITIES	**113 414 578**	**28 212 602**	**5 213 474**	**6 183 055**	**9 728 528**	**708 990**	**163 461 227**
Net on-balance sheet position	**20 075 941**	**(9 014 610)**	**(3 878 750)**	**7 808 492**	**2 229 286**	**(545 292)**	**16 675 067**
Loan commitments and other commitments	28 850 017	2 311 299	255 644	2	592 029	24	32 009 015
Guarantees, banker's acceptances, documentary and commercial letters of credit	5 570 407	1 378 319	468 673	20	1 893	41 579	7 460 891

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31.12.2019	PLN	EUR	USD	CHF	CZK	Other	Total
ASSETS							
Cash and cash balances with central banks	6 830 666	826 679	34 340	6 883	184 482	13 960	7 897 010
Financial assets held for trading and hedging derivatives	2 643 346	164 803	53 957	3 926	2	-	2 866 034
Non-trading financial assets mandatorily at fair value through profit or loss, including:	1 984 096	150 052	133 774	-	-	-	2 267 922
Equity instruments	*161 577*	*1 039*	-	-	-	-	*162 616*
Debt securities	-	-	*133 774*	-	-	-	*133 774*
Loans and advances to customers	*1 822 519*	*149 013*	-	-	-	-	*1 971 532*
Financial assets at fair value through other comprehensive income	21 893 509	549 880	76 748	-	253 784	-	22 773 921
Financial assets at amortised cost, including:	80 080 299	16 139 899	1 127 263	13 945 654	7 352 302	134 468	118 779 885
Debt securities	*11 234 873*	-	-	-	-	-	*11 234 873*
Loans and advances to banks	*239 794*	*498 310*	*91 344*	*1 019*	*3 485 083*	*26 208*	*4 341 758*
Loans and advances to customers	*68 605 632*	*15 641 589*	*1 035 919*	*13 944 635*	*3 867 219*	*108 260*	*103 203 254*
Non-current assets and disposal groups classified as held for sale	10 651	-	-	-	-	-	10 651
Intangible assets	955 188	38	-	-	214	-	955 440
Tangible assets	1 223 158	7 828	-	-	31 411	-	1 262 397
Current income tax assets	784	-	-	-	11 878	-	12 662
Deferred income tax assets	935 335	-	-	-	2 377	-	937 712
Other assets	817 799	22 445	90 855	-	25 850	-	956 949
TOTAL ASSETS	**117 374 831**	**17 861 624**	**1 516 937**	**13 956 463**	**7 862 300**	**148 428**	**158 720 583**
LIABILITIES							
Financial liabilities held for trading and hedging derivatives	736 540	163 102	40 685	-	8 437	-	948 764
Financial liabilities measured at amortised cost, including:	93 572 790	27 665 133	3 655 467	4 971 109	7 394 510	504 360	137 763 369
Amounts due to banks	*439 154*	*513 210*	*214 463*	-	-	*44*	*1 166 871*
Amounts due to customers	*86 862 884*	*16 460 938*	*3 441 004*	*1 997 486*	*7 394 510*	*504 316*	*116 661 138*
Debt securities issued	*4 751 306*	*10 690 985*	-	*1 992 852*	-	-	*17 435 143*
Subordinated liabilities	*1 519 446*	-	-	*980 771*	-	-	*2 500 217*
Fair value changes of the hedged items in portfolio hedge of interest rate risk	-	-	-	-	136	-	136
Liabilities included in disposal groups classified as held for sale	1 315	-	-	-	-	-	1 315
Provisions	698 444	37 215	1 451	1 435	701	50	739 296
Current income tax liabilities	135 549	-	-	-	25 985	-	161 534
Deferred income tax liabilities	-	82	-	-	-	-	82
Other liabilities	2 504 654	165 482	144 432	4 436	107 598	26 180	2 952 782
TOTAL LIABILITIES	**97 649 292**	**28 031 014**	**3 842 035**	**4 976 980**	**7 537 367**	**530 590**	**142 567 278**
Net on-balance sheet position	**19 725 539**	**(10 169 390)**	**(2 325 098)**	**8 979 483**	**324 933**	**(382 162)**	**16 153 305**
Loan commitments and other commitments	26 264 641	2 026 955	331 737	2	510 904	696	29 134 935
Guarantees, banker's acceptances, documentary and commercial letters of credit	6 528 126	1 405 314	955 210	-	1 667	48 110	8 938 427

3.7. Interest rate risk

mBank S.A.

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

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

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

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

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

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

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

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

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

In the case of calculated sensitivity measures of net interest income and economic value of capital, the Bank takes into account the risk of partial or total repayment of the loan before its maturity. The prepayment algorithm used is based on the historical average and its result is the annual prepayment rate by major currencies (PLN, CHF, EUR, CZK) and the portfolio of retail and corporate clients. As at 31 December 2020, the percentage annual prepayments estimated for the purposes of the above-mentioned risk measures were as follows: retail clients (8,7%), corporate clients (18%).

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

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

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

mBank Hipoteczny S.A.

Repricing date mismatch gap and interest earnings at risk (EaR) based on the former are the key interest rate risk measures at mBank Hipoteczny S.A.

A sudden, lasting and disadvantageous change of market interest rates by 100 basis points for all maturities would result in decrease in the annual interest income by the following amounts:

EaR (PLN 000's)	31.12.2019	31.12.2019
for position in PLN	8 965	8 002
for position in USD	42	20
for position in EUR	546	510

To calculate these values, there was assumed that the structure of financial assets and liabilities disclosed in the financial statements as at 31 December 2020 and 31 December 2019 would be fixed and the Bank would not take any measures to change related exposure to interest rate change risk.

mLeasing Sp. z o.o.

Market risk means a potential loss caused by disadvantageous changes of market prices or parameters affected by market prices. The Company is exposed to risk arising from open currency positions and non-adjustment of products charged with the interest rate risk within the scope of maturity and/or revaluation periods.

The Company applies a global measure to measure the value of bank portfolio exposed to currency and interest rate risk, namely VaR (Value at Risk).

The sum of VaR of interest rate and VaR of exchange rate constitutes the global VaR of the Company. VaR of the interest rate risk presents the impact of interest rate changes on the value of the Company's portfolio. VaR of exchange rate risk presents the impact of changes of exchange rates on estimation of items of balance-sheet assets and liabilities until the date of their revaluation (change of interest).

Pursuant to the decision of the Risk Committee of mBank SA concerning the rules of monitoring the level of market risk in subsidiaries belonging to the mBank Group, mBank provides indicated values of risk measures for the portfolio of mLeasing.

The amount of VaR (97.5% confidence level, holding period 1 day) cannot exceed the basic VaR limit for mLeasing applied by mBank SA in a given period (PLN 0,6 milion at the end of 2020).

The table below presents VaR values as at 31 December 2020 and 31 December 2019, calculated using the parameters specified above.

PLN 000's	VaR	
	31.12.2020	31.12.2019
Interest rate risk	35	70
Currency risk	62	4
Total VaR	**97**	**74**

mBank S.A. Group interest rate risk

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

31.12.2020	Up to 1 month	1-3 months	3-12 months	1-5 years	More than 5 years	Non-interest bearing	Total
ASSETS							
Cash and balances with the Central Bank	884 294	-	-	-	-	3 084 397	**3 968 691**
Loans and advances to banks	5 121 783	2 136 070	17 884	65 060	-	13 471	**7 354 268**
Debt and equity securities and investments in subsidiaries	5 151 328	3 326 139	18 933 622	17 957 839	6 758 100	278 372	**52 405 400**
Loans and advances to customers	66 082 432	35 480 954	2 469 520	5 193 314	298 243	307 568	**109 832 031**
Other assets and derivative financial instruments	212 012	294 609	182 098	311 488	28 646	1 975 939	**3 004 792**
Total assets	**77 451 849**	**41 237 772**	**21 603 124**	**23 527 701**	**7 084 989**	**5 659 747**	**176 565 182**
LIABILITIES							
Amounts due to banks	2 394 630	-	-	500	-	4 610	**2 399 740**
Amounts due to customers	126 485 490	4 963 540	3 521 335	1 095 358	592 676	1 040 269	**137 698 668**
Debt securities issued	760 634	2 980 219	2 393 265	7 401 261	460 938	-	**13 996 317**
Subordinated liabilities	758 184	1 066 605	753 538	-	-	-	**2 578 327**
Other liabilities and derivative financial instruments	305 941	172 186	107 097	198 722	23 891	3 927 860	**4 735 697**
Total liabilities	**130 704 879**	**9 182 550**	**6 775 235**	**8 695 841**	**1 077 505**	**4 972 739**	**161 408 749**
Total interest repricing gap	**(53 253 030)**	**32 055 222**	**14 827 889**	**14 831 860**	**6 007 484**		

31.12.2019	Up to 1 month	1-3 months	3-12 months	1-5 years	More than 5 years	Non-interest bearing	Total
ASSETS							
Cash and balances with the Central Bank	3 773 915	-	-	-	-	4 123 095	**7 897 010**
Loans and advances to banks	4 080 164	253	74 699	-	-	186 642	**4 341 758**
Debt and equity securities and investments in subsidiaries	8 338 555	1 547 699	7 552 578	17 646 331	657 201	296 389	**36 038 753**
Loans and advances to customers	65 919 348	33 600 772	2 540 545	2 844 928	193 622	248 260	**105 347 475**
Other assets and derivative financial instruments	167 091	133 930	169 852	257 799	24 000	1 164 053	**1 916 725**
Total assets	**82 279 073**	**35 282 654**	**10 337 674**	**20 749 058**	**874 823**	**6 018 439**	**155 541 721**
LIABILITIES							
Amounts due to banks	966 951	189 901	-	-	-	10 019	**1 166 871**
Amounts due to customers	99 748 135	9 296 587	4 256 380	2 616 421	2 071	741 544	**116 661 138**
Debt securities issued	1 071 199	4 050 378	2 877 871	6 406 116	3 029 579	-	**17 435 143**
Subordinated liabilities	763 355	980 771	756 091	-	-	-	**2 500 217**
Other liabilities and derivative financial instruments	376 119	121 995	197 518	186 144	19 807	2 999 964	**3 901 547**
Total liabilities	**102 925 759**	**14 639 632**	**8 087 860**	**9 208 681**	**3 051 457**	**3 751 527**	**141 664 916**
Total interest repricing gap	**(20 646 686)**	**20 643 022**	**2 249 814**	**11 540 377**	**(2 176 634)**		

3.8. Liquidity risk

Sources of liquidity risk

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

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

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

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

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

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

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

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

Organization of risk management

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

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

mBank S.A.

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

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

The internal liquidity adequacy assessment process (ILAAP)

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

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

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

Tools and measures used in measuring liquidity risk

As part of liquidity risk management, a range of risk measures is being analysed, out of which the mismatch gap is the basic. It includes all assets, liabilities and off-balance sheet items of the Bank for all currencies in the time horizons set by the Bank. In 2020, the Bank maintained a liquidity surplus level adequate to its operating activity and current market situation in the form of a portfolio of liquid treasury bonds and bills, for which there is a possibility of pledging or selling at any time without significant loss of value.

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

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

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

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

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

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

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

Values of these reserves amounted to:

Value of Liquidity Reserves (in PLN million)	
31.12.2020	31.12.2019
51 088	32 750

In the Group the Liquidity Reserves are held also by mBank Hipoteczny. Liquidity Reserves of mBank Hipoteczny were composed of the Polish Government debt securities in PLN and bills issued by the National Bank of Poland in PLN and amounted to:

Value of Liquidity Reserves (in PLN million)	
31.12.2020	31.12.2019
785	1 010

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

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

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

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

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

The measurement, limiting and reporting the liquidity risk

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

Daily reporting covers:

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

Monthly reporting covers:

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

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

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

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

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

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

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

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

In 2020 and 2019 the Bank's liquidity remained at a safe level which was reflected in surplus of liquid assets over short-term liabilities according to LAB in various scenarios and supervisory liquidity measures.

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

	31.12.2020	31.12.2019
LAB Base Case 1M	27 574	14 683
LAB Base Case 1Y	27 586	12 849
M3	4.11	4.30
M4	1.52	1.38
LCR	218%	169%

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

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

Funding sources

The strategic assumptions concerning the diversification of funding sources and profitable structure of the balance sheet are reflected in the financial plan of the mBank Group defined by selected measures, e.g. L/D ratio (Loans to Deposits). The Bank measures a specific relation of loans to deposits in order to maintain a stable structure of its balance sheet. From the end of 2019 to the end of 2020 the L/D ratio slightly changed from 76.4% to 71.3% for the Bank and from 90.3% to 79.8% for the Group. The Bank aims at building a stable deposit base by offering to clients deposit and investment products, regular and specific-purpose savings offerings. Funds acquired from the Bank's clients constitute the major funding source for the business activity along with the portfolio of long-term loans from banks and issuances of debt securities (with maturities over 1 year) (Note 28). The loans and issuances together with subordinated loans (Note 28) are the core funding source for the portfolio of mortgage loans in CHF. According to the suspension of granting new mortgage loans in CHF, Bank's receivables in this currency have been decreasing successively along with loans repayments.

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

In the Group except mBank, access to external funding have only mBank Hipoteczny via issuance of mortgage covered bonds and short-term debt securities and mLeasing via short-term debt securities.

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

mBank S.A. Group

Liquidity risk in the mBank Group is generated mainly by mBank's items. Nevertheless, liquidity risk level in the mBank Group subsidiaries, where liquidity risk was deemed significant, is also subject to monitoring. In the subsidiaries generating the greatest liquidity risk (mHipoteczny and mLeasing) the Bank monitors the level of liquidity risk on a daily basis. The data provided by these companies allow for reporting contractual cash-flow mismatch as well as calculation of a realistic cash-flows mismatch based on LAB model and modelling assumptions for selected products according to risk profiles, funding possibilities and products specificity of the subsidiary.

The levels of realistic, cumulative cash-flow mismatch in the mBank Group is presented in the following table:

Value of realistic, bucket and cumulative gap of cash flows mismatch (in PLN million)				
Time range	gap LAB Base Case - 31.12.2020		gap LAB Base Case - 31.12.2019	
	bucket	cumulative	bucket	cumulative
up to 1 working day	24 870	24 870	20 626	20 626
up to 3 working days	3 051	27 921	(1 189)	19 437
up to 7 calendar days	(171)	27 750	0	19 437
up to 15 calendar days	423	28 173	(498)	18 939
up to 1 month	1 509	29 682	(2 403)	16 536
up to 2 months	3 231	32 913	2 224	18 760
up to 3 months	(257)	32 656	83	18 843
up to 4 months	324	32 980	(98)	18 745
up to 5 months	324	33 304	(578)	18 167
up to 6 months	(36)	33 268	(128)	18 039
up to 7 months	(296)	32 972	(405)	17 634
up to 8 months	430	33 402	(162)	17 472
up to 9 months	15	33 417	(2 682)	14 790
up to 10 months	(419)	32 998	(394)	14 396
up to 11 months	(349)	32 649	(2)	14 394
up to 12 months	(2 481)	30 168	531	14 925

LAB gaps mismatch in terms up to 1 month and up to 1 year within 2020 and 2019 and supervisory liquidity measure LCR on Group level are presented in the following table:

	31.12.2020	31.12.2019
LAB Base Case 1M	29 682	16 536
LAB Base Case 1Y	30 168	14 925
LCR Grupa	218%	190%

**LAB measures are shown in PLN million; LCR is relative measure presented as a decimal.*

For other subsidiaries, due to lower total assets and simpler amounts products, the process of monitoring has been worked out based on two criteria: the size of the balance sheet and, if the subsidiary is covered by LCR measure for the Group in accordance with Commission Delegated Regulation (EU) No 2015/61 of 10 October 2014, amended by Commission Delegated Regulation (EU) 2018/1620 of 13 July 2018, which has been in force since 30 April 2020, its share in total outflows. In case of exceedance of imposed thresholds, the decision is made on the possible inclusion of the subsidiary into the liquidity risk management system.

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

The table below shows cash flows the Group is required to settle, resulting from financial liabilities. The cash flows have been presented as at the year-end date, categorised by the remaining contractual maturities. The amounts disclosed in maturity dates analysis are undiscounted contractual cash flows.

31.12.2020	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Liabilities (by contractual maturity dates)						
Amounts due to banks	2 485 433	-	-	-	-	**2 485 433**
Amounts due to customers	127 292 074	4 314 289	2 562 057	3 009 682	574 918	**137 753 020**
Debt securities issued	158 718	560 170	2 675 027	10 327 020	552 268	**14 273 203**
Subordinated liabilities	21 433	5 274	40 540	960 314	1 919 682	**2 947 243**
Other liabilities	2 275 061	6 366	467 669	372	-	**2 749 468**
Total liabilities	**132 232 719**	**4 886 099**	**5 745 293**	**14 297 388**	**3 046 868**	**160 208 367**
Assets (by remaining contractual maturity dates)						
Total assets	**19 899 378**	**9 596 438**	**31 946 087**	**72 435 917**	**62 520 892**	**196 398 712**
Net liquidity gap	**(112 333 341)**	**4 710 339**	**26 200 794**	**58 138 529**	**59 474 024**	**36 190 345**

31.12.2019	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Liabilities (by contractual maturity dates)						
Amounts due to banks	1 045 928	1 301	3 932	192 315	-	**1 243 476**
Amounts due to customers	100 159 708	8 758 198	4 643 196	1 857 214	1 684 193	**117 102 509**
Debt securities issued	199 186	600 907	3 527 303	10 852 325	3 152 488	**18 332 209**
Subordinated liabilities	34 828	5 068	57 163	307 123	2 684 908	**3 089 090**
Other liabilities	1 605 558	1 763	487 420	-	-	**2 094 741**
Total liabilities	**103 045 208**	**9 367 237**	**8 719 014**	**13 208 977**	**7 521 589**	**141 862 025**
Assets (by remaining contractual maturity dates)		-	-	-	-	-
Total assets	**21 707 301**	**9 576 282**	**24 333 627**	**71 286 197**	**53 415 447**	**180 318 854**
Net liquidity gap	**(81 337 907)**	**209 045**	**15 614 613**	**58 077 220**	**45 893 858**	**38 456 829**

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

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

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

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

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3.8.2. Cash flows from derivatives

Derivative financial instruments settled in net amounts

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

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

Financial instruments for commodities are concluded back-to-back in the Group.

The table below shows derivative financial liabilities of the Group, which valuation of which was negative as of end of 2020 and 2019. Cash flows from these instruments are grouped by appropriate remaining maturities as at the balance sheet date and are presented in undiscounted values.

31.12.2020	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Forward Rate Agreements (FRA)	1 590	1 861	214	-	-	**3 665**
Interest Rate Swaps (IRS)	206 259	364 833	1 157 918	2 789 718	163 903	**4 682 631**
Cross Currency Interest Rate Swaps (CIRS)	(923)	(5 713)	13 899	34 479	(364)	**41 378**
Options	(770)	1 754	(7 340)	(8 841)	13	**(15 184)**
Other	2 789	10 093	18 387	661	-	**31 930**
Total derivatives settled on a net basis	**208 945**	**372 828**	**1 183 078**	**2 816 017**	**163 552**	**4 744 420**

31.12.2019	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Forward Rate Agreements (FRA)	597	338	242	27	-	**1 204**
Interest Rate Swaps (IRS)	43 637	189 639	337 406	1 409 739	159 838	**2 140 259**
Cross Currency Interest Rate Swaps (CIRS)	(1 213)	(7 053)	(17 266)	12 699	1 415	**(11 418)**
Options	2 863	8 875	21 751	8 177	3	**41 669**
Other	2 309	87 475	171 391	184 307	-	**445 482**
Total derivatives settled on a net basis	**48 193**	**279 274**	**513 524**	**1 614 949**	**161 256**	**2 617 196**

Derivative financial instruments settled in gross amounts

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

The table below shows derivative financial liabilities/assets of the Group, which will be settled on a gross basis, grouped by appropriate remaining maturities as at the Balance Sheet date.

31.12.2020	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Currency derivatives:						
- outflows	23 279 825	9 595 591	7 344 248	5 539 648	-	**45 759 312**
- inflows	23 395 800	9 539 093	7 334 084	5 572 635	-	**45 841 612**

31.12.2019	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Currency derivatives:						
- outflows	13 637 448	4 902 487	5 672 219	3 916 331	1 304 587	**29 433 072**
- inflows	13 620 463	4 886 803	5 636 831	3 714 444	1 280 639	**29 139 180**

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

The amounts presented in the table above are nominal cash flows of currency derivatives, which have not been settled, while the Note 20 shows nominal values of all open derivative transactions.

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

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3.9. Operational risk

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

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

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

Operational risk control and management consists of a set of activities aimed at identifying, monitoring, measurement, assessment, reporting as well as reduction, avoidance, transfer or acceptance of operational risk, the Bank is exposed to in particular areas of its operations. It is based on quantitative and qualitative methods and tools for operational risk control. The tools applied by the Bank strive for cause-oriented operational risk management and focus on bottom-up approach to identify risk.

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

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

Operational losses

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

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

The following table presents the distribution of actual gross losses by operational risk category, incurred by the mBank Group in 2020:

Operational risk category	Value of gross losses	
	2020	2019
Crimes committed by outsiders	14 343	45 753
Customers, products and business practices	1 068 549	408 992
Implementation, delivery and process management	9 760	3 346
Other	14 021	1 417
Total	1 106 673	459 508

The high share of losses in the 'Customers, products and business practices' category in 2020 resulted from the creation of legal risk provisions for CHF currency loans and provisions for liabilities related to the reimbursement of part of the commission charged for granting loans in connection with the judgment of the CJEU C-383/18 of 11 September 2019. The high share of losses in thise category in 2019 resulted from the creation of legal risk provisions for foreign currency loans.

More information on the above provisions is provided in Note 4 and in Note 30.

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

3.9.1 Compliance risk

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

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

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

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

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

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

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

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

All the Bank employees are responsible for the implementation of compliance risk management process in line with the scope of their duties as well as granted authorisations.

The Compliance Department is responsible for the coordination and supervision of the compliance risk management process.

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

3.10. Business risk

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

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

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

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

3.11. Model risk

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

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

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

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

3.12. Reputational risk

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

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

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

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

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

3.13. Capital risk

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

Capital risk management is performed, at an individual level, in mBank and, at a consolidated level, in mBank Group.

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

More information on capital adequacy of mBank Group is provided in Note 45.

FX loans portfolio risk

The FX loan portfolio risk is related to mortgage loans in foreign currencies, granted to unsecured borrowers until 2012. This risk may result in particular from the materialization of operational (legal), as well as credit and reputational risk in relation to the above-mentioned borrowers.

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

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

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

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

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

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

3.14. Tax risk

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

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

The bank manages tax risk by ensuring:

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

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

In line with IFRS9, for accounting purposes, the Group determines the valuation of its assets and liabilities through amortised cost or through fair value. In addition, for the positions that are valued through amortised cost, fair value is calculated, but only for disclosure purposes – according to IFRS7.

The approach to the method used for the loans that are fair valued in line of IFRS9 requirements, is described in the point 3.3.7

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

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

Financial Assets and Liabilities at amortised cost

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

	31.12.2020		31.12.2019	
	Carrying value	Fair value	Carrying value	Fair value
Financial assets at amortised cost				
Debt securities	**15 952 501**	**16 445 401**	**11 234 873**	**11 409 164**
Loans and advances to banks	**7 354 268**	**7 347 513**	**4 341 758**	**4 338 448**
Loans and advances to customers, including:	**108 137 810**	**108 959 227**	**103 203 254**	**103 538 180**
Loans and advances to individuals	**64 194 569**	**66 082 712**	**56 999 856**	**58 296 285**
Current accounts	6 807 188	6 948 249	6 828 579	7 011 607
Term loans	57 096 161	58 843 243	49 809 251	50 922 652
Other	291 220	291 220	362 026	362 026
Loans and advances to corporate entities	**43 713 672**	**42 641 296**	**45 819 083**	**44 854 574**
Current accounts	4 105 526	3 989 429	5 657 614	5 522 094
Term loans, including finance lease	37 016 811	36 060 532	37 301 706	36 472 717
Reverse repo or buy/sell back transactions	103 832	103 832	13 398	13 398
Other loans and advances	2 471 122	2 471 122	2 596 454	2 596 454
Other	16 381	16 381	249 911	249 911
Loans and advances to public sector	**229 569**	**235 219**	**384 315**	**387 321**
Financial liabilities at amortised cost				
Amounts due to other banks	**2 399 740**	**2 399 740**	**1 166 871**	**1 166 836**
Amounts due to customers	**137 698 668**	**137 726 122**	**116 661 138**	**116 661 251**
Debt securities issued	**13 996 317**	**14 172 566**	**17 435 143**	**17 711 082**
Subordinated liabilities	**2 578 327**	**2 552 098**	**2 500 217**	**2 519 770**

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

Loans and advances to banks and loans and advances to customers. The fair value for loans and advances to banks and loans and advances to customers is disclosed as the estimated value of future cash flows using current interest rates including appropriate credit spreads and is based on the expected maturity of the respective loan agreements. The level of credit spread was determined based on market quotation of median credit spreads for Moody's rating grade. Attribution of a credit spread to a given credit exposure is based on a mapping between Moody's rating grade and internal rating grades of the Group. To reflect the fact that the majority of the Group's exposures is collateralised whereas the median of market quotation is centred around unsecured issues, the Group applied appropriate adjustments.

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Financial liabilities. Financial instruments representing liabilities for the Group include the following:

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

The fair value for these financial liabilities with more than 1 year to maturity is based on discounted cash flows by the use of discounting factor including an estimation of a spread reflecting the credit spread for mBank and the liquidity margin. For the loans received from European Investment Bank in EUR and in CHF the Group used the EBI yield curve. With regard to the own issue as part of the EMTN programme the market price of the relevant financial services has been used.

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

In case of covered bonds and other debt securities issued by mBank Hipoteczny, for the purpose of the disclosures swap curves and forecasted initial spreads for certain issues are used.

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

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

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

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

31.12.2020	Including:	Level 1	Level 2	Level 3
		Quoted prices in active markets	Valuation techniques based on observable market data	Other valuation techniques
VALUATION ONLY FOR PURPOSES OF DISCLOSURE				
FINANCIAL ASSETS				
Debt securities	16 445 401	13 395 856	-	3 049 545
Loans and advances to banks	7 347 513	-	-	7 347 513
Loans and advances to customers	108 959 227	-	-	108 959 227
FINANCIAL LIABILITIES				
Amounts due to banks	2 399 740	-	-	2 399 740
Amounts due to customers	137 726 122	-	4 296 271	133 429 851
Debt securities issued	14 172 566	6 369 433	-	7 803 133
Subordinated liabilities	2 552 098	-	2 552 098	-
Total financial assets	**132 752 141**	**13 395 856**	**-**	**119 356 285**
Total financial liabilities	**156 850 526**	**6 369 433**	**6 848 369**	**143 632 724**

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31.12.2019	Including:	Level 1 Quoted prices in active markets	Level 2 Valuation techniques based on observable market data	Level 3 Other valuation techniques
VALUATION ONLY FOR PURPOSES OF DISCLOSURE				
FINANCIAL ASSETS				
Debt securities	11 409 164	11 409 164	-	-
Loans and advances to banks	4 338 448	-	-	4 338 448
Loans and advances to customers	103 538 180	-	-	103 538 180
FINANCIAL LIABILITIES				
Amounts due to banks	1 166 836	-	189 885	976 951
Amounts due to customers	116 661 251	-	7 158 593	109 502 658
Debt securities issued	17 711 082	8 461 410	-	9 249 672
Subordinated liabilities	2 519 770	-	2 519 770	-
Total financial assets	**119 285 792**	**11 409 164**	**-**	**107 876 628**
Total financial liabilities	**138 058 939**	**8 461 410**	**9 868 248**	**119 729 281**

Level 1

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

Level 1 of financial liabilities includes the fair value of bonds issued by the Bank and its subsidiary, mFinance France, acquired by the Bank in the substitution process in 2020 (Note 28). For the purpose of disclosures the Group applied market price of the issued debt securities.

Level 2

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

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

Level 3

Level 3 includes:

(i) the fair value of loans and advances to banks and loans and advances to customers, which is disclosed, as described earlier, based on quotation of median credit spreads for Moody's ratings;

(ii) the fair value of the mortgage bonds and other debt securities issued by mBank Hipoteczny. For the valuation the Group has applied the technique of estimation of interest flow using swap curve and discounting with the rate amended by credit spread which is obtainable in case of issue depending on currency and maturity of financial instrument;

(iii) liabilities due to banks and to customers with maturity up to one year, for which the Group assumed that their fair value is equal to the carrying value;

(iv) the fair value of liabilities due to banks and to customers with maturity exceeding one year, for which were used valuation methods using at least one significant input data not based on observable market data.

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Financial Assets and Liabilities at fair value

The following table presents the hierarchy of fair values of financial assets and liabilities recognised in the statement of financial position of the Group at their fair values.

31.12.2020	Including:	Level 1	Level 2	Level 3
		Quoted prices in active markets	Valuation techniques based on observable market data	Other valuation techniques
RECURRING FAIR VALUE MEASUREMENTS				
Financial assets				
Financial assets held for trading and hedging derivatives	**2 586 721**	**366 517**	**1 601 324**	**618 880**
Loans and advances to custumers	187 902	-	-	187 902
Debt securities	676 466	366 517	-	309 949
Derivative financial instruments, including:	1 722 353	-	1 601 324	121 029
Derivative financial instruments held for trading	1 765 395	-	1 765 395	-
Hedging derivative financial instruments	1 079 403	-	958 374	121 029
Offsetting effect	(1 122 445)	-	(1 122 445)	-
Non-trading financial assets mandatorily at fair value through profit or loss	**1 784 691**	**960**	**-**	**1 783 731**
Loans and advances to custumers	1 506 319	-	-	1 506 319
Debt securities	76 068	-	-	76 068
Equity securities	202 304	960	-	201 344
Financial assets at fair value through other comprehensive income	**35 498 061**	**34 322 714**	**184 996**	**990 351**
Debt securities	35 498 061	34 322 714	184 996	990 351
Total financial assets	**39 869 473**	**34 690 191**	**1 786 320**	**3 392 962**
Financial liabilities				
Derivative financial instruments, including:	1 338 564	-	1 338 564	-
Derivative financial instruments held for trading	1 602 305	-	1 602 305	-
Hedging derivative financial instruments	7 706	-	7 706	-
Offsetting effect	(271 447)	-	(271 447)	-
Total financial liabilities	**1 338 564**	**-**	**1 338 564**	**-**

Assets and Liabilities Measured at Fair Value Based on Level 3 - changes from 1 January to 31 December 2020	Debt trading securities	Derivative financial instruments	Non-trading debt securities mandatorily at fair value through profit or loss	Non-trading equity securities mandatorily at fair value through profit or loss	Debt securities at fair value through other comprehensive income
As at the beginning of the period	**403 028**	**(7 524)**	**133 774**	**161 791**	**1 032 369**
Gains and losses for the period:	**20 578**	**128 553**	**12 632**	**46 612**	**10 868**
Recognised in profit or loss:	20 578	108 234	12 632	46 612	-
Net trading income	*20 578*	*108 234*	*1 922*	*91*	-
Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss	-	-	*10 710*	*48 657*	-
Gains or losses on subsidiaries and associates	-	-	-	*(2 136)*	-
Recognised in other comprehensive income:	-	20 319	-	-	10 868
Financial assets at fair value through other comprehensive income	-	-	-	-	*10 868*
Cash flow hedges	-	*20 319*	-	-	-
Purchases	1 516 096	-	-	1 648	676 697
Redemptions	(164 337)	-	-	-	(385 844)
Sales	(7 680 403)	-	-	(8 707)	(4 624 885)
Issues	6 214 987	-	-	-	4 281 146
Conversion	-	-	(70 338)	-	-
As at the end of the period	**309 949**	**121 029**	**76 068**	**201 344**	**990 351**

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31.12.2019	Including:	Level 1 Quoted prices in active markets	Level 2 Valuation techniques based on observable market data	Level 3 Other valuation techniques
RECURRING FAIR VALUE MEASUREMENTS				
Financial assets				
Financial assets held for trading and hedging derivatives	**2 866 034**	**1 330 541**	**959 776**	**575 717**
Loans and advances to custumers	172 689	-	-	172 689
Debt securities	1 733 569	1 330 541	-	403 028
Derivative financial instruments, including:	959 776	-	959 776	-
Derivative financial instruments held for trading	1 016 808	-	1 016 808	-
Hedging derivative financial instruments	504 219	-	504 219	-
Offsetting effect	(561 251)	-	(561 251)	-
Non-trading financial assets mandatorily at fair value through profit or loss	**2 267 922**	**825**	**-**	**2 267 097**
Loans and advances to custumers	1 971 532	-	-	1 971 532
Debt securities	133 774	-	-	133 774
Equity securities	162 616	825	-	161 791
Financial assets at fair value through other comprehensive income	**22 773 921**	**18 521 925**	**3 219 627**	**1 032 369**
Debt securities	22 773 921	18 521 925	3 219 627	1 032 369
Total financial assets	**27 907 877**	**19 853 291**	**4 179 403**	**3 875 183**
Financial liabilities				
Derivative financial instruments, including:	948 764	-	941 240	7 524
Derivative financial instruments held for trading	1 061 547	-	1 061 547	-
Hedging derivative financial instruments	19 411	-	11 887	7 524
Offsetting effect	(132 194)	-	(132 194)	-
Total financial liabilities	**948 764**	**-**	**941 240**	**7 524**

Assets Measured at Fair Value Based on Level 3 - changes from 1 January to 31 December 2019	Debt trading securities	Derivative financial instruments	Non-trading debt securities mandatorily at fair value through profit or loss	Non-trading equity securities mandatorily at fair value through profit or loss	Debt securities at fair value through other comprehensive income
As at the beginning of the period	**306 763**	**-**	**58 130**	**72 005**	**1 266 558**
Gains and losses for the period:	**429**	**(7 524)**	**75 644**	**75 041**	**(8 352)**
Recognised in profit or loss:	429	(3 810)	75 644	75 041	-
Net trading income	*429*	*(3 810)*	*320*	*(8)*	-
Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss	-	-	*75 324*	75 326	-
Gains or losses on subsidiaries and associates	-	-	-	*(277)*	-
Recognised in other comprehensive income:	-	(3 714)	-	-	(8 352)
Financial assets at fair value through other comprehensive income	-	-	-	-	*(8 352)*
Cash flow hedges	-	*(3 714)*	-	-	-
Purchases	1 330 096	-	-	11 055	1 098 460
Redemptions	(233 141)	-	-	-	(274 629)
Sales	(3 246 823)	-	-	(10 891)	(1 838 078)
Issues	2 245 704	-	-	14 581	788 410
As at the end of the period	**403 028**	**(7 524)**	**133 774**	**161 791**	**1 032 369**

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

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

Level 1

As at 31 December 2020, at level 1 of the fair value hierarchy, the Group has presented the fair value of held for trading government bonds in the amount of PLN 366 517 thousand (Note 20) and the fair value of government bonds at fair value through other comprehensive income in the amount of PLN 33 141 490 thousand (31 December 2019 respectively: PLN 1 330 541 thousand and PLN 17 537 697 thousand). Level 1 includes the fair value of corporate bonds in the amount of PLN 1 181 224 thousand (31 December 2019 – PLN 984 228 thousand).

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

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

Level 2

As at 31 December 2020 level 2 of the fair value hierarchy includes the fair values of bills issued by NBP in the amount of PLN 184 996 thousand (31 December 2019: PLN 3 219 627 thousand;), whose valuation is based on a NPV model (discounted future cash flows) fed with interest rate curves generated by transformation of quotations taken directly from active and liquid financial markets.

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

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

Level 3

As at 31 December 2020 level 3 of the hierarchy presents the fair values of commercial debt securities issued by local banks and companies (bonds and deposit certificates) in the amount of PLN 1 340 033 thousand (31 December 2019: PLN 1 532 889 thousand), including the fair value of a debt instrument measured at fair value through profit or loss, resulting from the reclassification of Visa Inc.'s preferred shares.

As at 31 December 2020 level 3 includes also the fair value of local government bonds in the amount of PLN 36 335 thousand (31 December 2019 - PLN 36 282 thousand).

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

Level 3 as at 31 December 2020 includes the value of loans and advances to customers in the amount of PLN 1 694 221 thousand (31 December 2019 - PLN 2 144 221 thousand).

The principles for fair value calculation for loans and advances to customers is described in Note 3.3.7.

Moreover, as at 31 December 2020 level 3 covers mainly the fair value of equity securities amounting to PLN 201 344 thousand (31 December 2019: PLN 161 791 thousand). The equity securities presented at level 3 are valuated using the market multiples method. The market multiples method, consists of valuating the equity of a company by using a relation between market values of equity or total capital invested in comparable companies and selected economic and financial figures.

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Level 3 also includes the valuation of CIRS contracts concluded under cash flow hedge accounting of the PLN mortgage loan portfolio and covered bonds issued by mBank Hipoteczny (Note 20). As at 31 December 2020, the valuation of these contracts was positive (assets) and amounted to PLN 121 029 thousand, while as at 31 December 2019 the valuation was negative (liabilities) and amounted to PLN 7 524 thousand.

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

Portfolio	Fair value 31.12.2020	Sensitivity to change of unobservable parameter		Description
		(-)	(+)	
Commercial debt securities measured at fair value through other comprehensive income	990 351	(24 557)	24 557	The unobservable parameter is the credit spread. Sensitivity was calculated assuming a change in the credit spread by 100 bp. As the value of the parameter increases, the Bank expects a loss (-), as it decreases, the Bank expects a profit (+).
Commercial debt securities measured at fair value through profit or loss	309 949	(6 653)	6 653	
Loans and advances to customers held for trading	187 902	(306)	285	The valuation model uses credit risk parameters (PD and LGD). Sensitivity was calculated assuming a change in PD and LGD by +/- 10%. As the value of the parameter increases, the Bank expects a loss (-),as it decreases, the Bank expects a profit (+).
Loans and advances to customers mandatorily at fair value through profit or loss	1 506 319	(25 873)	26 007	

Portfolio	Fair value 31.12.2019	Sensitivity to change of unobservable parameter		Description
		(-)	(+)	
Commercial debt securities measured at fair value through other comprehensive income	1 032 369	(25 793)	25 793	The unobservable parameter is the credit spread. Sensitivity was calculated assuming a change in the credit spread by 100 bp. As the value of the parameter increases, the Bank expects a loss (-), as it decreases, the Bank expects a profit (+).
Commercial debt securities measured at fair value through profit or loss	403 028	(10 451)	10 451	
Loans and advances to customers held for trading	172 689	(130)	137	The valuation model uses credit risk parameters (PD and LGD). Sensitivity was calculated assuming a change in PD and LGD by +/- 10%. As the value of the parameter increases, the Bank expects a loss (-),as it decreases, the Bank expects a profit (+).
Loans and advances to customers mandatorily at fair value through profit or loss	1 971 532	(29 063)	28 962	

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

The Group 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.

<u>Impairment of loans and advances</u>

The Group reviews its loan portfolio in terms of possible impairments at least once per quarter. In order to determine whether any impairment loss should be recognised in the income statement, the Group assesses whether any evidence exists that would indicate some measurable reduction of estimated future cash flow attached to the loan portfolio. The methodology and the assumptions (on the basis of which the estimated cash flow amounts and their anticipated timing are determined) are regularly verified. If the current value of estimated cash flows (discounted recoveries from payments of capital, discounted recoveries from interests, discounted recoveries from off-balance sheet liabilities and discounted recoveries from collaterals for on-balance and off-balance sheet loans and advances, weighed by the probability of realization of specific scenarios) for portfolio of loans and advances which are impaired, change by +/-10%, the estimated loans and advances impairment would either decrease by PLN 57.6 million or increase by PLN 64.2 million as at 31 December 2020, respectively (as at 31 December 2019: PLN 49.7 million and PLN 59.4 million, respectively). This estimation was performed for portfolio of loans and advances and for off-balance sheet liabilities individually assessed for impairment on the basis of future cash flows due to repayments and recovery from collateral – stage 3. The rules of determining write-downs and provisions for impairment of credit exposures have been described under Note 3.3.6 .

COVID-19 pandemic impact on the mBank Group activities

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

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

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

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

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

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

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

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

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

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

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

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

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

	31.12.2020	
	Number of obligors	Of which: granted
Moratoria	115 730	75 244
Government guarantees (BGK)	61	58

	31.12.2020				
	Gross carrying amount of moratoria	Of which: subject to expired moratoria	Of which: subject to active moratoria	Accumulated impairment, accumulated negative changes in fair value due to credit risk of active moratoria	Net carrying amount of active moratoria
Moratoria	**15 479 419**	**14 206 476**	**1 272 943**	**(68 750)**	**1 204 193**
- Individual customers	6 701 855	6 529 247	172 608	(5 750)	166 858
- Corporate customers	8 777 564	7 677 229	1 100 335	(63 000)	1 037 335
Government guarantees (BGK)	**515 234**	**-**	**515 234**	**(4 946)**	**510 288**
- Individual customers	-	-	-	**-**	-
- Corporate customers	515 234	-	515 234	(4 946)	510 288

Active assistance tools as at 31 December 2020, granted in the period from 13 March to 30 September 2020	Performing				
	Gross carrying amount	Of which: exposures with forbearance measures	Of which: grace period of capital and interest	Of which: instruments with significant increase in credit risk since initial recognition but not credit-impaired (Stage 2)	Accumulated impairment
Moratoria	**921 346**	**31 577**	**126 517**	**652 811**	**(28 396)**
- Individual customers	164 031	27 896	115 995	122 370	(3 606)
- Corporate customers	757 315	3 681	10 522	530 441	(24 790)
Government guarantees (BGK)	**515 234**	**-**	**-**	**217 253**	**(4 946)**
- Individual customers	-	-	-	-	-
- Corporate customers	515 234	-	-	217 253	(4 946)

Active assistance tools as at 31 December 2020, granted in the period from 13 March to 30 September 2020	Non-performing				
	Gross carrying amount	Of which: exposures with forbearance measures	Of which: unlikely to pay that are not past-due or past-due <= 90 days	Accumulated impairment	Gross carrying amount -inflows to non-performing exposures
Moratoria	**351 597**	**1 362**	**-**	**(40 354)**	**7 281**
- Individual customers	8 577	1 362	-	(2 144)	7 281
- Corporate customers	343 020	-	-	(38 210)	-
Government guarantees (BGK)	**-**	**-**	**-**	**-**	**-**
- Individual customers	-	-	-	-	-
- Corporate customers	-	-	-	-	-

The vast majority of clients who received support under repayment moratoria, corresponding to 94% of the total exposure covered by the moratoria, benefited only from the suspension of the principal repayments. Consequently the customers are still obeyed to make repayments but in a lower amount. The delay in the interest payments is subject to the standard days-past-due calculation. Overdue interest payment exceeding 30 days results in the reclassification of exposure to stage 2, and exceeding 90 days - to stage 3.

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

Expired assistance tools as at 31 December 2020, granted in the period from 13 March to 30 September 2020	Performing				
	Gross carrying amount	Of which: exposures with forbearance measures	Of which: instruments with significant increase in credit risk since initial recognition but not credit-impaired (Stage 2)	Accumulated impairment	Of which: instruments with significant increase in credit risk since initial recognition but not credit-impaired (Stage 2)
Moratoria	**13 956 747**	**2 131 937**	**5 377 347**	**(148 884)**	**(121 598)**
- Individual customers	6 459 859	793 091	3 226 604	(68 990)	(60 926)
- Corporate customers	7 496 888	1 338 846	2 150 743	(79 894)	(60 672)

Expired assistance tools as at 31 December 2020, granted in the period from 13 March to 30 September 2020	Non-performing				
	Gross carrying amount	Of which: exposures with forbearance measures	Of which: unlikely to pay that are not past-due or past-due <= 90 days	Accumulated impairment	Gross carrying amount - inflows to non-performing exposures
Moratoria	**249 729**	**64 428**	**64 267**	**(53 432)**	**46 934**
- Individual customers	69 388	4 616	4 498	(26 892)	42 506
- Corporate customers	180 341	59 812	59 769	(26 540)	4 428

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

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

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

The process of client and transaction risk monitoring takes into account the impact of the COVID-19 pandemic on the client's situation and the strength of the impact (i.e. temporary turbulence, long-term problem for the business model, etc.) as well as the plan to mitigate this impact implemented by the client. The Group conducts sector analysis of clients that have applied for moratorium. Among those clients, the largest balance sheet exposure as at 31 December 2020 is held by clients operating in the following sectors: accommodation and food service activities (34.9%), real estate activities (25.9%), transport and storage (21.2%) and construction (7.3%).

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

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

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

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

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

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

Due to the uncertainty related to the difficulties in observation of the timeliness of repayment of loans covered by moratoria, Group also decided in the third quarter of 2020 to reclassify, some of the exposures of retail clients covered by this form of support, selected on the basis of behavioral characteristics, to stage 2 despite no evidence of a significant increase of credit risk, which resulted in the recognition of additional cost of credit risk at the end of 2020 in the amount of PLN 53.1 million. The total gross carrying amount of the reclassified portfolio as at 31 December 2021 was PLN 3 227.6 million.

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

In addition, at the end of 2020, the Group decided to automatically reclassify exposures subject to the relief in the form of the statutory moratorium to stage 3, or, in justified cases, to stage 2. The final allocation of the exposure to stage 2 was possible after conducting additional analyzes taking into account quantitative and qualitative factors, such as: co-borrower in the contract, credit quality of all customer exposures, the amount of cash flow after the date of the application for a moratorium. The reclassification resulted in the recognition of additional cost of credit risk in the amount of PLN 1.7 million. The total gross carrying amount of the reclassified portfolio as at 31 December 2021 was PLN 10.0 million.

The above-mentioned activities resulted in recognition of additional cost of credit risk in the amount of PLN 330.3 million in the portfolio measured at amortized cost. In addition, these activities had an impact on the valuation of the loan portfolio at fair value through profit or loss, for which the Group recognized an additional cost of PLN 10.3 million.

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

	31.12.2020		
	Individual customers	Corporate customers	Total
Financial asset measured at amortized cost	**134 973**	**195 349**	**330 322**
Stage 1	3 060	4 138	7 198
Stage 2	114 869	51 397	166 266
Stage 3	17 044	139 814	156 858
Financial assets measured at fair value through profit or loss	**9 414**	**838**	**10 252**

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The most important write-offs in stage 3 were concerned in corporate clients from the following sectors: accommodation and food service activities, real estate activities and transport and storage.

As at 31 December 2020, the Group applied management corrections (overlays) in the amount of PLN 12.6 million. These adjustments do not result from the methodology used to calculate the allowances for expected credit losses.

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

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

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

Scenario as at 31.12.2020		**base**		**optimistic**		**pessimistic**	
Probability		**60%**		**20%**		**20%**	
		The first year of the forecast	**The average for the next two years**	**The first year of the forecast**	**The average for the next two years**	**The first year of the forecast**	**The average for the next two years**
GDP	y/y	-4.2	4.4	0.0	3.9	-6.4	0.4
Unemployment rate	end of the year	7.0%	5.5%	3.3%	2.9%	9.2%	11.9%
WIBOR3M	end of the year	0.31	0.38	0.7	0.7	0.1	0.1
Real estate price index	y/y	101.0	105.5	103.0	105.9	91.9	102.8
CHF/PLN	end of the year	4.21	4.03	4.11	3.93	4.43	4.43

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

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

Scenario as at 31.12.2020	The change of the value of credit risk costs
	31.12.2020
optimistic	47 136
base	10 316
pessimistic	(135 596)

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

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

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

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

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

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

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

Provisions for legal proceedings are recognized for the value in dispute and other costs on each reporting date based on an estimate of the probability of losing in court. However, the Group's final liability may differ from the provisions that have been recognized, as a high degree of judgement is involved in assessing the probability of uncertain liabilities in such legal proceedings and quantifying them. These estimates may turn out to be inaccurate at a later stage of the proceedings.

The Group closely observes the developments in courts verdicts in legal proceedings regarding mortgage and housing loans in CHF, including impact of the Court of Justice of the European Union (CJEU) judgment as well as analyses the PFSA's Chairman proposal, what was described in details in the Note 32. As of 31 December 2020, the Group recognized a provision for individual court cases concerning indexation clauses in mortgage and housing loans in CHF in the amount of PLN 1 426 563 thousand (as of 31 December 2019: PLN 417 653 thousand). This provision has been calculated in accordance with the calculation methodology implemented in 2019 based on the 'expected value' method allowed by the IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" in which the obligation is estimated by weighting all possible outcomes by their associated probabilities. The methodology applied by the Bank depends on numerous assumptions that take into account historical data adjusted with the Bank's expectations regarding the future and associated with significant degree of expert judgement. The most important assumptions are: an expected population of borrowers who will file a lawsuit against the Bank, the probability of losing the case having final and binding judgement, the distribution of expected verdicts judged by the courts and the loss to be incurred by the Bank in case of a losing the case in court.

The increase in the provision in 2020 alone resulted mainly from (i) the changes in probability of losing in court assumed in the calculation (ii) changes in assumptions regarding the number of the projected cases and (iii) changes in level of loss on loan exposure in case of losing the case by the Bank. The Bank believes that since the current line of jurisprudence in CHF cases is inconsistent, the probability of losing court cases must, to a large extent, be based on professional judgement supported by external legal opinion until Polish Supreme Court and the CJEU address all the legal uncertainties (in particular, whether abusive provisions can be replaced with other provisions, whether the theory of balance or the theory of two conditionalities will apply, what is a limitation period for parties' claims and whether banks may receive a compensation for usage of the principal granted).

The population of borrowers who will file a lawsuit against the Bank has been projected for a period of 5 years (since 31 December 2020) based on the Bank's history of legal cases in the past and assumes a further inflow of new cases. The Bank assumes that vast majority of the projected cases will be filed until 2022, and then their number will decrease following the expected clarification of the legal environment.

For the purpose of calculating the provisions mBank assumes that approximately 18% of FX borrowers (i.e. 15.4 thousand borrowers with both, active and repaid loans) filed or will file a lawsuit against the Bank. The Bank observes that clients with higher loan amounts were the first ones to file the claims (18% of customers represent 24% of the total CHF loan portfolio, both active and repaid), and therefore that average ticket of the suing population will be decreasing over time. The assumption, due to significant legal uncertainties surrounding CHF cases as well as other external factors that may shape clients preferences to file the lawsuits, is highly judgmental and may be a subject to an adjustment in future. In 2020 the Bank increased the assumed number of the cases by 74.0% when compared to 31 December 2019. If an additional 1% of the borrowers (both holding active loans in CHF as well as borrowers who already repaid their loans in CHF) filed a lawsuit against the Bank, the amount of the provision would increase by approximately PLN 61 million (while other relevant assumptions remain constant) as compared to 31 December 2020.

The probability of losing in court has been calculated taking into account, among others, data from the Bank's history of final and binding positive and negative verdicts. As of 31 December 2020 mBank received 173 final rulings in individual lawsuits (31 December 2019: 80 final rulings), out of which 70 rulings were favourable to the Bank and 103 rulings were unfavourable (31 December 2019: 22 rulings unfavourable).

At the same time 193 proceedings (as of 31 December 2020) at the second instance courts have remained suspended due to the legal issues referred to the Supreme Court and the CJEU. The Bank submits cassation appeals to the Supreme Court against legally binding judgments unfavorable for the Bank. Unfavorable judgments were issued based on the same patterns of facts which resulted in different verdicts. Approximately 50% of unfavourable verdicts led to the invalidation of the loan agreement, others led to the conversion of the agreement into PLN + LIBOR / WIBOR.

Since, in the opinion of the Bank, the number of final verdicts is not statistically representative (too few binding verdicts have been issued by courts in cases related to mBank) the assumption of probability of losing in court takes also into account expert judgements of the Bank supported by legal opinion about the future trends in the court verdicts as well as upcoming verdicts of the Supreme Court and CJEU. In 2020 the Bank revised the probability of losing in court and assumed, based on its own judgement and the external legal opinion, the level of 50% as of 31 December 2020 (30% as of 31 December 2019). If the assumed probability of losing in court changed by +/- 1 percentage point and all other relevant assumptions remained constant, the amount of the provision would change by +/- PLN 29.0 million.

The projected loss rate was calculated using the probabilities of different verdicts that may be issued. As currently there is still no homogenous line of verdicts taken by the courts the Bank took into account three possible losing scenarios: (i) the contract remains valid but the indexation mechanism is eliminated, which transforms a loan indexed to CHF into a PLN loan subject to the interest rate of the loan indexed to CHF, (ii) the contract is invalid in whole because deleting the exchange rate clause would be too far-reaching change (based on assumption that this clause defines the main subject matter of the contract), and (iii) the contract remains a mortgage indexed to CHF, but the FX clause is substituted by the fixing rate of the NBP. Under scenario (ii), the Bank takes into account two versions of the invalidity, assuming that the parties settle each other's claims at the same time. The first version assumes that the consumer is obliged to return the disbursed capital together with the remuneration for using it, and the second assumes that the consumer is only obliged to return the capital without remuneration. Each of these scenarios is associated with a different level of predicted losses for the Bank. The Bank calculated the average level of loss weighted with the probabilities of occurrence of the given scenario in case of negative final and binding judgement, with invalidity scenario assumed to be most probable. The probabilities of those scenarios applied by the Bank has been based on the assessment of the Bank consulted with the legal advisor.

If the assumed weighted average loss changed by +/- 1 percentage point and all other relevant assumptions remained constant the amount of the provision would change by +/- PLN 24.5 million. The weighted average loss assumed in the calculation as of 31 December 2020 increased by 8.9% compared to 31 December 2019.

The method used to calculate the provision is based on parameters that are highly judgmental and with a high range of possible values. It is possible that the provision will have to be adjusted significantly in the future, particularly that important parameters used in calculations are interdependent.

As at the date of approval these consolidated financial statements the Bank has not made any decisions on offering settlements according to the PFSA's Chairman proposal nor has taken any steps to acquire any corporate consents in that matter. It will be a subject of further analysis and discussions with financial authorities. The PFSA's proposal has not been taken into consideration when calculating provision for legal risk related to indexed loans.

More information on provisions for legal risks relating to indexation clauses in mortgage and housing loans in CHF is presented in the Note 32.

Prepayments of retail loans

CJEU ruled on 11 September 2019 that in case concerning consumer loans paid off prematurely the consumer has the right to a reduction in the total cost of the loan in the event of early repayment of the credit. The interpretation constituted an answer to a prejudicial question asked in a court case in which few banks have participated including mBank.

The above ruling impacts consumer loans granted on 18 December 2011 or later, in the amount not exceeding 255 550 PLN or its equivalent in other currency and mortgage loans granted on 22 July 2017 or later with no limit of the loan amount, which have been paid off fully or partially.

As of 31 December 2020 the provision recorded within other provisions (Note 30) related to potential reimbursements of commissions in relation to early repayments of loans before the date of the verdict amounted to PLN 13.8 million (PLN 16.5 million as of 31 December 2019).

The total negative impact of early repayments of retail loans on the Group's gross profit for 2020 amounted to PLN 56.5 million (2019 - PLN 93.7 million) of which PLN 52.4 million reduced net interest income (2019: - PLN 68.7 million) and PLN 4.1 million increased other operating expenses (2019: - PLN 25.0 million).

The above estimates are burdened with significant uncertainty regarding the number of customers who will request the Bank to refund commissions regarding earlier repayments made by the CJEU verdict as well as the expected rate of loan prepayments in the future.

Fair value of derivatives and other financial instruments

The fair value of financial instruments not listed on active markets is determined by applying valuation techniques. All the models are approved prior to being applied and they are also calibrated in order to assure that the obtained results indeed reflect the actual data and comparable market prices. As far as possible, observable market data originating from an active market are used in the models. Methods for determining the fair value of financial instruments are described in Note 2.7.

Deferred tax assets

Deferred tax assets are recognised in respect of tax losses to the extent that it is probable that future taxable profit will be available, against which the losses can be utilised. Judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits.

Revenue and expenses from sale of insurance products bundled with loans

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

The remuneration included in fee and commission income is recognised partly as upfront income and partly including deferring over time based on the analysis of the stage of completion of the service.

The Group leads in case of insurance policies bundled with loans to upfront recognition less than 8% of bancassurance income associated with cash and car loans and 0% to approximately 20% of bancassurance income associated with mortgage loans. Recognition of the remaining part of the income is spread over the economic life of the associated loans. Expenses directly linked to the sale of insurance products are recognised using the same pattern.

Liabilities due to post-employment employee benefits

The costs of post-employment employee benefits are determined using an actuarial valuation method. The actuarial valuation involves making assumptions about discount rates, future salary increases, mortality rates and other factors. Due to the long–term nature of these programmes, such estimates are subject to significant uncertainty.

Leasing classification

The Group as lessor makes judgement classifying lease agreements as finance lease or operating lease based on the economic substance of the transaction basing on professional judgment whether substantially all the risk and rewards incidental to ownership of an asset were transferred or not.

The Group as a lessee makes certain estimates and calculations that have an impact on the valuation of lease liabilities and right-of-use assets. They include, among others: determination of the duration of contracts, determining the interest rate used to discount future cash flows and determination of the depreciation rate of right-of-use assets.

Test for impairment of the Bank

Due to the fact that as at 31 December 2020 the carrying amount of the Bank's net assets was higher than the value of their market capitalization, the Bank performed an impairment test with reference to the Bank's net asset value.

The Bank estimated the recoverable amount of its net assets, based on ten-year projections of financial results. As a result of its comparison to the carrying amount of the net assets, no impairment was recognised.

In the test, a discount rate used was determined based on the cost of capital of comparable entities – the rate was set at 8.75%. A change in the projected result in 2029 (and in the residual period) by 1% would change the recoverable amount by PLN 19.3 million.

Although estimates used are based on best knowledge, actual results may differ from the estimates made. The impairment test was performed in accordance with IAS 36 "Impairment of assets".

5. Business 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 (the chief operating decision-maker), which is responsible for allocating resources to the reportable segments and assesses their performance.

The classification by business segments is based on client groups and product groups defined by homogenous transaction characteristics. The classification is consistent with sales management and the philosophy of delivering complex products to the Bank's clients, including both standard banking products and more sophisticated investment products. The method of presentation of financial results coupled with the business management model ensures a constant focus on creating added value in relations with clients of the Bank and Group companies and should be seen as a primary division, which serves the purpose both managing and perceiving business within the Group.

The Group conducts its business through different business segments, which offer specific products and services targeted at specific client groups and market segments. The Group currently conducts its operations through the following business segments:

- The Retail Banking segment, which divides its customers into mBank customers and Private Banking customers and which offers a full range of the Bank's banking products and services as well as specialized products offered by a number of subsidiaries belonging to the Retail Banking segment. The key products in this segment include current and savings accounts (including accounts in foreign currencies), term deposits, lending products (retail mortgage loans and non-mortgage loans such as cash loans, car loans, overdrafts, credit cards and other loan products), debit cards, insurance products, investment products, brokerage and leasing services offered to both individual customers and to micro-businesses. The results of the Retail Banking segment include the results of foreign branches of mBank in the Czech Republic and Slovakia. The Retail Banking segment also includes the results of mFinanse S.A., LeaseLink Sp. z o.o. and mElements S.A. (since January 2020), as well as the results of retail segments of mLeasing Sp. z o.o., Asekum Sp. z o.o. and mBank Hipoteczny S.A.
- The Corporates and Financial Markets segment, which is divided into two sub-segments:
- *Corporate and Investment Banking* sub-segment (business line), which targets small, medium and large-sized companies and public sector entities. The key products offered to these customers include transactional banking products and services including current account products, multi-functional internet banking, tailor-made cash management and trade finance services, term deposits, foreign exchange transactions, a comprehensive offer of short-term financing and investment loans, cross-border credit, project finance, structured and mezzanine finance services, investment banking products including foreign exchange options, forward contracts, interest rate derivatives and commodity swaps and options, structured deposit products with embedded options (interest on structured deposit products are directly linked to the performance of certain underlying financial instruments such as foreign exchange options, interest rate options and stock options),

debt origination for corporate clients, treasury bills and bonds, non-government debt, medium-term bonds, buy/sell back and sell/buy back transactions and repo transactions, as well as leasing, factoring and brokerage services. The Corporate and Investment Banking sub-segment includes the results of the following subsidiaries: mFaktoring S.A., G-INVEST Sp. Z o.o. (previously Garbary Sp. z o.o.), Tele-Tech Investment Sp. z o.o. as well as the results of corporate segments of mLeasing Sp. z o. o., Asekum Sp. z o.o. and mBank Hipoteczny S.A.

- *Financial Markets* sub-segment (business line) consists primarily of treasury, financial markets, and financial institutions operations, manages the liquidity, interest rate and foreign exchange risks of the Bank, its trading and investment portfolios, and conducts market making in PLN denominated cash and derivative instruments. The Bank also maintains an extensive correspondent banking network and also develops relationships with other banks providing products such as current accounts, overdrafts, stand alone and syndicated loans and loans insured by KUKE to support the Polish export market. This sub-segment also includes the results of mFinance France S.A. until the date of discontinuation of consolidation as well as the results of mLeasing Sp. z o.o and mBank Hipoteczny S.A. with regard to activities concerning funding.
- Operations which are not included in the Retail Banking segment and the Corporates and Financial Markets segment are reported under "Other". This segment includes the results of Future Tech Fundusz Inwestycyjny Zamknięty and BDH Development Sp. z o.o. until the day of cessation of consolidation.

The principles of segment classification of the Group's activities are described below.

Transactions between the business segments are conducted on regular commercial terms.

Allocation of funds to the Group companies and assigning them to particular business segments results in funding cost transfers. Interest charged for these funds is based on the Group's weighted average cost of capital and presented in operating income.

Internal fund transfers between the Bank's units are calculated at transfer rates based on market rates. Transfer rates are determined on the same basis for all operating units of the Bank and their differentiation results only from currency and maturity structure of assets and liabilities. Internal settlements concerning internal valuation of funds transfers are reflected in the results of each segment.

Assets and liabilities of a business segment comprise operating assets and liabilities, which account for most of the statement of financial position, whereas they do not include such items as taxes or loans.

The separation of the assets and liabilities of a segment, as well as of its income and costs, is done on the basis of internal information prepared at the Bank for the purpose of management accounting. Assets and liabilities for which the units of the given segment are responsible as well as income and costs related to such assets and liabilities are attributed to individual business segments. The financial result of a business segment takes into account all the income and cost items attributable to it.

The business operations of particular companies of the Group are fully attributed to the appropriate business segments (including consolidation adjustments).

The primary basis used by the Group in the segment reporting is business line division. In addition, the Group's activity is presented by geographical areas reporting broken down into Poland and foreign countries because of the place of origin of income and expenses. Foreign countries segment includes activity of mBank's foreign branches in Czech Republic and Slovakia as well as activity of foreign subsidiary mFinance France S.A. The activity of the company mFinance France S.A. until the date of discontinuation of consolidation, due to the substitution described in detail in Note 28. The activity of the company mFinance France S.A., after the elimination of income and expenses and assets and liabilities related to the issue of bonds under the EMTN programme, is presented in the "Foreign countries" segment. The cost of the EMTN programme as well as the related assets and liabilities are presented in the segment "Poland".

In connection with the change in the key of allocation of income on capital since the beginning of 2020, the comparative data for the 2019 regarding the interest result by business segment activities of mBank S.A. Group have been changed accordingly. The other changes result from adjustments to comparative data described in Note 2.30 in the item "Comparative data".

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Business segment reporting on the activities of mBank S.A. Group for the period from 1 January to 31 December 2020 – data regarding consolidated income statement

	Corporates & Financial Markets		Retail Banking	Other	Total figure for the Group
	Corporate and Investment Banking	Financial Markets			
Net interest income	1 076 324	211 245	2 711 146	10 585	4 009 300
- sales to external clients	1 070 515	746 445	2 191 451	889	4 009 300
- sales to other segments	5 809	(535 200)	519 695	9 696	-
Net fee and commission income	767 593	(12 684)	778 204	(24 828)	1 508 285
Dividend income	-	-	-	4 926	4 926
Trading income	81 001	84 373	36 202	(16 824)	184 752
Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss	(1 370)	-	(10 647)	27 589	15 572
Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss	(6 324)	107 900	(2 185)	(5 864)	93 527
Other operating income	132 604	132	70 691	14 625	218 052
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss	(610 087)	1 471	(619 282)	2 256	(1 225 642)
Result on provisions for legal risk related to foreign currency loans	-	-	(1 021 714)	-	(1 021 714)
Overhead costs	(665 793)	(94 242)	(1 215 233)	(5 232)	(1 980 500)
Amortisation	(123 289)	(17 260)	(288 614)	(1 465)	(430 628)
Other operating expenses	(108 360)	(611)	(104 563)	(21 286)	(234 820)
Operating profit	**542 299**	**280 324**	**334 005**	**(15 518)**	**1 141 110**
Taxes on Group balance sheet items	(177 032)	(77 314)	(271 202)	(5 831)	(531 379)
Gross profit of the segment	**365 267**	**203 010**	**62 803**	**(21 349)**	**609 731**
Income tax					(505 974)
Net profit attributable to Owners of mBank S.A.					103 831
Net profit attributable to non-controlling interests					(74)

Business segment reporting on the activities of mBank S.A. Group - data regarding consolidated statement of financial position

31.12.2020	Corporates & Financial Markets		Retail Banking	Other	Total figure for the Group
	Corporate and Investment Banking	Financial Markets			
Assets of the segment, including:	42 960 176	62 711 948	72 038 051	2 426 119	**180 136 294**
Liabilities of the segment	35 635 409	24 156 384	100 573 219	3 096 215	**163 461 227**

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Business segment reporting on the activities of mBank S.A. Group for the period from 1 January to 31 December 2019 – data regarding consolidated income statement

	Corporates & Financial Markets		Retail Banking	Other	Total figure for the Group
	Corporate and Investment Banking	Financial Markets			
Net interest income	1 071 396	217 093	2 700 832	13 451	4 002 772
- sales to external clients	1 078 555	731 226	2 192 790	201	4 002 772
- sales to other segments	(7 159)	(514 133)	508 042	13 250	-
Net fee and commission income	717 581	(16 266)	589 687	(20 385)	1 270 617
Dividend income	-	-	-	4 220	4 220
Trading income	72 183	34 747	38 315	(10 729)	134 516
Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss	119	-	21 383	47 757	69 259
Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss	1 348	36 073	(130)	(2 459)	34 832
Other operating income	91 661	90	75 787	66 949	234 487
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss	(282 268)	833	(428 769)	(2 133)	(712 337)
Result on provisions for legal risk related to foreign currency loans	-	-	(387 786)	-	(387 786)
Overhead costs	(688 171)	(87 982)	(1 175 363)	(2 141)	(1 953 657)
Amortisation	(102 829)	(13 387)	(262 863)	3 581	(375 498)
Other operating expenses	(72 683)	(957)	(122 532)	(111 550)	(307 722)
Operating profit	**808 337**	**170 244**	**1 048 561**	**(13 439)**	**2 013 703**
Taxes on Group balance sheet items	(174 489)	(36 832)	(240 318)	(7 019)	(458 658)
Gross profit of the segment	**633 848**	**133 412**	**808 243**	**(20 458)**	**1 555 045**
Income tax					(544 793)
Net profit attributable to Owners of mBank S.A.					1 010 350
Net profit attributable to non-controlling interests					(98)

Business segment reporting on the activities of mBank S.A. Group - data regarding consolidated statement of financial position

31.12.2019	Corporates & Financial Markets		Retail Banking	Other	Total figure for the Group
	Corporate and Investment Banking	Financial Markets			
Assets of the segment, including:	44 805 002	46 845 014	64 989 636	2 080 931	**158 720 583**
Liabilities of the segment	35 685 057	25 498 967	79 052 093	2 331 161	**142 567 278**

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Information about geographical areas on the activities of mBank S.A. Group for the period from 1 January to 31 December 2020 and for the period from 1 January to 31 December 2019

	from 1 January to 31 December 2020			from 1 January to 31 December 2019		
	Poland	Foreign Countries	Total	Poland	Foreign Countries	Total
Net interest income	3 749 317	259 983	4 009 300	3 745 757	257 015	4 002 772
Net fee and commission income	1 491 908	16 377	1 508 285	1 251 676	18 941	1 270 617
Dividend income	4 926	-	4 926	4 220	-	4 220
Trading income	182 633	2 119	184 752	127 685	6 831	134 516
Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss	15 572	-	15 572	69 259	-	69 259
Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss	93 544	(17)	93 527	34 832	-	34 832
Other operating income	214 132	3 920	218 052	229 078	5 409	234 487
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss	(1 233 391)	7 749	(1 225 642)	(706 028)	(6 309)	(712 337)
Result on provisions for legal risk related to foreign currency loans	(1 021 714)	-	(1 021 714)	(387 786)	-	(387 786)
Overhead costs	(1 839 830)	(140 670)	(1 980 500)	(1 819 080)	(134 577)	(1 953 657)
Amortisation	(415 327)	(15 301)	(430 628)	(362 370)	(13 128)	(375 498)
Other operating expenses	(231 832)	(2 988)	(234 820)	(303 212)	(4 510)	(307 722)
Operating profit	**1 009 938**	**131 172**	**1 141 110**	**1 884 031**	**129 672**	**2 013 703**
Taxes on Group balance sheet items	(499 357)	(32 022)	(531 379)	(432 114)	(26 544)	(458 658)
Gross profit of the segment	**510 581**	**99 150**	**609 731**	1 451 917	103 128	**1 555 045**
Income tax			(505 974)			(544 793)
Net profit attributable to Owners of mBank S.A.			103 831			1 010 350
Net profit attributable to non-controlling interests			(74)			(98)

Geographical areas on the activities of mBank S.A. Group – the data concerning consolidated statement of financial position

	31.12.2020			31.12.2019		
	Poland	Foreign Countries	Total	Poland	Foreign Countries	Total
Assets of the segment, including:	166 341 153	13 795 141	**180 136 294**	149 957 094	8 763 489	**158 720 583**
- tangible assets	2 662 301	30 974	2 693 275	2 188 996	39 492	2 228 488
- deferred income tax assets	851 308	2 572	853 880	935 335	2 377	937 712
Liabilities of the segment	149 539 832	13 921 395	**163 461 227**	131 757 088	10 810 190	**142 567 278**

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6. Net interest income

	Year ended 31 December	
	2020	**2019**
Interest income		
Interest income accounted for using the effective interest method	**4 207 276**	**4 523 483**
Interest income of financial assets at amortised cost, including:	3 835 996	4 050 646
- Loans and advances	*3 551 480*	*3 761 757*
- Debt securities	*274 714*	*232 177*
- Cash and short-term placements	*20 511*	*56 204*
- Gains or losses on non-substantial modification (net)	*(15 993)*	*(6 811)*
- Other	*5 284*	*7 319*
Interest income on financial assets at fair value through other comprehensive income	371 280	472 837
- Debt securities	*371 280*	*472 837*
Income similar to interest on financial assets at fair value through profit or loss, including:	**481 077**	**548 181**
Financial assets held for trading	32 425	52 996
- Loans and advances	*5 259*	*4 434*
- Debt securities	*27 166*	*48 562*
Non-trading financial assets mandatorily at fair value through profit or loss, including:	92 198	187 712
- Loans and advances	*92 198*	*187 712*
Interest income on derivatives classified into banking book	126 104	181 834
Interest income on derivatives concluded under the fair value hedge	85 714	75 135
Interest income on derivatives concluded under the cash flow hedge	144 636	50 504
Total interest income	**4 688 353**	**5 071 664**

	Year ended 31 December	
	2020	**2019**
Interest expenses		
Financial liabilities measured at amortised cost, including:	(658 619)	(1 057 925)
- Deposits	*(346 468)*	*(661 228)*
- Loans received	*(8 867)*	*(13 615)*
- Issue of debt securities	*(227 640)*	*(294 266)*
- Subordinated liabilities	*(67 888)*	*(76 167)*
- Other financial liabilities	*(5 277)*	*(9 690)*
- Lease liabilities	*(2 479)*	*(2 959)*
Other	(20 434)	(10 967)
Total interest expense	**(679 053)**	**(1 068 892)**

Interest income on financial assets at amortized cost includes interest on leasing activities in the amount of PLN 379 486 thousand (for the period ended 31 December 2019: PLN 414 221 thousand).

Interest income in 2020 and in 2019 was affected by recognition of cumulative effect of change in estimates regarding the amounts and timing of the cash flows related to the loans which are expected to be repaid before the contractual term. The issue was described in detail in Note 4 "Major estimates and judgments made in connection with the application of accounting policy principles".

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Net interest income per client groups is as follows:

	Year ended 31 December	
	2020	2019
Interest income		
From banking sector	290 715	380 416
From other customers, including:	4 397 638	4 691 248
- individual clients	*2 274 269*	*2 322 835*
- corporate clients	*1 592 518*	*1 733 943*
- public sector	*530 851*	*634 470*
Total interest income	**4 688 353**	**5 071 664**
Interest expenses		
From banking sector	(16 936)	(57 906)
From other customers, including:	(366 589)	(640 553)
- individual clients	*(263 644)*	*(333 100)*
- corporate clients	*(88 698)*	*(266 132)*
- public sector	*(14 247)*	*(41 321)*
Debt securities issued	**(227 640)**	**(294 266)**
Subordinated liabilities	**(67 888)**	**(76 167)**
Total interest expense	**(679 053)**	**(1 068 892)**

7. Net fee and commission income

	Year ended 31 December	
	2020	2019
Fee and commission income		
Payment cards-related fees	430 242	435 878
Credit-related fees and commissions	462 807	417 888
Commissions from currency transactions	339 629	306 014
Fees from brokerage activity and debt securities issue	222 317	86 996
Commissions from bank accounts	222 312	210 930
Commissions from money transfers	147 779	145 841
Commissions for agency service regarding sale of insurance products of external financial entities	109 787	100 424
Commissions due to guarantees granted and trade finance commissions	94 341	93 017
Commissions for agency service regarding sale of other products of external financial entities	74 455	82 151
Fees from cash services	42 586	48 570
Commissions on trust and fiduciary activities	31 454	28 027
Fees from portfolio management services and other management-related fees	23 196	14 161
Other	43 656	40 759
Fee and commission income	**2 244 561**	**2 010 656**

In relation to finance leases, income relating to variable lease payments not included in the measurement of the net investment in the lease in 2020 amounted to PLN 3 180 thousand (2019: PLN 3 003 thousand). For operating leases, lease income relating to variable lease payments that do not depend on an index or a rate, amounted to PLN 2 105 thousand (2019: PLN 2 663 thousand).

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	Year ended 31 December	
	2020	2019
Fee and commission expense		
Payment cards-related fees	(226 851)	(241 198)
Commissions paid to external entities for sale of the Group's products	(174 796)	(190 636)
Commissions of insurance products	(12 067)	(8 635)
Commissions paid for sale of external financial entities	(21 242)	(21 520)
Discharged brokerage fees	(39 663)	(28 846)
Costs for cash services	(44 464)	(41 944)
Fees to NBP and KIR	(15 910)	(14 706)
Other discharged fees	(201 283)	(192 554)
Total fee and commision expense	**(736 276)**	**(740 039)**

8. Dividend income

	Year ended 31 December	
	2020	2019
Financial assets at fair value through profit and loss	4 926	4 220
Total dividend income	**4 926**	**4 220**

9. Net trading income

	Year ended 31 December	
	2020	2019
Foreign exchange result	**72 607**	**75 533**
Net exchange differences on translation	(91 019)	41 942
Net transaction gains/(losses)	163 626	33 591
Gains or losses on financial assets and liabilities held for trading	**123 137**	**50 788**
Derivatives, including:	68 234	16 903
- Interest-bearing instruments	*55 125*	*9 013*
- Market risk instruments	*13 109*	*7 890*
Debt securities	59 470	34 026
Loans and advances	(4 567)	(141)
Gains or losses from hedge accounting	**(10 992)**	**8 195**
Net profit on hedged items	(95 323)	(80 277)
Net profit on fair value hedging instruments	82 729	90 700
Ineffective portion of cash flow hedge	1 602	(2 228)
Net trading income	**184 752**	**134 516**

The foreign exchange result includes profit/(loss) on forward contracts, options, futures and recalculated assets and liabilities denominated in foreign currencies. The result on derivative transactions of interest-bearing instruments includes the result of swap contracts for interest rates, options and other derivatives. The result of the market risk instruments operations include profit/(loss) on: bond futures, index futures, security options, stock exchange index options, and options on futures contracts as well as the result from securities forward transactions and commodity swaps. The result on equity instruments operations includes the valuation and result on trading in equity securities held for trading.

The Group applies fair value hedge accounting and cash flow hedge accounting. Detailed information on hedge accounting are included in Note 20 "Financial assets held for trading and hedging derivatives".

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10. Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss

	Year ended 31 December	
	2020	**2019**
Equity instruments	72 041	75 382
Debt securities	10 710	75 324
Loans and advances	(67 179)	(81 447)
Total gains or losses on non-trading financial assets mandatorily at fair value through profit or loss	**15 572**	**69 259**

In the item Equity instruments, the Group recognised mainly a profit resulting from revaluation to fair value of shares of Krajowa Izba Rozliczeniowa S.A. in the amount of PLN 22 639 thousand and shares in Polski Standard Płatności sp. z o.o. in the amount of PLN 21 203 thousand, as well as result from convertion and sale of VISA Inc. shares in a total amount of PLN 23 249 thousand. In 2019, under Equity instruments, the Group recognized a profit of PLN 45 058 thousand, resulting from the revaluation of Polski Standard Płatności Sp. z o.o., made in connection with the commencement of strategic cooperation with Mastercard.

In September 2020, VISA Inc. converted half of the Series C Preference Shares held by the Group (disclosed in the financial statements as debt securities). As a result of the conversion, the the Group received Series A Preferred Stock, which will be automatically converted into Class A Common Stock upon sale in the proportion of 1 Series A Preferred Stock per 100 Class A Common Stock shares.

At the end of 2020, the Group still holds the Series C Preference Shares of VISA Inc. but their value on the day of their coversion was reduced by 50%. The value of Series C Preference Shares of VISA Inc. is presented in the item Debt securities. The amount of PLN 75 324 thousand of gains from debt securities in 2019, apart from the revaluation to fair value of these instruments, includes the result of revaluation to fair value, as well as profit related to change in a methdology to discount levels used in the model in the amount of PLN 48 369 thousand.

11. Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss

	Year ended 31 December	
	2020	**2019**
Gains less losses from derecognition, including:	98 495	35 109
- Financial assets measured at fair value through other comprehensive income	*95 136*	*34 995*
- Financial assets at amortised cost	*(5 000)*	*114*
- Financial liabilities at amortised cost	*8 359*	*-*
Gains less losses related to sale and revaluation of investments in subsidiaries and associates	(4 968)	(277)
Gains or losses from financial assets and liabilities not measured at fair value through profit or loss	**93 527**	**34 832**

The result on derecognition of financial assets measured at amortized cost results mainly from the sale of individual credit exposures.

Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss by instrument

	Year ended 31 December 2020		Year ended 31 December 2019	
	Gains	**Losses**	**Gains**	**Losses**
Debt securities	104 167	(4 848)	39 687	(4 692)
Loans and advences	669	(9 852)	29 069	(28 955)
Deposits	4 381	(1 610)	-	-
Debt securities issued	5 588	-	-	-
Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss	**114 805**	**(16 310)**	**68 756**	**(33 647)**

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12. Other operating income

	Year ended 31 December	
	2020	2019
Income from sale or liquidation of fixed assets, intangible assets, assets held for sale and inventories	102 287	131 947
Income from services provided	7 857	10 577
Net income from operating lease and right-of-use assets in sublease	3 374	2 030
Income due to release of provisions for future commitments	31 557	11 162
Income from recovering receivables designated previously as prescribed, remitted or uncollectible	3 894	5 264
Income from compensations, penalties and fines received	866	718
Release of impairment provisions for tangible fixed assets and intangible assets	-	5 657
Net revenues from the sale of an organised part of the company mFinanse S.A.	23 800	26 600
Other	44 417	40 532
Total other operating income	**218 052**	**234 487**

Revenues from the sale or liquidation of property, plant and equipment, intangible assets, assets for sale and inventories mainly include revenues of mLeasing Sp. z o.o. from the sale of leasing items. In 2019 this item also include revenues of BDH Development Sp. z o.o. obtained from development activities.

Net revenues from the sale of an organised part of the company mFinanse S.A. relate to sales transactions by mBank S.A. 100% shares in Latona S.A. to Phoebe IVS based in Denmark, and then sale by mFinanse S.A. an organized part of the mFinanse S.A. to Latona S.A. in 2018. The organized part of the enterprise was a separate activity under which, on the basis of agency agreements, mFinanse S.A. performed insurance intermediation activities in the field of group insurance contracts as an insurance agent.

The maximum total remuneration for the transaction will amount to approximately PLN 434.9 million. As a result of the transaction, till 31 December 2020 the Group recognised a net profit in the amount of PLN 305.9 million. Cash flows from this transaction in the consolidated statement of cash flows have been presented under "Other investing inflows". Due to the nature of the transaction the recognition of the part of the remuneration in the future will depend on the performance of the business sold. This may result in the recognition of an additional gross profit of up to PLN 95.9 million in the period of approximately 3 years from the end of 2020.

Income from services provided is earned on non-banking activities.

Net income from operating lease consists of income from operating lease and related depreciation cost of fixed asset provided by the Group under operating lease, incurred to obtain revenue.

Net income from operating lease and right-of-use assets in sublease generated in 2020 and 2019 is presented below.

	Year ended 31 December	
	2020	2019
Net income from operating lease and right-of-use assets in sublease, including:		
- Income from operating lease	31 534	42 697
- Income from right-of-use assets in sublease	7 936	7 298
- Depreciation cost of fixed assets provided under operating lease	(36 096)	(47 965)
Total net income from operating lease	**3 374**	**2 030**

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13. Overhead costs

	Year ended 31 December	
	2020	**2019**
Staff-related expenses	(974 670)	(1 019 340)
Material costs, including:	(671 289)	(639 101)
- costs of administration and real estate services	(259 224)	(254 211)
- IT costs	(181 763)	(163 419)
- marketing costs	(127 246)	(141 802)
- consulting costs	(88 171)	(67 030)
- other material costs	(14 885)	(12 639)
Taxes and fees	(27 304)	(31 226)
Contributions and transfers to the Bank Guarantee Fund	(298 061)	(255 710)
Contributions to the Social Benefits Fund	(9 176)	(8 280)
Total overhead costs	**(1 980 500)**	**(1 953 657)**

In 2020, the item "Material costs" includes costs related to short-term leasing contracts in the amount of PLN 337 thousand (2019: PLN 2 690 thousand), costs related to leasing contracts of low-value assets that are not short-term contracts in the amount of PLN 689 thousand (2019: PLN 3 011 thousand) and costs related to variable elements of leasing liabilities not included in the leasing liability (included in general administrative costs in the amount of PLN 1 984 thousand) (2019: PLN 3 130 thousand).

Staff-related expenses in 2020 and 2019 are presented below.

	Year ended 31 December	
	2020	**2019**
Wages and salaries	(788 234)	(825 389)
Social security expenses	(129 832)	(136 657)
Employee contributions related to post-employment benefits	(14)	(16)
Remuneration concerning share-based payments, including:	(10 321)	(10 702)
- share-based payments settled in mBank S.A. shares	(10 159)	(9 947)
- cash-settled share-based payments	(162)	(755)
Other staff expenses	(46 269)	(46 576)
Staff-related expenses, total	**(974 670)**	**(1 019 340)**

Cash-settled share-based payments relate to the costs of incentive programmes existing in the Group entities. Detailed information regarding incentive programmes to which share-based payments relate, is included under the Note 41 "Share-based incentive programmes".

14. Other operating expenses

	Year ended 31 December	
	2020	**2019**
Costs arising from sale or liquidation of fixed assets, intangible assets, assets held for resale and inventories	(98 468)	(115 961)
Provisions for future commitments	(44 858)	(51 647)
Costs arising from provisions created for other receivables (excluding loans and advances)	(1 119)	(1 196)
Donations made	(3 238)	(6 009)
Costs of sale of services	-	(602)
Compensation, penalties and fines paid	(1 938)	(4 246)
Costs arising from receivables and liabilities recognised as prescribed, remitted and uncollectible	(5)	(9)
Costs of creating write-offs for impairment of property, plant and equipment and intangible assets resulting from finance lease and rental contracts	-	(337)
Costs of creating write-offs for impairment of property, plant and equipment and intangible assets	(991)	-
Debt collection costs	(39 573)	(41 829)
Other operating costs	(44 630)	(85 886)
Total other operating expenses	**(234 820)**	**(307 722)**

Costs arising from sale or liquidation of fixed assets, intangible assets, assets held for resale and inventories comprise primarily the expenses incurred mainly by mLeasing Sp. z o.o. from the sale of leasing items. In 2019 this item also include the expenses incurred by BDH Development Sp. z o.o. related to development activities.

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In 2020, in the item "Provisions for future commitments", the Group recognized provisions for the cost of potential commission returns in the amount of PLN 4 114 thousand in connection with early repayment of retail loans (2019: PLN 25 048 thousand). The issue is described in detail in Note 4 "Major estimates and judgments made in connection with the application of accounting policy principles".

In 2019, the item "Other operating expenses" includes a cost in the amount of PLN 26 283 thousand, created as a result of the Bank's decision to select an alternative method of taxing with income tax the interest paid by the Bank in relation to bonds issued before 1 January 2019 on foreign public markets under the EMTN program.

Costs of services provided concern non-banking services.

15. Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss

	Year ended 31 December	
	2020	**2019**
Financial assets at amortised cost, including:	**(1 172 053)**	**(670 273)**
- Debt securities	(56)	8
Stage 1	*(56)*	*8*
- Loans and advances	(1 171 997)	(670 281)
Stage 1	*19 829*	*(89 505)*
Stage 2	*(181 102)*	*(37 722)*
Stage 3	*(1 001 083)*	*(549 106)*
POCI	*(9 641)*	*6 052*
Financial assets at fair value through other comprehensive income	**(1 289)**	**171**
- Debt securities	(1 289)	171
Stage 1	*(497)*	*927*
Stage 2	*(792)*	*(756)*
Commitments and guarantees given	**(52 300)**	**(42 235)**
Stage 1	*(7 726)*	*(5 104)*
Stage 2	*(14 490)*	*(5 114)*
Stage 3	*(1 984)*	*(28 227)*
POCI	*(28 100)*	*(3 790)*
Net impairment losses on financial assets not measured at fair value through profit or loss	**(1 225 642)**	**(712 337)**

16. Income tax expense

	Year ended 31 December	
	2020	**2019**
Current tax	(536 232)	(532 719)
Deferred income tax (Note 31)	30 258	(12 074)
Total income tax	**(505 974)**	**(544 793)**
Profit before tax	**609 731**	**1 555 045**
Tax calculated at Polish current tax rate (19%)	(115 849)	(295 459)
Effect of different tax rates in other countries	(126)	(165)
Income not subject to tax	10 758	4 396
Costs other than tax deductible costs	(394 583)	(252 684)
Other positions affecting income tax	(4 447)	(1 325)
Inactive tax losses	(1 727)	444
Total tax liability	**(505 974)**	**(544 793)**
Effective tax rate calculation		
Profit (loss) before income tax	609 731	1 555 045
Income tax	(505 974)	(544 793)
Effective tax rate	**82.98%**	**35.03%**

The position includes i.a. impact of banking tax introduced by the Act on Tax on Certain Financial Institutions from 15 January 2016 (Journal of Laws 2016, item 68), provisions established for legal risk related to the portfolio of mortgage and housing loans in CHF and other expenses non-deductible costs according to Article 16 item 1 of Corporate Income Tax Act from 15 February 1992 (Journal of Laws 2019, item 865).

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Since 1 January 2020 mBank S.A., mBank Hipoteczny S.A., mFinanse S.A. and mLeasing Sp. z. o o established, based on Corporate Income Tax Act, Tax Capital Group of mBank ("TCG"). According to the Corporate Income Tax Act, mBank – as a dominant entity – represents TCG with respect described by tax law. In a year preceding establishing the TCG, there was no tax losses in either of the entity that is a member of TCG. The TCG agreement has been concluded for 4 years.

The current tax break down by country is presented below.

	Year ended 31 December	
	2020	**2019**
Poland	(508 596)	(505 556)
Czech Republic	(27 636)	(27 163)
Total current tax	**(536 232)**	**(532 719)**

Information about deferred income tax is presented under Note 31. The tax on the Group's profit before tax differs from the theoretical amount that would arise using the basic tax rate of the parent as presented above.

17. Earnings per share

Earnings per share for 12 months

	Year ended 31 December	
	2020	**2019**
Basic:		
Net profit attributable to Owners of mBank S.A.	103 831	1 010 350
Weighted average number of ordinary shares	42 355 695	42 340 263
Net basic profit per share (in PLN per share)	**2.45**	**23.86**
Diluted:		
Net profit attributable to Owners of mBank S.A., applied for calculation of diluted earnings per share	103 831	1 010 350
Weighted average number of ordinary shares	42 355 695	42 340 263
Adjustments for:		
- share options	24 031	18 266
Weighted average number of ordinary shares for calculation of diluted earnings per share	42 379 726	42 358 529
Diluted earnings per share (in PLN per share)	**2.45**	**23.85**

According to IAS 33, the Bank prepares a calculation of the diluted earnings per share taking into account contingently issuable shares as part of the incentive programmes described in the Note 41. The calculations did not include those elements of the incentive programmes, which were antidilutive for the presented reporting periods that could potentially dilute basic earnings per share in the future.

The basic earnings per share are computed as the quotient of the Bank stockholders' share of the profit and the weighted average number of ordinary shares during the year.

The diluted earnings per share are calculated as ratio of net profits attributable to Bank's shareholder and the weighted average number of ordinary shares as if all possible ordinary shares causing the dilution were replaced with shares. The Bank has two category of potential ordinary shares causing the dilution: share options and subscription warrants. The number of diluting shares is computed as the number of shares that would be issued if all rights to shares were executed at the market price, determined as the average annual closing price of the Bank's shares.

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18. Other comprehensive income

Disclosure of tax effects relating to each component of other comprehensive income	Year ended 31 December 2020			Year ended 31 December 2019		
	Before-tax amount	Tax (expense) benefit	Net amount	Before-tax amount	Tax (expense) benefit	Net amount
Items that may be reclassified subsequently to the the income statement	**519 524**	**(105 481)**	**414 043**	**(25 269)**	**(10 857)**	**(36 126)**
Exchange differences on translation of foreign operations	3 043	-	3 043	32	-	32
Cash flow hedges	370 356	(70 368)	299 988	43 825	(8 326)	35 499
Debt instruments at fair value through other comprehensive income	146 125	(35 113)	111 012	(69 126)	(2 531)	(71 657)
Items that will not be reclassified to the income statement	**(7 718)**	**1 466**	**(6 252)**	**(2 483)**	**481**	**(2 002)**
Actuarial gains and losses relating to post-employment benefits	(7 718)	1 466	(6 252)	(2 483)	481	(2 002)
Total comprehensive income (net)	**511 806**	**(104 015)**	**407 791**	**(27 752)**	**(10 376)**	**(38 128)**

The table below presents detailed information concerning net other comprehensive income for the years 2020 and 2019.

	Year ended 31 December	
	2020	2019
Items that may be reclassified subsequently to the the income statement, including:	**414 043**	**(36 126)**
Exchange differences on translating foreign operations	**3 043**	**32**
Gains or losses on echange differences on translation of foreign operations included in other comprehensive income	3 043	32
Unrealised gains (positive differences) arising during the year (net)	*29 755*	*1 870*
Unrealised losses (negative differences) arising during the year (net)	*(26 712)*	*(1 838)*
Cash flows hedges [effective part]	**299 988**	**35 499**
Gain or losses included in other comprehensive income	503 724	75 289
Unrealized gains arising during the year (net)	*558 394*	*79 415*
Unrealized losses arising during the year (net)	*(54 670)*	*(4 126)*
Reclassification to the income statement (net)	(203 736)	(39 790)
Valuation of debt instruments at fair value through other comprehensive income (net)	**111 012**	**(71 657)**
Gains or losses on valuation of debt instruments included in other comprehensive income	186 497	(43 311)
Unrealised gains on debt instruments arising during the year (net)	*216 554*	*53 769*
Unrealised losses on debt instruments arising during the year (net)	*(30 057)*	*(97 080)*
Reclassification adjustments of gains (losses) on debt instruments to the income statement (net)	(75 485)	(28 346)
Items that will not be reclassified to profit or loss	**(6 252)**	**(2 002)**
Actuarial gains and losses relating to post-employment benefits	(6 252)	(2 002)
Actuarial gains	*3*	*29*
Actuarial losses	*(6 255)*	*(2 031)*
Total comprehensive income (net)	**407 791**	**(38 128)**

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19. Cash and balances with central bank

	31.12.2020	31.12.2019
Cash on hand	1 483 489	1 271 472
Cash balances at central banks	2 485 202	6 625 538
Total cash and cash balances with central banks	**3 968 691**	**7 897 010**

On the basis of the Act on the National Bank of Poland of 29 August 1997, mBank holds a mandatory reserve deposit. The arithmetic mean of daily balances of the mandatory reserve that mBank is obliged to maintain during a given period in the current account with NBP amounted to:

- PLN 631 270 thousand for the period from 31 December 2020 to 30 January 2021,
- PLN 3 562 715 thousand for the period from 31 December 2019 to 30 January 2020,

As at 31 December 2020, the mandatory reserve in Central Bank bore 0.10% interest (31 December 2019: 0.50%).

20. Financial assets and liabilities held for trading and hedging derivatives

Financial assets held for trading and hedging derivatives

	31.12.2020	31.12.2019
Derivatives	**1 722 353**	**959 776**
- Derivatives held for trading classified into banking book	145 107	138 882
- Derivatives held for trading classified into trading book	1 620 288	877 926
- Derivatives designated as fair value hedges	330 455	230 937
- Derivatives designated as cash flow hedges	748 948	273 282
- Offsetting effect	(1 122 445)	(561 251)
Debt securities	**676 466**	**1 733 569**
- General governments	366 517	1 330 541
pledged securities	*19 021*	*162 038*
- Credit institutions	109 109	170 953
- Other financial corporations	72 785	122 429
- Non-financial corporations	128 055	109 646
Loans and advances to customers	**187 902**	**172 689**
- Corporate customers	187 902	172 689
Total financial assets held for trading and hedging derivatives	**2 586 721**	**2 866 034**

Trading securities include securities used to secure sell/buy back transactions with customers, the market value of which as at 31 December 2020 amounted to PLN 19 021 thousand (31 December 2019: PLN 162 038 thousand).

Financial liabilities held for trading and hedging derivatives

	31.12.2020	31.12.2019
Derivatives	1 338 564	948 764
- Derivatives held for trading classified into banking book	322 135	104 161
- Derivatives held for trading classified into trading book	1 280 170	957 386
- Derivatives designated as fair value hedges	7 646	6 451
- Derivatives designated as cash flow hedges	60	12 960
- Offsetting effect	(271 447)	(132 194)
Financial liabilities held for trading and hedging derivatives	**1 338 564**	**948 764**

Derivative financial instruments

The Group has the following types of derivative instruments:

Forward currency transactions represent commitments to purchase foreign and local currencies, including outstanding spot transactions. **Futures for currencies and interest rates** are contractual commitments to receive or pay a specific net value, depending on currency rate of exchange or interest rate variations, or to buy or sell a foreign currency or a financial instrument on a specified future date for a fixed price established on the organised financial market. Because futures contracts are collateralised with fair-valued cash or securities and the changes of the face value of such contracts are accounted for daily in reference to stock exchange quotations, the credit risk is marginal.

FRA contracts are similar to futures except that each FRA is negotiated individually and each requires payment on a specific future date of the difference between the interest rate set in the agreement and the current market rate on the basis of theoretical amount of capital.

Currency and interest rate swap contracts are commitments to exchange one cash flow for another cash flow. Such a transaction results in swap of currencies or interest rates (e.g., fixed to variable interest rate) or combination of all these factors (e.g., cross-currency CIRS). With the exception of specific currency swap contracts, such transactions do not result in swaps of capital. The credit risk of the Group consists of the potential cost of replacing swap contracts if the parties fail to discharge their liabilities. This risk is monitored daily by reference to the current fair value, proportion of the face value of the contracts and market liquidity. The Group evaluates the parties to such contracts using the same methods as for its credit business, to control the level of its credit exposure.

Currency and interest rate options are agreements, pursuant to which the selling party grants the buying party the right, but not an obligation, to purchase (call option) or sell (put option) a specific quantity of a foreign currency or a financial instrument at a predefined price on or by a specific date or within an agreed period. In return for accepting currency or interest rate risk, the buyer offers the seller a premium. An option can be either a public instrument traded at a stock exchange or a private instrument negotiated between the Group and a customer (private transaction). The Group is exposed to credit risk related to purchased options only up to the balance sheet value of such options, i.e. the fair value of the options.

Market risk transactions include futures contracts as well as commodity options, stock options and index options.

Face values of certain types of financial instruments provide a basis for comparing them to instruments disclosed in the statement of financial position but they may not be indicative of the value of the future cash flows or of the present fair value of such instruments. For this reason, the face values do not indicate the level of the Group's exposure to credit risk or price change risk. Derivative instruments can have positive value (assets) or negative value (liabilities), depending on market interest or currency exchange rate fluctuations. The aggregate fair value of derivative financial instruments may be subject to strong variations.

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The fair values of derivatives held by the Bank is presented in the table below.

31.12.2020	Contract amount		Fair value	
	Purchase	Disposal	Assets	Liabilities
Derivatives held for trading				
Foreing exchange derivatives				
- Currency forwards	24 065 543	23 825 486	334 168	82 270
- Currency swaps	21 774 991	21 970 188	91 751	292 387
- Cross-currency interest rate swaps	10 749 492	10 878 299	30 373	90 251
- OTC currency options bought and sold	4 478 235	4 816 593	92 278	57 809
Total OTC derivatives	**61 068 261**	**61 490 566**	**548 570**	**522 717**
- Currency futures	700 385	696 996	-	-
Total foreign exchange derivatives	**61 768 646**	**62 187 562**	**548 570**	**522 717**
Interest rate derivatives				
- Interest rate swap, OIS	231 626 035	231 626 035	901 911	774 307
- Forward rate agreements	3 100 000	2 725 000	38	48
- OTC interest rate options	343 824	398 286	170	331
Total interest rate derivatives	**235 069 859**	**234 749 321**	**902 119**	**774 686**
Market risk transactions	**2 153 766**	**2 175 532**	**314 706**	**304 902**
Total derivative assets / liabilities held for trading	**298 992 271**	**299 112 415**	**1 765 395**	**1 602 305**
Hedging derivatives				
Derivatives designated as fair value hedges	16 419 000	16 419 000	330 455	7 646
- Interest rate swaps	16 419 000	16 419 000	330 455	7 646
Derivatives designated as cash flow hedges	15 549 440	15 443 930	748 948	60
- Interest rate swaps	14 165 000	14 165 000	627 919	60
- Cross-currency interest rate swaps	1 384 440	1 278 930	121 029	-
Total hedging derivatives	**31 968 440**	**31 862 930**	**1 079 403**	**7 706**
Offsetting effect			**(1 122 445)**	**(271 447)**
Total	**330 960 711**	**330 975 345**	**1 722 353**	**1 338 564**
Short-term (up to 1 year)	104 256 335	104 175 990	3 434	652 487
Long-term (over 1 year)	226 704 376	226 799 355	1 718 919	686 077

31.12.2019	Contract amount		Fair value	
	Purchase	Disposal	Assets	Liabilities
Derivatives held for trading				
Forein exchange derivatives				
- Currency forwards	16 797 817	17 079 476	44 518	184 798
- Currency swaps	12 503 301	12 342 221	133 030	51 519
- Cross-currency interest rate swaps	11 659 765	11 697 787	36 749	51 859
- OTC currency options bought and sold	4 018 320	4 324 731	30 626	56 647
Total OTC derivatives	**44 979 203**	**45 444 215**	**244 923**	**344 823**
- Currency futures	282 677	283 586	-	-
Total foreign exchange derivatives	**45 261 880**	**45 727 801**	**244 923**	**344 823**
Interest rate derivatives				
- Interest rate swap, OIS	213 857 628	213 857 629	658 860	607 837
- Forward rate agreements	7 150 000	5 725 850	42	24
- OTC interest rate options	422 692	414 647	108	230
Total interest rate derivatives	**221 430 320**	**219 998 126**	**659 010**	**608 091**
Market risk transactions	**2 611 910**	**2 860 643**	**112 875**	**108 633**
Total derivative assets / liabilities held for trading	**269 304 110**	**268 586 570**	**1 016 808**	**1 061 547**
Hedging derivatives				
Derivatives designated as fair value hedges	12 505 040	12 505 040	230 937	6 451
- Interest rate swaps	12 505 040	12 505 040	230 937	6 451
Derivatives designated as cash flow hedges	16 642 550	16 643 930	273 282	12 960
- Interest rate swaps	15 365 000	15 365 000	273 282	5 436
- Cross-currency interest rate swaps	1 277 550	1 278 930	-	7 524
Total hedging derivatives	**29 147 590**	**29 148 970**	**504 219**	**19 411**
Offsetting effect			**(561 251)**	**(132 194)**
Total	**298 451 700**	**297 735 540**	**959 776**	**948 764**
Short-term (up to 1 year)	100 535 135	99 691 990	243 638	597 022
Long-term (over 1 year)	197 916 565	198 043 550	716 138	351 742

Except of valuation of derivatives, the offsetting effect includes PLN 2 232 thousand of placed collaterals and PLN 762 936 thousand of collaterals received in connection with the derivative transactions subject to compensation (31 December 2019: PLN 4 503 thousand and PLN 364 947 thousand respectively).

In the both reporting periods, market risk transactions comprise the fair values of: stock index options, shares and other equity securities, futures for commodities, swap contracts for commodities.

As at 31 December 2020 and 31 December 2019, the Bank did not hold any financial assets and financial liabilities designated upon initial recognition as at fair value through the income statement.

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Credit quality of financial assets held for trading and derivatives according to internal rating system

Sub-portfolio	31.12.2020		31.12.2019	
	Derivatives	Loans and advances to customers	Derivatives	Loans and advances to customers
1	1 296 539	-	801 848	-
2	402 190	-	286 591	85 408
3	765 232	-	316 716	38 423
4	186 943	187 902	39 797	48 858
5	55 767	-	11 136	-
6	577	-	121	-
7	10 005	-	1 183	-
8	127 447	-	63 388	-
default	98	-	247	-
Offsetting effect	(1 122 445)		(561 251)	
Total	**1 722 353**	**187 902**	**959 776**	**172 689**

Rating	31.12.2020	31.12.2019
	Debt securities	Debt securities
1.0 – 1.2	366 517	1 330 541
1.4 – 1.6	-	21 854
1.8 – 2.0	73 342	91 569
2.2 – 2.8	134 975	151 336
3.0 – 3.8	101 632	138 269
Total	**676 466**	**1 733 569**

Hedge accounting

The Group applies fair value hedge accounting and cash flow hedge accounting. Detailed information on hedge accounting are presented in these Note below.

In accordance with the IFRS9 provisions, only on the day of initial application the Bank had the opportunity to choose as its accounting policy element to continue to apply the IAS 39 hedge accounting requirements instead of the IFRS 9 requirements.

IFRS 9 requires the Bank to ensure that its hedging relationships are compliant with the risk management strategy applied by the Bank and its objectives. IFRS 9 introduces new requirements with regard to the assessment of hedge effectiveness, rebalancing of the hedge relationship as well as it prohibits voluntary discontinuation of hedge accounting (i.e. in the absence of the conditions to stop the application of hedge accounting, as defined in the standard).

The Group decided to continue from 1 January 2018, to apply the hedge accounting requirements in accordance with IAS 39.

The Group determines the hedge ratio based on the nominal value of the hedged item and hedging instrument and it is 1:1 except for mortgage bonds issued by mBank Hipoteczny (mBH) at mBank Group hedging relationship, for which the hedged ratio was determined based on BPV (Basis Point Value).

The sources of hedge ineffectiveness for hedging relationships for which the ineffectiveness arises include mismatch of cash flow dates and repricing periods, base mismatch (e.g. another WIBOR), nominal mismatch in case when the hedge ratio is different than 1:1, CVA/DVA mismatch which is in hedging instrument and is not in hedged instrument and mismatch due to initial valuation of hedging instruments if a previously acquired derivative was included in hedging relationship.

Fair value hedge accounting

The Group applies fair value hedge accounting, under which the only kind of hedged risk is the risk of changes in interest rates.

At the end of each month, the Group evaluates effectiveness of the applied hedging by carrying out analysis of changes in fair value of the hedged and hedging instruments in respect of the hedged risk in order to confirm that hedging relationships are effective in accordance with the accounting policy described in Note 2.13.

Description of the hedging relation

The Group hedges against the risk of change in fair value:

- fixed interest rate eurobonds issued by mFinance France S.A. (mFF), subsidiary of mBank, acquired by the Bank in the substitution process. The hedged risk results from changes in interest rates,
- mortgage bonds issued by mBank Hipoteczny (mBH), a subsidiary of mBank. The hedged risk results from changes in interest rates,
- loans received by mBank from European Investment Bank. The hedged risk results from changes in interest rates,
- fixed interest bonds issued by mBank. The hedged risk results from changes in interest rates,
- part of the fixed interest rate mortgage portfolio granted by mBank's foreign branch in the Czech Republic. The hedged risk results from changes in interest rates,
- part of the portfolio of deposits modelled by the Bank in PLN with economic characteristics of fixed-rate deposits. The hedged risk results from changes in interest rates.

Hedged items

The hedged items are:

- one tranche of fixed interest rate eurobonds issued by mFF, acquired by the Bank in the substitution process, with a total nominal value of EUR 427 583 thousand,
- one tranche of fixed interest rate eurobonds issued by mFF, acquired by the Bank in the substitution process, with a total nominal value of CHF 200 000 thousand,
- fixed interest rate mortgage bonds issued by mBH with a nominal value of EUR 546 900 thousand,
- fixed interest rate loans received by mBank from European Investment Bank with a nominal value of respectively EUR 100 000 thousand, CHF 113 110 thousand, CHF 175 560 thousand and CHF 138 388 thousand,
- fixed rate bonds issued by mBank S.A. with a nominal value of CHF 305 000 thousand,
- fixed rate bonds issued by mBank S.A. with a nominal value of EUR 460 030 thousand,
- part of the fixed interest rate mortgage portfolio, denominated in CZK, granted by mBank's foreign branch in the Czech Republic,
- part of the portfolio of deposits modelled by the Bank in PLN with economic characteristics of fixed-rate deposits.

Hedging instruments

IRS is the hedging instrument swapping the fixed interest rate for a variable interest rate.

Presentation of the result from hedged and hedging transactions

Fair value adjustment of the hedged assets and liabilities as well as valuation of the hedging instruments are recognised in the income statement as trading income, with the exception of interest income and costs of the interest element of the valuation of hedging instruments, which are presented in the item Interest income / expense on derivatives concluded under the fair value hedge.

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Hedged items – fair value hedge

31.12.2020	The carrying amount of the hedged item	The accumulated amount of fair value hedge adjustments on the hedged item included in the carrying amount of the hedged item	The line item in the statement of financial position that includes the hedged item	The change in value of the hedged item used as the basis for recognizing hedge ineffectiveness for the period
Fixed interest rate mortgage portfolio denominated in CZK	820 225	(10 986)	Financial assets at amortised cost – Loans and advances to customers	(10 850)
Bonds issued by mBank S.A. with a fixed interest rate (including those subject to substitution)	(6 300 149)	(61 938)	Financial liabilities measured at amortised cost – Debt securities issued	9 975
Fixed interest rate loans received by mBank from European Investment Bank	(2 331 637)	(46 568)	Financial liabilities measured at amortised cost – Debt securities issued	(20 815)
Deposits modeled by mBank in PLN with economic characteristics of fixed-rate deposits	(4 980 000)	(48 638)	Financial liabilities measured at amortised cost – Amounts due to customers - Loans and advances received	(48 638)
Fixed interest rate mortgage bonds issued by mBH	(2 661 681)	(122 278)	Financial liabilities measured at amortised cost – Debt securities issued	(24 995)
TOTAL				**(95 323)**

31.12.2019	The carrying amount of the hedged item	The accumulated amount of fair value hedge adjustments on the hedged item included in the carrying amount of the hedged item	The line item in the statement of financial position that includes the hedged item	The change in value of the hedged item used as the basis for recognizing hedge ineffectiveness for the period
Fixed interest rate mortgage portfolio denominated in CZK	23 981	(136)	Financial assets at amortised cost – Loans and advances to customers	(136)
Fixed interest rate Eurobonds issued by mFF	(5 097 329)	(44 953)	Financial liabilities measured at amortised cost – Debt securities issued	2 251
Fixed rate bonds issued by mBank	(3 361 997)	(33 373)	Financial liabilities measured at amortised cost – Debt securities issued	(15 068)
Fixed interest rate loans received by mBank from European Investment Bank	(2 128 603)	(25 753)	Financial liabilities measured at amortised cost – Amounts due to customers - Loans and advances received	(21 590)
Fixed interest rate mortgage bonds issued by mBH	(2 567 861)	(97 283)	Financial liabilities measured at amortised cost – Debt securities issued	(45 734)
TOTAL				**(80 277)**

Nominal values of hedging derivatives - fair value hedging

	Up to 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Total
31.12.2020	-	-	1 973 219	13 435 736	1 010 045	**16 419 000**
31.12.2019	-	-	2 129 250	7 219 211	3 156 579	**12 505 040**

The total results of fair value hedge accounting recognised in the income statement

the period	from 01.01.2020 to 31.12.2020	from 01.01.2019 to 31.12.2019
Interest income on derivatives concluded under the fair value hedge accounting (Note 6)	85 714	75 135
Net profit on hedged items (Note 9)	(95 323)	(80 277)
Net profit on fair value hedging instruments (Note 9)	82 729	90 700
The total results of fair value hedge accounting recognised in the income statement	**73 120**	**85 558**

Cash flow hedge accounting

- cash flow hedge accounting of the part of loans at a variable interest rate indexed to the market rate portfolio, granted by the Bank

The Group applies cash flow hedge accounting of the part of loans at a variable interest rate indexed to the market rate portfolio, granted by the Bank. An Interest Rate Swap is the hedging instrument changing the variable interest rate to a fixed interest rate. The interest rate risk is the hedged risk within applied by the Group cash flow hedge accounting. The ineffective portion of the gains or losses on the hedging instrument is presented in Note 9 in the position "Other net trading income and result on hedge accounting". Portion of the gains or losses on the hedging instrument that is an effective hedge, is presented in the statement of comprehensive income as "Cash flow hedges (net)".

The period from January 2021 to August 2029 is the period in which the cash flows are expected, and when they are expected to have an impact on the result.

Hedges items – cash flow hedges

	Nominal value of hedged items		The change in value of the hedged item used as the basis for recognising hedge ineffectiveness for the period		The balances in the cash flow hedge reserve for continuing hedges	
	31.12.2020	31.12.2019	31.12.2020	31.12.2019	31.12.2020	31.12.2019
Loans and advances to customers - loans at a variable interest rate indexed to the market rate portfolio	14 165 000	15 365 000	511 146	161 352	405 680	122 150

The nominal values of hedging derivatives - cash flow hedges

31.12.2020	up to 1 month	1-3 months	3-12 months	1-5 years	over 5 years	Total
INTEREST RATE RISK						
Interest rate swaps (IRS) hedging cash flows arising from granted loans with a variable interest rate denominated in PLN						
Nominal value (PLN '000)	300 000	70 000	650 000	12 945 000	200 000	**14 165 000**
The average rate of fixed leg	1.838%	2.283%	2.163%	1.825%	1.928%	

31.12.2019	up to 1 month	1-3 months	3-12 months	1-5 years	over 5 years	Total
INTEREST RATE RISK						
Interest rate swaps (IRS) hedging cash flows arising from granted loans with a variable interest rate denominated in PLN						
Nominal value (PLN '000)	-	200 000	3 590 000	11 375 000	200 000	**15 365 000**
The average rate of fixed leg	-	1.865%	1.967%	2.095%	1.928%	

The fair value equal to book value of derivatives hedging was presented above in this Note.

Below is given the timetable presenting the periods in which the cash flows from loans secured under the cash flow hedge accounting were expected by the Group and their impact on the profit and loss account.

	up to 3 months	period from 3 months to 1 year	period from 1 year to 5 years	over 5 years
31.12.2020	6 865	13 122	92 059	9 974
31.12.2019	65 461	161 170	439 290	16 813

- cash flow hedges in relation to mortgage loans and mortgage bonds issued by mBank Hipoteczny

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

As part of hedge accounting, the Group 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 Group 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).

The Group 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 Group simultaneously establishes two hedging relationships:

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

For the purpose of calculating changes in the fair value of future cash flows of items being hedged, the Group 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 hedges

	Nominal value of hedged items		Change the fair value due to hedge accounting since the designation of the hedged instrument	
	31.12.2020	31.12.2019	31.12.2020	31.12.2019
Loans in PLN with a variable interest rate	1 278 930	1 278 930	(70 742)	455
Mortgage bonds issued in a convertible currency at a fixed rate	1 384 440	1 277 550	(53 921)	4 772

Hedging items – cash flow hedges

	Nominal value of hedging items		Change the fair value due to hedge accounting from the date of designation of the hedging instrument		Other equity items – effective part of CIRS valuation	
	31.12.2020	31.12.2019	31.12.2020	31.12.2019	31.12.2020	31.12.2019
CIRS variable leg PLN	1 278 930	1 278 930	69 185	85	68 194	(338)
CIRS fixed leg EUR	1 384 440	1 277 550	53 246	(6 207)	(51 589)	(3 377)

The nominal values of hedging derivatives - cash flow hedges

31.12.2020	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
INTEREST RATE RISK						
Interest rate swaps (IRS) hedging cash flows arising from granted loans with a variable interest rate denominated in PLN						
Nominal value (PLN '000)	-	-	-	1 278 930	-	**1 278 930**
The average rate of fixed leg	-	-	-	2.4199%	-	**2.4199%**
CURRENCY RISK						
Foreign exchange swap (CIRS) hedging cash flows arising from issued mortgage bonds						
Nominal value (PLN '000)	-	-	-	1 384 440	-	**1 384 440**
The average rate of fixed leg	-	-	-	0.242%	-	**0.242%**

31.12.2019	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
INTEREST RATE RISK						
Interest rate swaps (IRS) hedging cash flows arising from granted loans with a variable interest rate denominated in PLN						
Nominal value (PLN '000)	-	-	-	-	1 278 930	**1 278 930**
The average rate of fixed leg	-	-	-	-	2.4199%	**2.4199%**
CURRENCY RISK						
Foreign exchange swap (CIRS) hedging cash flows arising from issued mortgage bonds						
Nominal value (PLN '000)	-	-	-	-	1 277 550	**1 277 550**
The average rate of fixed leg	-	-	-	-	0.242%	**0.242%**

The fair value equal to book value of derivatives hedging was presented above in this note.

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 2021 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,
- minimal differences in the construction method and basic parameters of hedging transactions and hedged items.

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 "Gains or losses from hedge accounting" or "Foreign exchange result". 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 "Foreign exchange result" 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 following note presents other comprehensive income due to cash flow hedges for the period from 1 January to 31 December 2020 and for the period from 1 January to 31 December 2019.

the period	from 01.01.2020 to 31.12.2020	from 01.01.2019 to 31.12.2019
Other gross comprehensive income from cash flow hedge at the beginning of the period	**147 088**	**103 263**
Unrealised gains/losses included in other gross comprehensive income during the reporting period	621 882	92 949
Profits / (Losses) recognized in other comprehensive income in the period	(251 526)	(49 124)
- *net interest income*	(144 636)	*(50 504)*
- *foreign exchange result*	(106 890)	*1 380*
Accumulated other gross comprehensive income at the end of the reporting period	**517 444**	**147 088**
Deferred income tax on accumulated other comprehensive income at the end of the reporting period	(98 314)	(27 946)
Accumulated other net comprehensive income at the end of the reporting period	**419 130**	**119 142**
Impact on other comprehensive income in the reporting period (gross)	370 356	43 825
Deferred tax on cash flow hedges	(70 368)	(8 326)
Impact on other comprehensive income in the reporting period (net)	**299 988**	**35 499**

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the period	from 01.01.2020 to 31.12.2020	from 01.01.2019 to 31.12.2019
Gains/losses recognised in comprehensive income (gross) during the reporting period, including:		
Unrealised gains/losses included in other comprehensive income (gross)	370 356	43 825
Results of cash flow hedge accounting recognised in the income statement	253 128	46 896
- amount included as interest income in income statement during the reporting period (Note 6)	*144 636*	*50 504*
- ineffective portion of hedge recognised included in other net trading income in income statement (Note 9)	*1 602*	*(2 228)*
- foreign exchange result	*106 890*	*(1 380)*
Impact on other comprehensive income in the reporting period (gross)	**623 484**	**90 721**

Impact of the IBOR reform

In connection with the amendments to the standards IFRS 9, IAS 39 and IFRS 7, Interest Rate Benchmark Reform, described in the Note 2.29 and as a result of an ongoing reform of the interest rate reference benchmark and its replacement with a risk free alternative interest rate, the Bank has established a project to manage the transition for any of its contracts that could be affected. The specific impact of IBOR reform on the Bank's hedging activities is subject to the management as part of the overall project to achieve IBOR reform in the Bank.

The table below indicates the nominal amount and weighted average maturity of derivatives in hedging relationships that will be affected by IBOR reform, analyzed by interest rate basis. The derivative hedging instruments provide a close approximation to the extent of the risk exposure the Bank manages through hedging relationships.

	31.12.2020		31.12.2019	
	Nominal amount	Average maturity (years)	Nominal amount	Average maturity (years)
Interest Rate swaps				
LIBOR CHF (3 months)	3 974 386	6.3	3 654 877	6.3
EURIBOR (3 months)	6 625 066	4.6	8 721 408	6.0
EURIBOR (6 months)	114 909	7.0	106 037	7.0
WIBOR (1 months)	1 200 000	4.5	2 000 000	3.5
WIBOR (3 months)	12 515 000	4.6	12 965 000	4.4
WIBOR (6 months)	450 000	5.0	400 000	2.7
PRIBOR (3 months)	806 310	5.0	22 718	5.0
Interest Rate swaps, total	**25 685 671**		**27 870 040**	
Cross Currency swaps				
LIBOR EUR (3 months)	1 278 930	5.8	1 277 550	5.8
Cross Currency swaps, total	**1 278 930**		**1 277 550**	
Total	**26 964 601**		**29 147 590**	

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21. Non-trading financial assets mandatorily at fair value through profit or loss

	31.12.2020	31.12.2019
Equity instruments	**202 304**	**162 616**
- Other financial corporations	139 718	106 250
- Non-financial corporations	62 586	56 366
Debt securities	**76 068**	**133 774**
- Other financial corporations	76 068	133 774
Loans and advances to customers	**1 506 319**	**1 971 532**
- Individual customers	1 216 809	1 685 799
- Corporate customers	288 777	279 062
- Public sector customers	733	6 671
Total non-trading financial assets mandatorily at fair value through profit or loss	**1 784 691**	**2 267 922**
Short-term (up to 1 year) gross	1 083 487	1 382 155
Long-term (over 1 year) gross	701 204	885 767

Credit quality of non-trading financial assets mandatorily at fair value through profit or loss according to internal rating system

Rating	31.12.2020	31.12.2019
	Debt securities	Dept securities
1.8 – 2.0	76 068	133 774
Total (Book value)	**76 068**	**133 774**

Sub-portfolio	31.12.2020	31.12.2019
	Loans and advances to customers	Loans and advances to customers
1	59 355	94 707
2	266 839	358 725
3	231 633	333 443
4	459 293	520 878
5	248 674	302 544
6	37 660	35 206
7	59 856	141 973
default	143 009	184 056
Total (Book value)	**1 506 319**	**1 971 532**

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22. Financial assets at fair value through other comprehensive income

31.12.2020	Carrying amount	Gross carrying amount				Accumulated impairment			
		Stage 1	Stage 2	Stage 3	POCI	Stage 1	Stage 2	Stage 3	POCI
Debt securities	**35 498 061**	**35 392 158**	**111 568**	**-**	**-**	**(3 754)**	**(1 911)**	**-**	**-**
- Central banks	184 996	184 996	-	-	-	-	-	-	-
- General governments, including:	33 177 825	33 177 912	-	-	-	(87)	-	-	-
pledged securities	*1 243 749*	*1 243 749*	-	-	-	-	-	-	-
- Credit institutions	222 380	222 570	-	-	-	(190)	-	-	-
- Other financial institutions	1 373 371	1 374 996	-	-	-	(1 625)	-	-	-
- Non-financial corporations	539 489	431 684	111 568	-	-	(1 852)	(1 911)	-	-
Total financial assets at fair value through other comprehensive income	**35 498 061**	**35 392 158**	**111 568**	**-**	**-**	**(3 754)**	**(1 911)**	**-**	**-**

Short-term (up to 1 year) gross	12 582 844
Long-term (over 1 year) gross	22 920 882

31.12.2019	Carrying amount	Gross carrying amount				Accumulated impairment			
		Stage 1	Stage 2	Stage 3	POCI	Stage 1	Stage 2	Stage 3	POCI
Debt securities	**22 773 921**	**22 737 162**	**41 121**	**-**	**-**	**(3 242)**	**(1 120)**	**-**	**-**
- Central banks	3 219 627	3 219 627	-	-	-	-	-	-	-
- General governments, including:	17 573 979	17 574 048	-	-	-	(69)	-	-	-
pledged securities	*1 232 295*	*1 232 295*	-	-	-	-	-	-	-
- Credit institutions	263 460	264 583	-	-	-	(1 123)	-	-	-
- Other financial institutions	1 162 968	1 163 964	-	-	-	(996)	-	-	-
- Non-financial corporations	553 887	514 940	41 121	-	-	(1 054)	(1 120)	-	-
Total financial assets at fair value through other comprehensive income	**22 773 921**	**22 737 162**	**41 121**	**-**	**-**	**(3 242)**	**(1 120)**	**-**	**-**

Short-term (up to 1 year) gross	4 031 311
Long-term (over 1 year) gross	18 746 972

As at 31 December 2020, the carrying values of debt securities with fixed interest rates amounted to PLN 20 560 277 thousand and debt securities with variable interest rates PLN 14 943 449 thousand (31 December 2019, respectively: PLN 11 974 479 thousand and PLN 10 803 804 thousand).

The above note includes government bonds pledged under the Bank Guarantee Fund (BFG), government bonds pledged as sell/buy back transactions, government bonds pledged as collateral for the loans received from the European Investment Bank.

In accordance with the Act of 10 June 2016 on the Bank Guarantee Fund, with further amendments (BFG), Deposit Guarantee Scheme and Resolution, as at 31 December 2020 the Group held government bonds and bills included in the statement of financial position in the amount of PLN 638 044 thousand with a nominal value of PLN 610 660 thousand, which were pledged as collateral for the BFG and were deposited in a separate account at the National Depository of Securities (31 December 2019, respectively: PLN 634 764 thousand and PLN 625 660 thousand).

In addition the Bank held government bonds, which were securing the payment commitment to the BFG guarantee fund and forced restructuring fund in the amount of PLN 57 029 thousand (31 December 2019: PLN 56 244 thousand).

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Movements in expected credit losses allowance on financial assets at fair value through other comprehensive income

Change from 1 January to 31 December 2020	As at the beginning of the period	Transfer to Stage 1	Transfer to Stage 2	Transfer to Stage 3	New financial assets originated or purchased	Financial assets derecognised during the period	Changes in credit risk	As at the end of the period
Debt securities	**(4 362)**	**-**	**-**	**-**	**(1 978)**	**2 210**	**(1 535)**	**(5 665)**
Stage 1	(3 242)	-	182	-	(1 978)	2 192	(908)	(3 754)
Stage 2	(1 120)	-	(182)	-	-	18	(627)	(1 911)
Expected credit losses allowance, total	**(4 362)**	**-**	**-**	**-**	**(1 978)**	**2 210**	**(1 535)**	**(5 665)**

Change from 1 January to 31 December 2019	As at the beginning of the period	Transfer to Stage 1	Transfer to Stage 2	Transfer to Stage 3	New financial assets originated or purchased	Financial assets derecognised during the period	Changes in credit risk	As at the end of the period
Debt securities	**(4 535)**	**-**	**-**	**-**	**(963)**	**2 518**	**(1 382)**	**(4 362)**
Stage 1	(4 171)	(214)	72	-	(963)	2 367	(333)	(3 242)
Stage 2	(364)	214	(72)	-	-	151	(1 049)	(1 120)
Expected credit losses allowance, total	**(4 535)**	**-**	**-**	**-**	**(963)**	**2 518**	**(1 382)**	**(4 362)**

Explanation of changes in the financial instruments gross carrying amount impacting the changes on expected credit losses allowance

Change from 1 January to 31 December 2020	As at the beginning of the period	Transfer to Stage 1	Transfer to Stage 2	Transfer to Stage 3	New financial assets originated or purchased	Financial assets derecognised during the period	Other movements	As at the end of the period
Debt securities	**22 778 283**	**-**	**-**	**-**	**26 442 762**	**(13 513 270)**	**(204 049)**	**35 503 726**
Stage 1	22 737 162	-	(96 872)	-	26 438 084	(13 513 270)	(172 946)	35 392 158
Stage 2	41 121	-	96 872	-	4 678	-	(31 103)	111 568
Financial assets at fair value through other comprehensive income, gross	**22 778 283**	**-**	**-**	**-**	**26 442 762**	**(13 513 270)**	**(204 049)**	**35 503 726**

Change from 1 January to 31 December 2019	As at the beginning of the period	Transfer to Stage 1	Transfer to Stage 2	Transfer to Stage 3	New financial assets originated or purchased	Financial assets derecognised during the period	Other movements	As at the end of the period
Debt securities	**24 342 819**	**-**	**-**	**-**	**15 882 431**	**(18 387 362)**	**940 395**	**22 778 283**
Stage 1	24 321 098	12 952	(40 218)	-	15 882 431	(18 378 592)	939 491	22 737 162
Stage 2	21 721	(12 952)	40 218	-	-	(8 770)	904	41 121
Financial assets at fair value through other comprehensive income, gross	**24 342 819**	**-**	**-**	**-**	**15 882 431**	**(18 387 362)**	**940 395**	**22 778 283**

Credit quality of financial assets at fair value through other comprehensive income according to internal rating system

31.12.2020	Stage 1	Stage 2	Stage 3	POCI	Total
Debt securities at fair value through other comprehensive income					
1.0 - 1.2	34 307 385	-	-	-	34 307 385
1.4 - 1.6	56	-	-	-	56
1.8 - 2.0	461 854	-	-	-	461 854
2.2 - 2.8	218 722	-	-	-	218 722
3.0 - 3.8	404 141	68 206	-	-	472 347
No-rating	-	43 362	-	-	43 362
Gross carrying amount	**35 392 158**	**111 568**	**-**	**-**	**35 503 726**
Accumulated impairment	(3 754)	(1 911)	-	-	(5 665)
Total carrying amount	**35 388 404**	**109 657**	**-**	**-**	**35 498 061**

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31.12.2019	Stage 1	Stage 2	Stage 3	POCI	Total
Debt securities at fair value through other comprehensive income					
1.0 - 1.2	21 517 703	-	-	-	21 517 703
1.4 - 1.6	27 709	-	-	-	27 709
1.8 - 2.0	496 788	-	-	-	496 788
2.2 - 2.8	256 391	-	-	-	256 391
3.0 - 3.8	438 571	-	-	-	438 571
4.0 - 5.0	-	41 121	-	-	41 121
Gross carrying amount	**22 737 162**	**41 121**	**-**	**-**	**22 778 283**
Accumulated impairment	(3 242)	(1 120)	-	-	(4 362)
Total carrying amount	**22 733 920**	**40 001**	**-**	**-**	**22 773 921**

23. Financial assets at amortised cost

31.12.2020	Carrying amount	Gross carrying amount				Accumulated impairment			
		Stage 1	Stage 2	Stage 3	POCI	Stage 1	Stage 2	Stage 3	POCI
Debt securities	**15 952 501**	**15 952 636**	**-**	**-**	**-**	**(135)**	**-**	**-**	**-**
- General governments, including:	11 303 908	11 303 908	-	-	-	-	-	-	-
pledged securities	*2 705 060*	*2 705 060*	-	-	-	-	-	-	-
- Credit institutions	1 984 770	1 984 770	-	-	-	-	-	-	-
- Other financial institutions	2 663 823	2 663 958	-	-	-	(135)	-	-	-
Loans and advances to banks	**7 354 268**	**7 354 870**	**-**	**-**	**-**	**(602)**	**-**	**-**	**-**
Loans and advances to customers	**108 137 810**	**92 375 263**	**14 379 227**	**4 729 948**	**294 198**	**(296 810)**	**(441 217)**	**(2 871 497)**	**(31 302)**
Individual customers	64 194 569	55 461 025	8 265 151	2 162 827	110 450	(164 491)	(291 489)	(1 341 134)	(7 770)
Corporate customers	43 713 672	36 687 052	6 111 911	2 566 052	183 748	(132 050)	(149 727)	(1 529 782)	(23 532)
Public sector customers	229 569	227 186	2 165	1 069	-	(269)	(1)	(581)	-
Total financial assets at amortised cost	**131 444 579**	**115 682 769**	**14 379 227**	**4 729 948**	**294 198**	**(297 547)**	**(441 217)**	**(2 871 497)**	**(31 302)**

Short-term (up to 1 year) gross	45 976 949
Long-term (over 1 year) gross	89 109 193

31.12.2019	Carrying amount	Gross carrying amount				Accumulated impairment			
		Stage 1	Stage 2	Stage 3	POCI	Stage 1	Stage 2	Stage 3	POCI
Debt securities	**11 234 873**	**11 234 952**	**-**	**-**	**-**	**(79)**	**-**	**-**	**-**
- General governments, including:	9 975 484	9 975 484	-	-	-	-	-	-	-
pledged securities	*1 799 235*	*1 799 235*	-	-	-	-	-	-	-
- Other financial institutions	1 259 389	1 259 468	-	-	-	(79)	-	-	-
Loans and advances to banks	**4 341 758**	**4 342 890**	**-**	**-**	**-**	**(1 132)**	**-**	**-**	**-**
Loans and advances to customers	**103 203 254**	**94 130 201**	**7 920 046**	**4 105 697**	**237 588**	**(313 118)**	**(258 035)**	**(2 603 391)**	**(15 734)**
Individual customers	56 999 856	52 456 328	4 076 251	2 039 606	102 706	(189 868)	(198 492)	(1 284 124)	(2 551)
Corporate customers	45 819 083	41 290 212	3 843 795	2 065 043	134 882	(122 923)	(59 543)	(1 319 200)	(13 183)
Public sector customers	384 315	383 661	-	1 048	-	(327)	-	(67)	-
Total financial assets at amortised cost	**118 779 885**	**109 708 043**	**7 920 046**	**4 105 697**	**237 588**	**(314 329)**	**(258 035)**	**(2 603 391)**	**(15 734)**

Short-term (up to 1 year) gross	42 975 941
Long-term (over 1 year) gross	78 995 433

The above note includes government bonds pledged under the Bank Guarantee Fund, government bonds pledged as collateral for the loans received from the European Investment Bank.

In addition the Group held government bonds, which were securing the payment commitment to the BFG guarantee fund and forced restructuring fund in the amount of PLN 244 046 thousand (31 December 2019: PLN 155 531 thousand).

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Loans and advances to banks

	31.12.2020	31.12.2019
Current accounts	274 220	336 178
Placements with other banks (up to 3 months)	6 135	46 200
Included in cash equivalents (Note 40)	**280 355**	**382 378**
Loans and advances	111 584	150 251
Reverse repo or buy/sell back	6 301 724	3 362 331
Other receivables	661 207	447 930
Total (gross) loans and advances to banks	**7 354 870**	**4 342 890**
Provisions created for loans and advances to banks (negative amount)	**(602)**	**(1 132)**
Total (net) loans and advances to banks	**7 354 268**	**4 341 758**
Short-term (up to 1 year) gross	7 183 716	4 324 618
Long-term (over 1 year) gross	171 154	18 272

The item "Other receivables" includes cash collaterals in the amount of PLN 531 674 thousand, placed by the Group under the derivative transactions (Note 34) (31 December 2019 – PLN 390 464 thousand).

As at 31 December 2020, the variable rate loans to banks amounted to PLN 35 952 thousand (31 December 2019 – PLN 130 968 thousand) and the fixed rate loans to banks amounted to PLN 75 632 thousand (31 December 2019 – PLN 19 283 thousand).

As at 31 December 2020 and 31 December 2019 the term placements with other banks were fixed rated. An average interest rate for placements in other banks and loans granted to other banks amounted to 0.75% (2019 - 1.70%).

The following table presents receivables from Polish and foreign banks:

	31.12.2020		31.12.2019	
	Loans and advances to Polish banks	Loans and advances to foreign banks (gross)	Loans and advances to Polish banks	Loans and advances to foreign banks (gross)
Gross carrying amount	195 686	7 159 184	233 294	4 109 596
Accumulated impairment	(132)	(470)	(58)	(1 074)
Loans and advances to banks, net	**195 554**	**7 158 714**	**233 236**	**4 108 522**

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Loans and advances to customers

Loans and advances to customers 31.12.2020	Gross carrying amount	including:		
		Individual customers	Corporate customers	Public sector customers
Current accounts	11 762 492	7 389 930	4 371 243	1 319
Term loans, including:	84 827 745	58 318 303	26 280 341	229 101
- housing and mortgage loans to natural persons	*45 978 684*	*45 978 684*		
Reverse repo or buy/sell back	103 832	-	103 832	-
Finance leases	12 253 821	-	12 253 821	-
Other loans and advances	2 523 145	-	2 523 145	-
Other receivables	307 601	291 220	16 381	-
Total gross carrying amount	**111 778 636**	**65 999 453**	**45 548 763**	**230 420**

Loans and advances to customers 31.12.2020	Accumulated impairment	including		
		Individual customers	Corporate customers	Public sector customers
Current accounts	(848 459)	(582 742)	(265 717)	-
Term loans, including:	(2 286 946)	(1 222 142)	(1 063 953)	(851)
- housing and mortgage loans to natural persons	*(464 821)*	*(464 821)*		
Finance leases	(453 398)	-	(453 398)	-
Other loans and advances	(52 023)	-	(52 023)	-
Total accumulated impairment	**(3 640 826)**	**(1 804 884)**	**(1 835 091)**	**(851)**

Total gross carrying amount	**111 778 636**	**65 999 453**	**45 548 763**	**230 420**
Total accumulated impairment	(3 640 826)	(1 804 884)	(1 835 091)	(851)
Total carrying amount	**108 137 810**	**64 194 569**	**43 713 672**	**229 569**

Short-term (up to 1 year) gross	35 862 048
Long-term (over 1 year) gross	75 916 588

Loans and advances to customers 31.12.2019	Gross carrying amount	including:		
		Individual customers	Corporate customers	Public sector customers
Current accounts	13 455 553	7 493 468	5 958 926	3 159
Term loans, including:	78 051 279	50 819 397	26 850 332	381 550
- housing and mortgage loans to natural persons	*38 979 040*	*38 979 040*		
Reverse repo or buy/sell back	13 398	-	13 398	-
Finance leases	11 631 675	-	11 631 675	-
Other loans and advances	2 629 690	-	2 629 690	-
Other receivables	611 937	362 026	249 911	-
Total gross carrying amount	**106 393 532**	**58 674 891**	**47 333 932**	**384 709**

Loans and advances to customers 31.12.2019	Accumulated impairment	including		
		Individual customers	Corporate customers	Public sector customers
Current accounts	(966 201)	(664 889)	(301 312)	-
Term loans, including:	(1 901 009)	(1 010 146)	(890 469)	(394)
- housing and mortgage loans to natural persons	*(414 932)*	*(414 932)*		
Finance leases	(289 832)	-	(289 832)	-
Other loans and advances	(33 236)	-	(33 236)	-
Total accumulated impairment	**(3 190 278)**	**(1 675 035)**	**(1 514 849)**	**(394)**

Total gross carrying amount	**106 393 532**	**58 674 891**	**47 333 932**	**384 709**
Total accumulated impairment	(3 190 278)	(1 675 035)	(1 514 849)	(394)
Total carrying amount	**103 203 254**	**56 999 856**	**45 819 083**	**384 315**

Short-term (up to 1 year) gross	36 875 519
Long-term (over 1 year) gross	69 518 013

As at 31 December 2020, gross amount of variable interest rate loans amounted to PLN 109 215 319 thousand and fixed interest rate loans amounted to PLN 2 563 317 thousand (31 December 2019 – PLN 104 907 634 thousand and PLN 1 485 898 thousand). The average interest rate for loans granted to customers (excluding reverse repo) amounted to 3.01% (31 December 2019 - 3.55%).

In the item loans and advances granted to individual customers were also included loans granted to microenterprises serviced by mBank S.A. Retail Banking.

As at 31 December 2020, the above note includes receivables in the amount of PLN 182 801 thousand from the National Depository of Securities CCP in connection with the Brokerage Office activity (31 December 2019 - PLN 49 898 thousand).

In addition, the item "other" includes cash collaterals in the amount of PLN 220 550 thousand placed by the Bank under derivatives transactions (Note 34) (31 December 2019 - PLN 27 234 thousand).

Loans and advances include receivables under finance leases.

	31.12.2020	31.12.2019
Gross investment in finance leases, receivable:	**12 971 095**	**12 548 843**
- not later than 1 year	4 514 176	4 477 115
- later than 1 year and not later than 2 years	3 461 500	3 028 537
- later than 2 year and not later than 3 years	2 335 605	2 447 779
- later than 3 year and not later than 4 years	1 374 487	1 281 767
- later than 4 year and not later than 5 years	625 701	665 683
- later than 5 years	659 626	647 962
Unearned future finance income on finance leases (negative amount)	(717 274)	(917 168)
Net investment in finance leases	**12 253 821**	**11 631 675**
Net investment in finance leases, receivable:	**12 253 821**	**11 631 675**
- not later than 1 year	4 217 959	4 108 257
- later than 1 year and not later than 2 years	3 259 519	2 793 006
- later than 2 year and not later than 3 years	2 231 660	2 296 320
- later than 3 year and not later than 4 years	1 318 487	1 213 184
- later than 4 year and not later than 5 years	600 267	630 089
- later than 5 years	625 929	590 819
Net investment in finance leases	**12 253 821**	**11 631 675**
Impairment provisions for finance leases receivable	**(453 398)**	**(289 832)**
Net carrying amount of finance leases receivable	**11 800 423**	**11 341 843**
Unguaranteed residual value accruing to the lessor	**1 647 526**	**1 325 027**

The currency structure of housing and mortgage loans

	31.12.2020	31.12.2019
Net housing and mortgage loans to natural persons (in PLN '000), including:	**45 513 863**	**38 564 108**
- PLN	23 789 950	18 624 049
- CHF	13 559 830	13 561 831
- EUR	3 844 598	3 120 555
- CZK	4 113 213	3 024 539
- USD	182 238	206 635
- Other currency	24 034	26 499
Net housing and mortgage loans to natural persons in original currencies (main currencies in '000)		
- PLN	23 789 950	18 624 049
- CHF	3 179 998	3 458 504
- EUR	833 102	732 783
- CZK	23 463 851	18 046 175
- USD	48 488	54 411

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Credit quality of financial assets at amortised cost according to internal rating system

31.12.2020	Stage 1	Stage 2	Stage 3	POCI	Total
Debt securities at amortised cost					
1.0 - 1.2	12 914 524	-	-	-	12 914 524
1.8 – 2.0	3 038 112	-	-	-	3 038 112
Gross carrying amount	**15 952 636**	**-**	**-**	**-**	**15 952 636**
Accumulated impairment	(135)	-	-	-	(135)
Total carrying amount	**15 952 501**	**-**	**-**	**-**	**15 952 501**
Loans and advances to banks at amortised cost					
1	7 028 341	-	-	-	7 028 341
2	272 589	-	-	-	272 589
3	283	-	-	-	283
4	38 242	-	-	-	38 242
8	5 595	-	-	-	5 595
other	9 820	-	-	-	9 820
Gross carrying amount	**7 354 870**	**-**	**-**	**-**	**7 354 870**
Accumulated impairment	(602)	-	-	-	(602)
Total carrying amount	**7 354 268**	**-**	**-**	**-**	**7 354 268**
Loans and advances to customers at amortised cost					
1	19 039 629	736 222	-	-	19 775 851
2	27 376 674	3 168 027	-	4 054	30 548 755
3	11 541 110	1 175 695	-	3 570	12 720 375
4	25 012 163	3 201 320	-	4 488	28 217 971
5	5 970 121	3 447 832	-	1 461	9 419 414
6	229 756	361 375	-	49	591 180
7	410 245	2 153 791	-	8 585	2 572 621
8	635 709	-	-	-	635 709
other	2 159 856	134 965	-	-	2 294 821
default	-	-	4 729 948	271 991	5 001 939
Gross carrying amount	**92 375 263**	**14 379 227**	**4 729 948**	**294 198**	**111 778 636**
Accumulated impairment	(296 810)	(441 217)	(2 871 497)	(31 302)	(3 640 826)
Total carrying amount	**92 078 453**	**13 938 010**	**1 858 451**	**262 896**	**108 137 810**

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31.12.2019	Stage 1	Stage 2	Stage 3	POCI	Total
Debt securities at amortised cost					
1.0 - 1.2	11 234 952	-	-	-	11 234 952
Gross carrying amount	**11 234 952**	**-**	**-**	**-**	**11 234 952**
Accumulated impairment	(79)	-	-	-	(79)
Total carrying amount	**11 234 873**	**-**	**-**	**-**	**11 234 873**
Loans and advances to banks at amortised cost					
1	4 015 073	-	-	-	4 015 073
2	180 326	-	-	-	180 326
3	5 146	-	-	-	5 146
4	66 160	-	-	-	66 160
5	5 336	-	-	-	5 336
8	63 855	-	-	-	63 855
other	6 994	-	-	-	6 994
Gross carrying amount	**4 342 890**	**-**	**-**	**-**	**4 342 890**
Accumulated impairment	(1 132)	-	-	-	(1 132)
Total carrying amount	**4 341 758**	**-**	**-**	**-**	**4 341 758**
Loans and advances to customers at amortised cost					
1	13 510 433	170 361	-	-	13 680 794
2	32 498 006	1 461 030	-	4 382	33 963 418
3	12 736 011	541 592	-	1 081	13 278 684
4	25 434 263	1 717 653	-	75 811	27 227 727
5	5 661 994	1 683 335	-	2 531	7 347 860
6	381 476	527 024	-	371	908 871
7	768 670	1 767 932	-	15 331	2 551 933
8	776 116	7 730	-	-	783 846
other	2 363 232	43 389	-	-	2 406 621
default	-	-	4 105 697	138 081	4 243 778
Gross carrying amount	**94 130 201**	**7 920 046**	**4 105 697**	**237 588**	**106 393 532**
Accumulated impairment	(313 118)	(258 035)	(2 603 391)	(15 734)	(3 190 278)
Total carrying amount	**93 817 083**	**7 662 011**	**1 502 306**	**221 854**	**103 203 254**

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Movements in expected credit losses allowance

Change from 1 January to 31 December 2020	As at the beginning of the period	Transfer to Stage 1	Transfer to Stage 2	Transfer to Stage 3	New financial assets originated or purchased	Financial assets derecognised during the period	Changes in credit risk	Write-offs	Other movements	As at the end of the period
Debt securities	**(79)**	**-**	**-**	**-**	**(18)**	**-**	**(38)**	**-**	**-**	**(135)**
Stage 1	(79)	-	-	-	(18)	-	(38)	-	-	(135)
Loans and advances to banks	**(1 132)**	**-**	**-**	**-**	**(821)**	**1 409**	**(58)**	**-**	**-**	**(602)**
Stage 1	(1 132)	-	-	-	(821)	1 409	(58)	-	-	(602)
Loans and advances to customers	**(3 190 278)**	**-**	**-**	**-**	**(319 078)**	**290 685**	**(1 209 342)**	**749 991**	**37 196**	**(3 640 826)**
Stage 1	(313 118)	(459 747)	191 924	5 152	(116 897)	75 031	320 845	-	-	(296 810)
Stage 2	(258 035)	428 279	(247 788)	172 655	(46 854)	41 774	(531 248)	-	-	(441 217)
Stage 3	(2 603 391)	31 468	55 864	(177 787)	(136 582)	173 886	(998 834)	746 683	37 196	(2 871 497)
POCI	(15 734)	-	-	(20)	(18 745)	(6)	(105)	3 308	-	(31 302)
Expected credit losses allowance, total	**(3 191 489)**	**-**	**-**	**-**	**(319 917)**	**292 094**	**(1 209 438)**	**749 991**	**37 196**	**(3 641 563)**

Change from 1 January to 31 December 2019	As at the beginning of the period	Transfer to Stage 1	Transfer to Stage 2	Transfer to Stage 3	New financial assets originated or purchased	Financial assets derecognised during the period	Changes in credit risk	Write-offs	Other movements	As at the end of the period
Debt securities	**(87)**	**-**	**-**	**-**	**-**	**-**	**8**	**-**	**-**	**(79)**
Stage 1	(87)	-	-	-	-	-	8	-	-	(79)
Loans and advances to banks	**(1 518)**	**-**	**-**	**-**	**(1 560)**	**1 529**	**417**	**-**	**-**	**(1 132)**
Stage 1	(1 518)	-	-	-	(1 560)	1 529	417	-	-	(1 132)
Loans and advances to customers	**(3 042 547)**	**-**	**-**	**-**	**(265 758)**	**144 356**	**(623 937)**	**597 253**	**355**	**(3 190 278)**
Stage 1	(214 875)	(382 332)	102 610	4 397	(119 016)	50 598	245 500	-	-	(313 118)
Stage 2	(220 963)	333 478	(130 698)	128 900	(21 970)	21 901	(368 616)	-	(67)	(258 035)
Stage 3	(2 599 882)	48 854	28 088	(133 297)	(124 522)	76 222	(488 828)	589 552	422	(2 603 391)
POCI	(6 827)	-	-	-	(250)	(4 365)	(11 993)	7 701	-	(15 734)
Expected credit losses allowance, total	**(3 044 152)**	**-**	**-**	**-**	**(267 318)**	**145 885**	**(623 512)**	**597 253**	**355**	**(3 191 489)**

Movements in expected credit losses resulting from changes in models are described in the Note 3.3.6.2.2.

Explanation of changes in the gross carrying amount impacting the changes on expected credit losses allowancee

Change from 1 January to 31 December 2020	As at the beginning of the period	Transfer to Stage 1	Transfer to Stage 2	Transfer to Stage 3	New financial assets originated or purchased	Financial assets derecognised during the period	Write-offs	Other movements	As at the end of the period
Debt securities	**11 234 952**	**-**	**-**	**-**	**5 880 802**	**(1 764 212)**	**-**	**601 094**	**15 952 636**
Stage 1	11 234 952	-	-	-	5 880 802	(1 764 212)	-	601 094	15 952 636
Loans and advances to banks	**4 342 890**	**-**	**-**	**-**	**6 606 475**	**(3 784 808)**	**-**	**190 313**	**7 354 870**
Stage 1	4 342 890	-	-	-	6 606 475	(3 784 808)	-	190 313	7 354 870
Loans and advances to customers	**106 393 532**	**-**	**-**	**-**	**31 608 750**	**(22 512 717)**	**(749 991)**	**(2 960 938)**	**111 778 636**
Stage 1	94 130 201	2 138 313	(8 600 097)	(1 076 743)	28 782 346	(20 250 185)	-	(2 748 572)	92 375 263
Stage 2	7 920 046	(2 098 705)	8 684 824	(579 870)	2 346 404	(1 752 517)	-	(140 955)	14 379 227
Stage 3	4 105 697	(39 608)	(84 727)	1 552 183	466 903	(497 453)	(746 683)	(26 364)	4 729 948
POCI	237 588	-	-	104 430	13 097	(12 562)	(3 308)	(45 047)	294 198
Financial assets at amortised cost, gross	**121 971 374**	**-**	**-**	**-**	**44 096 027**	**(28 061 737)**	**(749 991)**	**(2 169 531)**	**135 086 142**

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Change from 1 January to 31 December 2019	As at the beginning of the period	Transfer to Stage 1	Transfer to Stage 2	Transfer to Stage 3	New financial assets originated or purchased	Financial assets derecognised during the period	Write-offs	Other movements	As at the end of the period
Debt securities	**9 000 626**	**-**	**-**	**-**	**1 952 008**	**(486 122)**	**-**	**768 440**	**11 234 952**
Stage 1	9 000 626	-	-	-	1 952 008	(486 122)	-	768 440	11 234 952
Loans and advances to banks	**2 547 864**	**-**	**-**	**-**	**3 517 663**	**(1 696 413)**	**-**	**(26 224)**	**4 342 890**
Stage 1	2 547 864	-	-	-	3 517 663	(1 696 413)	-	(26 224)	4 342 890
Loans and advances to customers	**95 059 979**	**-**	**-**	**-**	**34 350 790**	**(18 991 377)**	**(597 253)**	**(3 428 607)**	**106 393 532**
Stage 1	82 159 668	3 406 464	(3 116 956)	(626 902)	32 103 237	(16 817 502)	-	(2 977 808)	94 130 201
Stage 2	8 714 545	(3 253 951)	3 189 531	(450 634)	1 916 470	(1 861 076)	-	(334 839)	7 920 046
Stage 3	3 976 749	(152 513)	(72 575)	992 776	318 861	(302 412)	(589 552)	(65 637)	4 105 697
POCI	209 017	-	-	84 760	12 222	(10 387)	(7 701)	(50 323)	237 588
Financial assets at amortised cost, gross	**106 608 469**	**-**	**-**	**-**	**39 820 461**	**(21 173 912)**	**(597 253)**	**(2 686 391)**	**121 971 374**

Financial effect of collaterals

31.12.2020	Gross amount	Accumulated impairment	Accumulated impairment without cash flow from collaterals	Financial effect of collaterals
Balace sheet data				
Loans and advances to banks	7 354 870	(602)	(1 074)	472
Loans and advances to customers	111 778 636	(3 640 826)	(4 909 386)	1 268 560
Individual customers	65 999 453	(1 804 884)	(1 991 293)	186 409
- housing and mortgage loans to natural persons	*45 978 684*	*(464 821)*	*(625 723)*	*160 902*
Corporate customers	45 548 763	(1 835 091)	(2 917 221)	1 082 130
Public sector customers	230 420	(851)	(872)	21
Total balance sheet data	**119 133 506**	**(3 641 428)**	**(4 910 460)**	**1 269 032**
Off-balance sheet data				
Loan commitments and other commitments	32 009 015	(88 991)	(108 607)	19 616
Guarantees, banker's acceptances, documentary and commercial letters of credit	7 460 891	(116 670)	(142 552)	25 882
Total off-balance sheet data	**39 469 906**	**(205 661)**	**(251 159)**	**45 498**

31.12.2019	Gross amount	Accumulated impairment	Accumulated impairment without cash flow from collaterals	Financial effect of collaterals
Balace sheet data				
Loans and advances to banks	4 342 890	(1 132)	(1 146)	14
Loans and advances to customers	106 393 532	(3 190 278)	(4 060 928)	870 650
Individual customers	58 674 891	(1 675 035)	(1 855 688)	180 653
- housing and mortgage loans to natural persons	*38 979 040*	*(414 932)*	*(570 703)*	*155 771*
Corporate customers	47 333 932	(1 514 849)	(2 204 846)	689 997
Public sector customers	384 709	(394)	(394)	-
Total balance sheet data	**110 736 422**	**(3 191 410)**	**(4 062 074)**	**870 664**
Off-balance sheet data				
Loan commitments and other commitments	29 134 935	(63 864)	(66 500)	2 636
Guarantees, banker's acceptances, documentary and commercial letters of credit	8 938 427	(89 568)	(93 446)	3 878
Total off-balance sheet data	**38 073 362**	**(153 432)**	**(159 946)**	**6 514**

As at 31 December 2020 the carrying amount of loans and advances to customes for which the Group has not recognized a loss allowance because of the collateral amounted to PLN 2 662 954 thousand.

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24. Non-current assets held for sale

On 7 November 2019, as part of implementing the mBank Group plan to withdraw from development activity and focus on the main activity in the financial industry, mBank S.A. signed a conditional agreement for the sale of shares in the company BDH Development Sp. z o.o. (BDH) to Archicom Polska S.A. The final agreement for the sale of shares was to be concluded after the fulfillment of the conditions precedent. On 16 December 2020, the parties signed an agreement for the sale of shares, under which mBank sold 100% of shares in the share capital of BDH and the relationship of the company to the Bank ceased.

In connection with the accounting principles described in Note 2.19, as at 31 December 2019, the Group classified BDH as non-current assets held for sale.

The financial data regarding assets and liabilities held for sale are presented below.

ASSETS		31.12.2019
Other assets	-	10 651
TOTAL ASSETS	**-**	**10 651**

LIABILITIES		31.12.2019
Financial liabilities measured at amortised cost, including:	-	96
Amounts due to banks	-	*96*
Other liabilities	-	1 219
TOTAL LIABILITIES	**-**	**1 315**

25. Intangible assets

	31.12.2020	31.12.2019
Goodwill	27 760	27 760
Patents, licences and similar assets, including:	897 283	696 491
- computer software	722 688	576 535
Other intangible assets	8 812	1 199
Intangible assets under development	244 843	229 990
Total intangible assets	**1 178 698**	**955 440**

In 2020 and 2019, the Group performed impairment tests of intangible assets under development and goodwill. As a result of the tests, impairment has been not stated.

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Movements in intangible assets

Movements in intangible assets from 1 January to 31 December 2020	Development costs	Patents, licences and other similar assets		Other intangible assets	Intangible assets under development	Goodwill	Total intangible assets
			including: computer software				
Gross value of intangible assets as at the beginning of the period	**-**	**1 609 991**	**1 274 069**	**23 607**	**230 327**	**28 956**	**1 892 881**
Increase (due to):	**-**	**362 954**	**246 338**	**10 493**	**325 885**	**-**	**699 332**
- purchase	-	107 020	9 148	-	247 415	-	354 435
- transfer from intangible assets under development	-	255 385	237 046	5 841	-	-	261 226
- development costs	-	-	-	-	36 191	-	36 191
- other increases	-	549	144	4 652	42 279	-	47 480
Decrease (due to):	**-**	**(214 477)**	**(125 937)**	**(9 961)**	**(311 369)**	**-**	**(535 807)**
- liquidation	-	(214 477)	(125 937)	(9 961)	(794)	-	(225 232)
- transfer to intangible assets given to use	-	-	-	-	(261 226)	-	(261 226)
- other decreases	-	-	-	-	(49 349)	-	(49 349)
Gross value of intangible assets as at the end of the period	**-**	**1 758 468**	**1 394 470**	**24 139**	**244 843**	**28 956**	**2 056 406**
Accumulated amortization as at the beginning of the period	**-**	**(913 500)**	**(697 534)**	**(22 408)**	**-**	**-**	**(935 908)**
Amortization for the period (due to):	**-**	**52 315**	**25 752**	**7 081**	**-**	**-**	**59 396**
- amortization	-	(161 510)	(99 611)	(2 277)	-	-	(163 787)
- other increases	-	(652)	(574)	(603)	-	-	(1 255)
- liquidation	-	214 477	125 937	9 961	-	-	224 438
Accumulated amortization as at the end of the period	**-**	**(861 185)**	**(671 782)**	**(15 327)**	**-**	**-**	**(876 512)**
Impairment losses as at the beginning of the period	-	**-**	**-**	**-**	**(337)**	**(1 196)**	**(1 533)**
- decrease	**-**	-	-	-	337	-	337
Impairment losses as at the end of the period	**-**	**-**	**-**	**-**	**-**	**(1 196)**	**(1 196)**
Net value of intangible assets as at the end of the period	**-**	**897 283**	**722 688**	**8 812**	**244 843**	**27 760**	**1 178 698**

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Movements in intangible assets from 1 January to 31 December 2019	Development costs	Patents, licences and other similar assets		Other intangible assets	Intangible assets under development	Goodwill	Total intangible assets
			including: computer software				
Gross value of intangible assets as at the beginning of the period	**39**	**1 329 439**	**1 018 641**	**20 435**	**330 039**	**4 728**	**1 684 680**
Increase (due to):	**-**	**384 255**	**288 857**	**3 172**	**285 886**	**24 228**	**697 541**
- purchase	-	34 661	4 718	-	238 082	24 228	296 971
- transfer from intangible assets under development	-	346 232	282 426	-	-	-	346 232
- development costs	-	-	-	-	25 830	-	25 830
- other increases	-	3 362	1 713	3 172	21 974	-	28 508
Decrease (due to):	**(39)**	**(103 703)**	**(33 429)**	**-**	**(385 598)**	**-**	**(489 340)**
- liquidation	-	(103 004)	(32 731)	-	-	-	(103 004)
- transfer to intangible assets given to use	-	-	-	-	(346 232)	-	(346 232)
- other decreases	(39)	(699)	(698)	-	(39 366)	-	(40 104)
Gross value of intangible assets as at the end of the period	**-**	**1 609 991**	**1 274 069**	**23 607**	**230 327**	**28 956**	**1 892 881**
Accumulated amortization as at the beginning of the period	**(39)**	**(888 803)**	**(650 819)**	**(18 467)**	**-**	**-**	**(907 309)**
Amortization for the period (due to):	**39**	**(24 697)**	**(46 715)**	**(3 941)**	**-**	**-**	**(28 599)**
- amortization	-	(127 480)	(80 013)	(2 715)	-	-	(130 195)
- other increases	-	-	-	(1 226)	-	-	(1 226)
- liquidation	-	102 106	32 622	-	-	-	102 106
- other decreases	39	677	676	-	-	-	716
Accumulated amortization as at the end of the period	**-**	**(913 500)**	**(697 534)**	**(22 408)**	**-**	**-**	**(935 908)**
Impairment losses as at the beginning of the period	**-**	**-**	**-**	**-**	**-**	**(1 196)**	**(1 196)**
- increase	-	-	-	-	(337)	-	(337)
Impairment losses as at the end of the period	**-**	**-**	**-**	**-**	**(337)**	**(1 196)**	**(1 533)**
Net value of intangible assets as at the end of the period	**-**	**696 491**	**576 535**	**1 199**	**229 990**	**27 760**	**955 440**

26. Tangible assets

	31.12.2020	31.12.2019
Tangible assets, including:	**614 346**	**698 634**
- land	653	1 033
- buildings and structures	153 403	163 524
- equipment	166 759	188 496
- vehicles	199 575	238 850
- other fixed assets	93 956	106 731
Fixed assets under construction	**183 142**	**75 416**
The right to use, including:	**717 089**	**488 347**
- real estate	667 387	437 295
- the right of perpetual of usufruct of land	47 670	48 358
- cars	1 547	1 561
- other	485	1 133
Total tangible assets	**1 514 577**	**1 262 397**

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Movements in tangible assets

Movements in tangible assetsfrom 1 January to 31 December 2020	Land	Buildings and structures	Equipment	Vehicles	Other tengible assets	Tangible assets under construction	Total
Gross value of intangible assets as at the beginning of the period	**1 033**	**331 184**	**642 963**	**315 597**	**389 601**	**75 416**	**1 755 794**
Increase (due to)	**-**	**1 700**	**63 258**	**92 804**	**29 148**	**185 219**	**372 129**
- purchase	-	9	29 796	92 804	1 622	173 667	297 898
- transfer from tangible assets under construction	-	1 691	32 888	-	25 905	-	60 484
- other increases	-	-	574	-	1 621	11 552	13 747
Decrease (due to):	**(380)**	**(4 753)**	**(63 360)**	**(149 367)**	**(58 436)**	**(77 493)**	**(353 789)**
- sale	(380)	(4 718)	(10 302)	(139 586)	(14 568)	-	(169 554)
- liquidation	-	(35)	(53 058)	(9 781)	(43 858)	(69)	(106 801)
- transfer to tangible assets	-	-	-	-	-	(60 484)	(60 484)
- other decreases	-	-	-	-	(10)	(16 940)	(16 950)
Gross value of tangible assets as at the end of the period	**653**	**328 131**	**642 861**	**259 034**	**360 313**	**183 142**	**1 774 134**
Accumulated depreciation as at the beginning of the period	**-**	**(118 390)**	**(454 467)**	**(76 747)**	**(282 870)**	**-**	**(932 474)**
Depreciation for the period (due to):	**-**	**(6 929)**	**(21 585)**	**17 288**	**17 315**	**-**	**6 089**
- depreciation charge	-	(8 495)	(83 988)	(36 629)	(34 409)	-	(163 521)
- other increases	-	-	(400)	-	(1 222)	-	(1 622)
- sale	-	1 531	10 111	47 293	10 786	-	69 721
- liquidation	-	35	52 690	6 624	42 154	-	101 503
- other decreases	-	-	2	-	6	-	8
Accumulated depreciation as at the end of the period	**-**	**(125 319)**	**(476 052)**	**(59 459)**	**(265 555)**	**-**	**(926 385)**
Impairment losses as at the beginning of the period	**-**	**(49 270)**	**-**	**-**	**-**	**-**	**(49 270)**
- increase	-	(139)	(50)	-	(802)	-	(991)
Impairment losses as at the end of the period	**-**	**(49 409)**	**(50)**	**-**	**(802)**	**-**	**(50 261)**
Net value of tangible assets as at the end of the period	**653**	**153 403**	**166 759**	**199 575**	**93 956**	**183 142**	**797 488**

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Movements in tangible assetsfrom 1 January to 31 December 2019	Land	Buildings and structures	Equipment	Vehicles	Other tengible assets	Tangible assets under construction	Total
Gross value of intangible assets as at the beginning of the period	**1 033**	**321 532**	**766 305**	**333 804**	**409 582**	**116 566**	**1 948 822**
Increase (due to)	**-**	**11 341**	**97 689**	**136 241**	**29 911**	**84 219**	**359 401**
- purchase	-	13	37 864	135 601	7 470	60 989	241 937
- transfer from tangible assets under construction	-	11 328	59 117	-	22 247	-	92 692
- other increases	-	-	708	640	194	23 230	24 772
Decrease (due to):	**-**	**(1 689)**	**(221 031)**	**(154 448)**	**(49 892)**	**(125 369)**	**(552 429)**
- sale	-	(241)	(36 311)	(128 961)	(4 659)	-	(170 172)
- liquidation	-	(1 064)	(122 884)	(1 200)	(10 537)	-	(135 685)
- transfer to tangible assets	-	-	-	-	-	(92 692)	(92 692)
- other decreases	-	(384)	(61 836)	(24 287)	(34 696)	(32 677)	(153 880)
Gross value of tangible assets as at the end of the period	**1 033**	**331 184**	**642 963**	**315 597**	**389 601**	**75 416**	**1 755 794**
Accumulated depreciation as at the beginning of the period	**-**	**(111 458)**	**(580 237)**	**(114 529)**	**(300 102)**	**-**	**(1 106 326)**
Depreciation for the period (due to):	**-**	**(6 932)**	**125 770**	**37 782**	**17 232**	**-**	**173 852**
- depreciation charge	-	(7 973)	(85 904)	(43 951)	(29 117)	-	(166 946)
- other increases	-	-	(126)	(78)	(6)	-	(210)
- sale	-	239	27 841	64 086	4 632	-	96 798
- liquidation	-	778	122 307	841	9 937	-	133 863
- other decreases	-	24	61 652	16 884	31 786	-	110 347
Accumulated depreciation as at the end of the period	**-**	**(118 390)**	**(454 467)**	**(76 747)**	**(282 870)**	**-**	**(932 474)**
Impairment losses as at the beginning of the period	**-**	**(49 270)**	**(8 200)**	**-**	**-**	**-**	**(57 470)**
- decrease	-	-	8 200	-	-	-	8 200
Impairment losses as at the end of the period	**-**	**(49 270)**	**-**	**-**	**-**	**-**	**(49 270)**
Net value of tangible assets as at the end of the period	**1 033**	**163 524**	**188 496**	**238 850**	**106 731**	**75 416**	**774 050**

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The recoverable value of impaired tangible assets is the net selling price determined on the basis of market prices for similar assets.

As part of its activities as a lessor, the mBank Group presents within tangible assets those assets which are leased to third parties under operating lease agreements. The table below presents future minimum lease payments under non-cancellable operating lease agreements with the Group as a lessor.

	31.12.2020	31.12.2019
Minimum lease payments under non-cancellable operating lease		
Up to 1 year	28 114	33 205
Over 1 year up to 2 years	16 259	19 060
Over 2 years up to 3 years	8 170	9 455
Over 3 years up to 4 years	1 491	3 186
Over 4 years up to 5 years	38	93
Total	**54 072**	**64 999**

The Group presents depreciation of tangible assets leased under operating lease and sublease agreements as net income from operating lease (Note 12).

Movements in right to use

Movements in rights of use from 1 January to 31 December 2020	Real estate	Right-of-use of land	Vehicles	Other	Total
Gross value of rights of use as at the beginning of the period	**563 899**	**49 046**	**2 075**	**1 930**	**616 950**
Increase (due to):	**375 930**	**-**	**10 171**	**85**	**386 186**
- new contract	345 255	-	9 727	35	355 017
- modification of contract	25 516	-	111	50	25 677
- other increases	5 159	-	333	-	5 492
Decrease (due to):	**(55 828)**	**-**	**(9 430)**	**-**	**(65 258)**
- termination of contract	(49 283)	-	(9 327)	-	(58 610)
- modification of contract	(6 545)	-	-	-	(6 545)
- other decreases	-	-	(103)	-	(103)
Gross value of rights of use as at the end of the period	**884 001**	**49 046**	**2 816**	**2 015**	**937 878**
Accumulated depreciation as at the beginning of the period	**(126 604)**	**(688)**	**(514)**	**(797)**	**(128 603)**
Depreciation for the period (due to):	(90 010)	(688)	(755)	(733)	(92 186)
- depreciation charge	(137 080)	(688)	(920)	(728)	(139 416)
- other increases	(471)	-	30	(5)	(446)
- modification of contract	1 234	-	-	-	1 234
- other decreases	46 307	-	135	-	46 442
Accumulated depreciation as at the end of the period	**(216 614)**	**(1 376)**	**(1 269)**	**(1 530)**	**(220 789)**
Net value of rights of use as at the end of the period	**667 387**	**47 670**	**1 547**	**485**	**717 089**

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Movements in rights of use from 1 January to 31 December 2019	Real estate	Right-of-use of land	Vehicles	Other	Total
Gross value of rights of use as at the beginning of the period	**512 164**	**49 046**	**794**	**371**	**562 375**
Increase (due to):	**61 225**	**-**	**1 281**	**1 559**	**64 065**
- new contract	9 935	-	1 281	-	11 216
- modification of contract	49 495	-	-	1 559	51 054
- other increases	1 795	-	-	-	1 795
Decrease (due to):	**(9 490)**	**-**	**-**	**-**	**(9 490)**
- termination of contract	(1 253)	-	-	-	(1 253)
- modification of contract	(7 914)	-	-	-	(7 914)
- other decreases	(323)	-	-	-	(323)
Gross value of rights of use as at the end of the period	**563 899**	**49 046**	**2 075**	**1 930**	**616 950**
Accumulated depreciation as at the beginning of the period	**-**	**-**	**-**	**-**	**-**
Depreciation for the period (due to):	**(126 604)**	**(688)**	**(514)**	**(797)**	**(128 603)**
- depreciation charge	(124 324)	(688)	(514)	(797)	(126 323)
- other increases	(3 306)	-	-	-	(3 306)
- modification of contract	613	-	-	-	613
- termination of contract	294	-	-	-	294
- other decreases	119	-	-	-	119
Accumulated depreciation as at the end of the period	**(126 604)**	**(688)**	**(514)**	**(797)**	**(128 603)**
Net value of rights of use as at the end of the period	**437 295**	**48 358**	**1 561**	**1 133**	**488 347**

27. Other assets

	31.12.2020	31.12.2019
Other assets		
- debtors, including:	569 977	303 061
- settlements of payment cards	*139 396*	*110 148*
- receivables from KDPW under the compensation scheme	*13 880*	*12 825*
- interbank balances	15 033	18 003
- settlements of securities transactions	35 014	15 518
- other accruals	151 112	161 988
- accrued income	110 581	65 489
- inventories	363 310	314 958
- other	37 412	77 932
Total other assets	**1 282 439**	**956 949**
Short-term (up to 1 year)	1 268 752	893 406
Long-term (over 1 year)	13 687	63 543

In 2020 and in 2019, the item "settlements of securities transactions" is connected in its entirety with the Brokerage Office activity.

As at 31 December 2020 and as at 31 December 2019, the value of inventories primarily results from the business of the companie mLeasing.

Throughout the year 2020 and 2019, the Group did not capitalize borrowing costs.

As at 31 December 2020, the above note includes financial assets in amount of PLN 620 024 thousand (31 December 2019: PLN 336 582 thousand).

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Financial assets included in the note above

	31.12.2020	31.12.2019
Gross financial assets, including:	**636 575**	**352 794**
- Not past due	613 983	342 746
- Past due from 1 to 90 days	8 695	3 304
- Past due over 90 days	13 897	6 744
Provisions for impaired assets (negative amount)	(16 551)	(16 212)
Net financial assets	**620 024**	**336 582**

Movements of impairment allowance for financial assets

	31.12.2020	31.12.2019
As at the beginning of the period	**(16 212)**	**(16 430)**
Change in the period (due to)	**(339)**	**218**
- increase of provisions	(1 097)	(1 664)
- release of provisions	466	-
- write-offs	403	1 878
- foreign exchange differences	(53)	4
- other	(58)	
As at the end of the period	**(16 551)**	**(16 212)**

28. Financial liabilities measured at amortised cost

Amounts due to banks and customers

31.12.2020	Amount due to banks	Amount due to customers	including:		
			Individual customers	Corporate customers	Public sector customers
Deposits	**1 665 284**	**132 795 741**	**97 862 007**	**34 488 153**	**445 581**
Current accounts	1 026 011	121 812 481	87 703 713	33 677 641	431 127
Term deposits	-	10 890 036	10 158 294	717 288	14 454
Repo transactions	639 273	93 224	-	93 224	-
Loans and advances received	**500**	**3 254 591**	**-**	**3 254 591**	**-**
Other financial liabilities	**733 956**	**1 648 336**	**114 355**	**1 493 343**	**40 638**
Liabilities in respect of cash collaterals	487 667	510 195	37 892	472 303	-
Leasing liabilities	-	771 935	-	731 349	40 586
Other liabilities	246 289	366 206	76 463	289 691	52
Deposits and other financial liabilities, total	**2 399 740**	**137 698 668**	**97 976 362**	**39 236 087**	**486 219**

Short-term (up to 1 year)	1 666 738	133 504 849
Long-term (over 1 year)	733 002	4 193 819

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31.12.2019	Amount due to banks	Amount due to customers	including:		
			Individual customers	Corporate customers	Public sector customers
Deposits	**528 448**	**112 424 332**	**77 525 267**	**34 083 016**	**816 049**
Current accounts	424 200	88 073 656	62 639 670	24 823 049	610 937
Term deposits	-	24 175 269	14 885 597	9 084 560	205 112
Repo transactions	104 248	175 407	-	175 407	-
Loans and advances received	**189 901**	**2 980 294**	**-**	**2 980 294**	**-**
Other financial liabilities	**448 522**	**1 256 512**	**139 105**	**1 074 601**	**42 806**
Liabilities in respect of cash collaterals	301 021	423 059	43 854	377 593	1 612
Leasing liabilities	-	496 912	-	456 052	40 860
Other liabilities	147 501	336 541	95 251	240 956	334
Deposits and other financial liabilities, total	**1 166 871**	**116 661 138**	**77 664 372**	**38 137 911**	**858 855**

Short-term (up to 1 year)	816 830	112 608 069
Long-term (over 1 year)	350 041	4 053 069

As at 31 December 2020 and as at 31 December 2019 loans and advances received from other banks were variable interest rate loans.

The average interest rate for loans and deposits received from other banks in 2020 amounted to 0.23% (31 December 2019 - 1.30%).

mBank S.A. did not provide collateral related to loans from other banks. The Group did not note any violations of contractual terms related to liabilities in respect of loans received.

As at 31 December 2020, the majority of the deposits of retail and corporate customers bore fixed interest rates. The average interest rate for amounts due to customers (excluding repo transactions) amounted to 0.29% (31 December 2019: 0.61%).

As at 31 December 2020, the balance of loans and advances received includes the loan received from European Investment Bank in the amount of PLN 3 254 591 thousand (31 December 2019: PLN 2 980 294 thousand). The loan was collateralized with treasury bonds, which have been presented as pledged assets under Note 22 and Note 34.

Leasing liabilities

Leasing liabilities by maturity dates are presented below.

	31.12.2020	31.12.2019
Leasing liabilities by maturity dates (undiscounted)		
Up to 3 months	31 005	31 718
3 – 12 months	82 067	91 137
1 – 5 years	362 631	243 730
Over 5 years	359 410	169 208
Total	**835 113**	**535 793**

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Debt securities issued

31.12.2020 Debt securities issued by category	Nominal value (currency of issue)	Carrying value of the liability according to the maturity date				Total carrying value of the liability
		Up to 3 months	3-12 months	1-5 years	Over 5 years	
Bonds, including:		**299 786**	**188 614**	**2 084 819**	**4 276 317**	**6 849 536**
- PLN	630 023	299 786	135 022	87 208	-	522 016
- EUR	887 613	-	47 052	1 977 494	2 122 946	4 147 493
- CHF	505 000	-	6 540	20 117	2 153 371	2 180 027
Mortgage bonds (public), including:		**279 221**	**485 693**	**5 811 398**	**570 469**	**7 146 781**
- PLN	3 415 000	279 221	254 989	2 376 201	99 685	3 010 096
- EUR	896 900	-	230 704	3 435 197	470 784	4 136 685
Total		**579 007**	**674 307**	**7 896 217**	**4 846 786**	**13 996 317**

31.12.2019 Debt securities issued by category	Nominal value (currency of issue)	Carrying value of the liability according to the maturity date				Total carrying value of the liability
		Up to 3 months	3-12 months	1-5 years	Over 5 years	
Bonds, including:		**707 456**	**2 439 775**	**6 431 890**	**-**	**9 579 121**
- PLN	1 165 200	701 476	299 424	162 545	-	1 163 445
- EUR	1 500 000	-	2 140 351	4 282 473	-	6 422 824
- CHF	505 109	5 980	-	1 986 872	-	1 992 852
Mortgage bonds (public), including:		**-**	**911 455**	**3 776 152**	**3 168 415**	**7 856 022**
- PLN	3 700 800	-	569 282	3 072 759	161 725	3 803 766
- EUR	946 900	-	342 173	703 393	3 006 690	4 052 256
Total		**707 456**	**3 351 230**	**10 208 042**	**3 168 415**	**17 435 143**

Detailed information on the issue of mortgage bonds is provided below in this note.

The Group did not note any violations of contractual terms related to liabilities in respect of issued debt securities.

Movements in debt securities issued

Change from 1 January to 31 December	2020	2019
As at the beginning of the period	**17 435 143**	**18 049 583**
Additions (issue)	1 460 000	5 060 106
Disposals (redemption)	(5 834 295)	(5 669 688)
Exchange differences	925 313	(42 207)
Other changes	10 156	37 349
Debt securities issued as at the end of the period	**13 996 317**	**17 435 143**

Issues in 2020

- Substitution from mFinance France S.A.

On 1 October 2020, the substitution entered into force, as a result of which the financial liabilities of the mFF towards the bondholders expired, and the corresponding liabilities towards the bondholders arose on the Bank's side. The substitution covers two series of bonds issued by the mFF as part of the established program for the issue of debt securities with a total nominal value of up to EUR 3 000 000 thousand:

a) bonds with a total nominal value of EUR 500 000 thousand, issued on 26 November 2014, with a fixed interest rate, maturing on 26 November 2021 and listed on the regulated market operated by the Luxembourg Stock Exchange. The current face value of these outstanding bonds is EUR 427 583 thousand (the equivalent of PLN 1 930 666 thousand according to the average NBP exchange rate as of 1 October 2020) and

b) bonds with a total nominal value of CHF 200 000 thousand, issued on 28 March 2017, with a fixed interest rate, maturing on 28 March 2023 and listed on the regulated market operated by the Swiss stock exchange (the equivalent of PLN 837 680 thousand according to the average NBP exchange rate of 1 October 2020).

- mBank Hipoteczny S.A. (mBH) issued of long-term bonds with a nominal value of PLN 60 000 thousand.
- the company mLeasing Sp. z o.o. (mLeasing) made the issues of short-term bonds in the amount of PLN 1 400 000 thousand.

Redemption in 2020

- mFF redeemed Eurobonds issued on 21 September 2016 with a nominal value of EUR 500 000 thousand, maturing on 26 September 2020. The nominal value of redeemed Eurobonds remaining in trading as at 26 September 2020 amounted to EUR 464 822 thousand.
- On 29 May 2020, the Bank addressed to holders of outstanding bonds issued by mFF; (a) with a total nominal value of EUR 500 000 thousand, with maturity date on 26 September 2020; (b) with a total nominal value of EUR 500 000 thousand, with maturity date on 26 November 2021, and (c) issued by the Bank with a total nominal value of EUR 500 000 thousand with a maturity date on 5 September 2022, invitations to submit these bonds for redemption by the Bank.

  As a result of the announced redemption offer, Bank accepted for purchase all correctly issued bonds with nominal value, respectively: (a) EUR 35 178 thousand, (b) EUR 72 417 thousand, (c) EUR 39 970 thousand. The redemption offer was settled on 10 June 2020.
- In 2020, mBH made the following redeems of issued debt securities:
  - redemption of mortgage bonds in the amount of PLN 565 200 thousand from the Polish issuance program of mortgage bonds;
  - redemption of mortgage bonds in the amount of EUR 80 000 thousand from the international issuance program of mortgage bonds;
  - redemption of long-term bonds with a nominal value of PLN 350 000 thousand.

Issues in 2019

- On 5 April 2019, under the new Euro Medium Term Note Program (EMTN Program), mBank issued unsecured bonds with a nominal value of CHF 125 000 thousand (equivalent of PLN 477 775 thousand at the average NBP exchange rate of 5 April 2019), with maturity on 4 October 2024.
- In 2019, mBH made the following issues of debt securities:
  - issue of mortgage bonds in the amount of PLN 100 000 thousand EUR from the Polish issuance program of mortgage bonds;
  - issue of mortgage bonds in the amount of EUR 300 000 thousand from the international issuance program of mortgage bonds (equivalent of PLN 1 283 640 thousand at the average NBP exchange rate of 12 November 2019);
  - issue of long-term bonds with a nominal value of PLN 165 000 thousand;
  - issue of short-term bonds with a nominal value of PLN 300 000 thousand.
- In 2019 the company mLeasing made the issues of short-term bonds in the amount of PLN 2 649 600 thousand.

Redemption in 2019

- In 2019, mBH made the following redeems of issued debt securities:
  - redemption in according to the terms of the issue of mortgage covered bonds in the amount of PLN 80 000 thousand issued in 2013;
  - redemption accordance with the terms of issuing mortgage covered bonds in the amount of EUR 50 000 thousand issued in 2014;
  - redemption accordance with the terms of the issue of mortgage covered bonds in the amount of PLN 80 000 thousand issued in 2014;
  - redemption of short-term bonds with a nominal value of PLN 500 000 thousand issued in 2018.
- In 2019, the company mFF the following redeems of bonds with a nominal value of EUR 500 000 thousand issued on 24 March 2014.

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- In 2019 the company mLeasing made a redeems of short-term bonds in the amount of PLN 2 532 200 thousand.

In According to the act on covered bonds and mortgage banks, from the funds raised through the issue of covered bonds Bank may refinance the loans secured by mortgages and other bank debts acquired from granted loans secured by a mortgage: refinancing with reference to individual loan or an individual claim cannot exceed the amount referring to 60% of the mortgage lending value, and in the case of residential property 80% of the mortgage lending value.

The Bank maintain for mortgage covered bonds a surplus created from the funds forming the substitute collateral, equal to or higher than the aggregate nominal value of interest on the outstanding mortgage covered bonds, due over the next 6 months (hereinafter referred to as the "Surplus"). Such surplus funds may not serve as a basis for issuing covered bonds.

The sum of nominal amounts of the Bank's claims from loans secured with a mortgage and the 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 outstanding mortgage covered bonds, and the sum of nominal amounts of claims of the Bank secured by mortgages, constituting the basis for issuing mortgage covered bonds, cannot be lower than 85% of the total amount of nominal values of the outstanding mortgage covered bonds.

The tables below show data related to the issuance of mortgage bonds.

	31.12.2020	31.12.2019
	Mortgage bond register	Mortgage bond register
1. Nominal value of covered bonds listed on the market	7 554 014	8 225 129
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)	9 329 195	10 232 614
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)	104 889	118 409
4. Level of collateral the covered bonds by receivables (2/1)	123.50%	124.41%
5. Total covered bonds collateral level (2+3) / 1	124.89%	125.85%
6. 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	2 117 009	3 301 729
7. 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	6 580 040	6 098 962

	31.12.2020	31.12.2019
	Mortgage bond register	Mortgage bond register
1. Cash invested in treasury bonds	150 000	200 000
2. Interests from covered bonds on the market which will be paid in the next 6 months (Surplus)	45 111	81 591
3. Permissible value of Substitute collateral (1-2)	104 889	118 409

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Transactions regarding Bank's bonds included in subordinated liabilities have been described under these Note below.

Subordinated liabilities

31.12.2020	Nominal value	Currency	Terms of interest rate (%)	Effective interest rate (%)	Redemption date	As at the end of the period
- Commerzbank AG	250 000	CHF	3M LIBOR + 2.75%	2.02	21.03.2028	1 066 605
- Investors not associated with mBank S.A.	550 000	PLN	6M WIBOR + 1.8%	2.06	10.10.2028 [1)]	552 545
- Investors not associated with mBank S.A.	200 000	PLN	6M WIBOR + 1.95%	2.21	10.10.2030 [1)]	200 992
- Investors not associated with mBank S.A.	750 000	PLN	6M WIBOR + 2.1%	2.38	17.01.2025	758 185
						2 578 327

31.12.2019	Nominal value	Currency	Terms of interest rate (%)	Effective interest rate (%)	Redemption date	As at the end of the period
- Commerzbank AG	250 000	CHF	3M LIBOR + 2.75%	2.02	21.03.2028	980 771
- Investors not associated with mBank S.A.	550 000	PLN	6M WIBOR + 1.8%	3.59	10.10.2028 [1)]	554 418
- Investors not associated with mBank S.A.	200 000	PLN	6M WIBOR + 1.95%	3.74	10.10.2030 [1)]	201 674
- Investors not associated with mBank S.A.	750 000	PLN	6M WIBOR + 2.1%	3.89	17.01.2025	763 354
						2 500 217

1) The issue conditions assume the possibility of early redemption of bonds with a nominal value of PLN 550 000 thousand on 10 October 2023, and bonds with a nominal value of PLN 200 000 thousand on 10 October 2025.

The effective interest rate specified in the tables above means the interest rate at the inception day of the last interest period.

Movements in subordinated liabilities

Change from 1 January to 31 December	2020	2019
As at the beginning of the period	**2 500 217**	**2 474 163**
- exchange differences	85 700	26 175
- other changes	(7 590)	(121)
Subordinated liabilities as at the end of the period	**2 578 327**	**2 500 217**
Short-term (up to 1 year)	12 302	19 892
Long-term (over 1 year)	2 566 025	2 480 325

On 29 March 2018, the Polish Financial Supervision Authority gave a consent for qualifying funds from subordinated loan in the amount of CHF 250 000 thousand as instrument in the Bank's Tier 2 capital. The amount of CHF 250 000 thousand according to the average exchange rate of the National Bank of Poland of 29 March 2018 is the equivalent of PLN 893 200 thousand.

On 9 October 2018, mBank S.A. issued two series of subordinated bonds with a total nominal value of PLN 750 000 thousand. 1 100 pieces of 10-year subordinated bonds with a nominal value of PLN 500 thousand each were issued, with maturity on 10 October 2028, and 400 pieces of 12-year subordinated bonds with a nominal value of PLN 500 thousand each, with maturity on 10 October 2030.

The Bank applied to the Polish Financial Supervision Authority for permission to be included in the supplementary capital of the Bank, in accordance with art. 127 par. 3 point 2 letter b) of the Banking Law Act, a monetary liability in the amount of PLN 750 000 thousand PLN obtained by the Bank for the above-mentioned subordinated bond issue. The Bank obtained such consent on 28 November 2018.

According to the decision dated 8 January 2015 mBank obtained permission of the KNF to include in Tier 2 capital the amount of PLN 750 000 thousand constituting subordinated liability from the bonds issue dated 17 December 2014 on total nominal value of PLN 750 000 thousand with redemption date on 17 January 2025 on terms that meet the requirements arising from the CRR Regulation.

In 2020 and 2019, the Group did not note any delays in repayments of interest instalments and was not in default of any other contractual provisions related to its subordinated liabilities.

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29. Other liabilities

	31.12.2020	31.12.2019
Other liabilities, including		
- tax liabilities	216 257	234 298
- interbank settlements	935 581	848 300
- creditors, including:	1 437 658	968 567
- settlements of payment cards	*219 201*	*167 642*
- liabilities to pay to BFG	*249 181*	*175 632*
- accrued expenses	217 080	213 929
- deferred income	415 275	401 479
- provisions for post-employment employee benefits	33 488	25 116
- provisions for holiday equivalents	20 983	30 870
- provisions for other liabilities to employees	110 480	186 103
- other	10 331	44 120
Total other liabilities	**3 397 133**	**2 952 782**

As at 31 December 2020, the presented note includes financial liabilities of PLN 2 590 319 thousand (as at 31 December 2019: PLN 2 030 796 thousand). Cash flows resulting from those financial liabilities are presented under the Note 3.8.1. The other components of presented liabilities, except for part of provisions for post-employment benefits that were calculated on actuarial basis, are short-term liabilities.

Movements in provisions for post-employment employee benefits

Period from 1 January to 31 December 2020	Pension and disability provisions	Provisions for death severance	Provisions for the Social Benefit Fund	Total
Provisions for post-employment employee benefits				
Provisions as at the beginning of the period	**12 309**	**5 239**	**7 568**	**25 116**
Change in the period, due to:	**2 743**	**904**	**4 725**	**8 372**
Provision created	705	128	949	1 782
Interest expense	226	104	151	481
Actuarial gains and losses recognised in other comprehensive income (Note 18), due to:	2 270	835	4 613	7 718
- Change in financing assumptions	*661*	*263*	*1 803*	*2 727*
- Change in demographic assumptions	*201*	*(24)*	*166*	*343*
- Other changes	*1 408*	*596*	*2 644*	*4 648*
Benefits paid	(458)	(163)	(988)	(1 609)
Provisions as at the end of the period	**15 052**	**6 143**	**12 293**	**33 488**
Short-term (up to 1 year)	2 043	348	241	2 632
Long-term (over 1 year)	13 009	5 795	12 052	30 856

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Period from 1 January to 31 December 2019	Pension and disability provisions	Provisions for death severance	Provisions for the Social Benefit Fund	Total
Provisions for post-employment employee benefits				
Provisions as at the beginning of the period	**11 106**	**4 714**	**6 007**	**21 827**
Change in the period, due to:	**1 203**	**525**	**1 561**	**3 289**
Provision created	717	128	269	1 114
Interest expense	289	134	169	592
Actuarial gains and losses recognised in other comprehensive income (Note 18), due to:	608	266	1 609	2 483
- Change in financing assumptions	*905*	*421*	*1 286*	*2 612*
- Change in demographic assumptions	*194*	*93*	*65*	*352*
- Other changes	*(491)*	*(248)*	*258*	*(481)*
Benefits paid	(411)	(3)	(486)	(900)
Provisions as at the end of the period	**12 309**	**5 239**	**7 568**	**25 116**
Short-term (up to 1 year)	1 572	312	84	1 968
Long-term (over 1 year)	10 737	4 927	7 484	23 148

The discount rate is one of the key assumptions used in the actuarial valuation of provisions for post-employment benefits. If the discount rate used in the calculation of these provisions as at 31 December 2020 was decreased by 0.5 p.p., the value of the provisions would increase by PLN 1 031 thousand, and in the case of an increase of the discount rate by 0.5 p.p. the value of the provisions would fall by PLN 950 thousand.

30. Provisions

	31.12.2020	31.12.2019
Provisions for legal proceedings, including:	1 465 213	484 760
- provisions for individual cases concerning indexation clauses in mortgage and housing loans in CHF	*1 426 563*	*417 653*
- provisions for other legal proceedings relating to loans in foreign currencies	*26 581*	*61 103*
- provisions for remaining legal proceedings	*12 069*	*6 004*
Commitments and guarantees given	205 661	153 432
Other provisions	95 494	101 104
Provisions, total	**1 766 368**	**739 296**

Estimated dates of granted contingent liabilities realisation are presented in Note 33.

The estimated cash flow due to created provisions for legal proceedings and other provisions is expected to crystalise over 1 year.

The description regarding individual cases concerning indexation clauses in mortgage and housing loans in CHF is presented in Note 32.

The methodology of the measurement of provisions for legal risk regarding individual court cases concerning indexation clauses in mortgage and housing loans in CHF is presented in Note 4.

The item Other provisions includes provisions recognized related to the judgment of the CJEU regarding reimbursement of commissions in case of earlier loan repayments, which is described in detail in Note 4.

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Movements in the provisions

Change from 1 January to 31 December	2020			
	provisions for individual cases concerning indexation clauses in mortgage and housing loans in CHF	provisions for other legal proceedings relating to loans in foreign currencies	provisions for remaining legal proceedings	other provisions
Provisions as at the beginning of the period	**417 653**	**61 103**	**6 004**	**101 104**
Change in the period, due to:	**1 008 910**	**(34 522)**	**(6 065)**	**(5 610)**
- increase of provisions	1 033 637	8 782	7 767	39 537
- release of provisions	-	(20 705)	(456)	(8 173)
- utilization	(24 727)	(22 599)	(1 246)	(34 600)
- reclassification to non-current assets held for sale	-	-	-	(3 040)
- foreign exchange differences	-	-	-	666
Provisions as at the end of the period	**1 426 563**	**26 581**	**12 069**	**95 494**

Change from 1 January to 31 December	2019			
	provisions for individual cases concerning indexation clauses in mortgage and housing loans in CHF	provisions for other legal proceedings relating to loans in foreign currencies	provisions for remaining legal proceedings	other provisions
Provisions as at the beginning of the period	**30 565**	**67 258**	**8 498**	**42 553**
Change in the period, due to:	**387 088**	**(6 155)**	**(2 494)**	**58 551**
- increase of provisions	387 855	3 776	2 114	136 179
- release of provisions	(339)	(3 506)	(2 894)	(5 947)
- utilization	(428)	(6 425)	(1 714)	(71 985)
- reclassification to non-current assets held for sale	-	-	-	302
- foreign exchange differences	-	-	-	2
Provisions as at the end of the period	**417 653**	**61 103**	**6 004**	**101 104**

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Movements in provisions for loan commitments, guarantees and other financial facilities and other commitments

Change from 1 January to 31 December 2020	As at the beginning of the period	Transfer to stage 1	Transfer to stage 2	Transfer to stage 3	Increases due to granting and takeover	Decresed results of derecognised from balance sheet	Changes in credit risk (net)	As at the end of the priod
Loan commitments	**63 864**	**-**	**-**	**-**	**47 811**	**(56 507)**	**33 823**	**88 991**
Stage 1	35 708	38 907	(5 912)	(5)	22 934	(17 990)	(29 485)	44 157
Stage 2	23 639	(38 907)	5 953	(317)	12 956	(14 023)	47 528	36 829
Stage 3	2 136	-	(41)	322	10 835	(23 358)	15 616	5 510
POCI	2 381	-	-	-	1 086	(1 136)	164	2 495
Guarantees and other financial facilities	**89 568**	**-**	**-**	**-**	**82 723**	**(76 229)**	**20 608**	**116 670**
Stage 1	4 781	1 425	(764)	-	15 708	(15 565)	(1 044)	4 541
Stage 2	4 713	(1 425)	764	(278)	2 526	(3 719)	3 553	6 134
Stage 3	79 684	-	-	278	38 317	(56 229)	18 005	80 055
POCI	390	-	-	-	26 172	(716)	94	25 940
Provisions on off-balance sheet commitments and financial guarantees	**153 432**	**-**	**-**	**-**	**130 534**	**(132 736)**	**54 431**	**205 661**

Change from 1 January to 31 December 2019	As at the beginning of the period	Transfer to stage 1	Transfer to stage 2	Transfer to stage 3	Increases due to granting and takeover	Decresed results of derecognised from balance sheet	Changes in credit risk (net)	As at the end of the priod
Loan commitments	**57 914**	**-**	**-**	**-**	**36 450**	**(43 974)**	**13 474**	**63 864**
Stage 1	32 575	32 226	(4 616)	(112)	22 736	(13 204)	(33 897)	35 708
Stage 2	18 247	(32 226)	4 688	(145)	10 844	(11 234)	33 465	23 639
Stage 3	6 231	-	(72)	257	1 695	(19 479)	13 504	2 136
POCI	861	-	-	-	1 175	(57)	402	2 381
Guarantees and other financial facilities	**51 495**	**-**	**-**	**-**	**60 502**	**(28 484)**	**6 055**	**89 568**
Stage 1	2 784	1 484	(674)	(3)	13 852	(7 847)	(4 815)	4 781
Stage 2	4 994	(1 484)	674	(189)	2 773	(1 755)	(300)	4 713
Stage 3	47 154	-	-	192	43 877	(20 477)	8 938	79 684
POCI	(3 437)	-	-	-	-	1 595	2 232	390
Other commitments	**-**	**-**	**-**	**-**	**109**	**(109)**	**-**	**-**
Stage 1	-	-	-	-	109	(109)	-	-
Provisions on off-balance sheet commitments and financial guarantees	**109 409**	**-**	**-**	**-**	**97 061**	**(72 567)**	**19 529**	**153 432**

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31. Deferred income tax assets and liabilities

Assets and liabilities for deferred income tax are calculated for all temporary differences in accordance with the balance sheet method, using an income tax rate, which will be in force in the year when the tax obligation arises (2020 and 2019: 19%).

Assets and liabilities for deferred income tax are not recognised as short term assets and liabilities.

Changes in assets and liabilities for deferred income tax are presented below.

Deferred income tax assets	As at 01.01.2020	Recognised in the income statement	Recognised in other comprehensive income	Other changes	As at 31.12.2020
Interest accured	147 333	(13 546)	-	-	133 787
Valuation of derivative financial instruments	989	276	9 096	-	10 361
Valuation of securities	50 258	61 708	(1 098)	-	110 868
Provisions for impairment of loans and advances	487 446	123 054	-	-	610 500
Provisions for employee benefits	45 564	(17 958)	1 466	-	29 072
Other provisions	73 392	(21 762)	-	-	51 630
Prepayments/accruals	35 216	186	-	(1 343)	34 059
Tax losses carried forward	4 431	(1 908)	-	-	2 523
Differences between carrying and tax value of lease	458 076	(41 878)	-		416 198
Difference between tax and book value of tangible and intangible assets	91 601	62 840	-	1 343	155 784
Other negative temporary differences	79 484	12 232	-	(10 683)	81 033
Total deferred income tax assets	**1 473 790**	**163 244**	**9 464**	**(10 683)**	**1 635 815**

Deferred income tax liabilities	As at 01.01.2020	Recognised in the income statement	Recognised in other comprehensive income	Other changes	As at 31.12.2020
Interest accured	(89 789)	5 639	-	-	(84 150)
Valuation of derivative financial instruments	(86 683)	(43 847)	(79 464)	-	(209 994)
Valuation of investment securities	(133 426)	(30 556)	(34 015)	-	(197 997)
Interest and fees received in advance	(16 418)	(9 604)		-	(26 022)
Difference between tax and book value of tangible and intangible assets*	(122 006)	(64 870)	-	(1 261)	(188 137)
Prepayments regarding amortization of applied investment relief	(18 657)	-	-	-	(18 657)
Other positive temporary differences**	(69 181)	10 252	-	1 261	(57 668)
Total deferred income tax liabilities	**(536 160)**	**(132 986)**	**(113 479)**	**-**	**(782 625)**

Deferred income tax assets	As at 01.01.2019	Recognised in the income statement	Recognised in other comprehensive income	Other changes	As at 31.12.2019
Interest accured	137 086	10 247	-	-	147 333
Valuation of derivative financial instruments	1 274	(1 030)	745	-	989
Valuation of securities	38 845	11 788	(375)	-	50 258
Provisions for impairment of loans and advances	471 615	14 467	-	1 364	487 446
Provisions for employee benefits	43 662	1 401	485	16	45 564
Other provisions	60 003	13 389	-	-	73 392
Prepayments/accruals	67 913	(32 845)	-	148	35 216
Tax losses carried forward	-	2 123	-	2 308	4 431
Differences between carrying and tax value of lease	449 658	8 418	-	-	458 076
Difference between tax and book value of tangible and intangible assets*		91 601	-	-	91 601
Other negative temporary differences	73 981	4 623	-	880	79 484
Total deferred income tax assets	**1 344 037**	**124 182**	**855**	**4 716**	**1 473 790**

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Deferred income tax liabilities	As at 01.01.2019	Recognised in the income statement	Recognised in other comprehensive income	Other changes	As at 31.12.2019
Interest accured	(76 721)	(13 066)	-	(2)	(89 789)
Valuation of derivative financial instruments	(57 506)	(20 145)	(9 032)	-	(86 683)
Valuation of investment securities	(110 804)	(20 428)	(2 194)	-	(133 426)
Interest and fees received in advance	(6 962)	(9 451)	(5)	-	(16 418)
Difference between tax and book value of tangible and intangible assets*	(42 795)	(79 211)	-	-	(122 006)
Prepayments regarding amortization of applied investment relief	(18 657)	-	-	-	(18 657)
Other positive temporary differences**	(71 599)	6 045	-	(3 627)	(69 181)
Total deferred income tax liabilities	**(385 044)**	**(136 256)**	**(11 231)**	**(3 629)**	**(536 160)**

* the item includes the impact of IFRS 16 on deferred tax

	Year ended 31 December	
	31.12.2020	31.12.2019
Interest accured	(7 907)	(2 819)
Valuation of derivative financial instruments	(43 571)	(21 175)
Valuation of securities	31 152	(8 640)
Provisions for impairment of loans and advances	123 054	14 467
Provisions for employee benefits	(17 958)	1 401
Other provisions	(21 762)	13 389
Prepayments/accruals	186	(32 845)
Interest and fees received in advance	(9 604)	(9 451)
Difference between tax and book value of tangible and intangible assets	(2 030)	12 390
Differences between carrying and tax value of lease	(41 878)	8 418
Deferred tax losses carried forward	(1 908)	2 123
Other temporary differences	22 484	10 668
Total deferred income tax included in the profit and loss account (Note 16)	**30 258**	**(12 074)**

The item "Other positive temporary differences" includes the impact of the creation of deferred tax provision in the amount of PLN 15 019 thousand at the end of 2020 (PLN 18 774 thousand at the end of 2019) resulting from the implementation of IFRS 9 in respect of recognized in previous years tax-deductible costs from the provision for incurred undocumented credit risk. According to art. 12 para. 4 of the Act of 27 October 2017 on amendments to the Personal Income Tax Act, the Corporate Income Tax Act and the Act on Flat Rate Income Tax on Certain Revenue Earned by Natural Persons, in the event that the Bank included IBNR to the tax-deductible costs before January 1, 2018, after the entry into force of the amendment the Bank is obliged to recognize income up to the amount previously recognized as tax cost. The Bank recognizes revenues on this account pro rata for a period of 7 consecutive tax years.

The Group evaluated the recoverability of deferred tax assets. Following the rules of IAS 12 paragraph 28 and 29 the Group recognised deferred tax assets to the extent that it is probable that the Group will have sufficient taxable profits in the future periods or tax planning opportunities are available that will create taxable profit in future periods.

A level of deferred tax asset for the year 2020 and 2019 does not include tax losses of the foreign branch in Slovakia on the amount, respectively: EUR 1 997 thousand (equivalent of PLN 9 216 thousand according to the average exchange rate of the National Bank as of Poland of 31 December 2020) and EUR 1 986 thousand (equivalent of PLN 8 457 thousand according to the average exchange rate of the National Bank of Poland as of 31 December 2019). Potential including of the tax losses into deferred tax asset in years to come will depend upon an assessment of the corporate income tax base level in a future (including the periods scheduled for settlement of tax losses). Right to tax losses' settlement expires between 2021 and 2024 year.

Due to the improbability of occurrence of taxable income enabling to use tax losses incurred in G-INVEST Sp. z o.o. (previously Garbary Sp. z o.o.) the Group does not include those losses in the deferred tax asset calculation. The total amount of unused tax losses not included in the calculation of deferred tax assets amounted to PLN 53 843 thousand at the end of 31 December 2020 and PLN 53 645 thousand at the end of 31 December 2019. Right to tax losses' settlement expires between 2021 and 2025 year.

The Group recognizes deferred tax liabilities or assets related to temporary differences arising from investments in subsidiaries and associates except that the implementation of the temporary differences is controlled by the Group and it is probable that in the foreseeable future, these differences will not be reversed. At the end of 2020 the Group did not include settlements on temporary differences in the total amount of PLN 1 490 835 thousand incurred due to investments in subsidiaries and affiliated companies in deferred tax calculation and PLN 1 449 790 thousand at the end of 2019.

32. Proceedings before a court, arbitration body or public administration authority

The Group monitors the status of all court cases brought against entities of the Group, including the status of court rulings regarding loans in foreign currencies in terms of shaping of and possible changes in the line of verdicts of the courts, as well as the level of required provisions for legal proceedings.

The Group creates provisions for litigations against entities of the Group, which as a result of the risk assessment involve a probable outflow of funds from fulfilling the liability and when a reliable estimate of the amount of the liability can be made. The amount of provisions is determined taking into account the amounts of outflow of funds calculated on the basis of scenarios of potential settlements of disputable issues and their probability estimated by the Group based on the previous decisions of courts in similar matters and the experience of the Group.

The value of provisions for litigations as at 31 December 2020 amounted to PLN 1 465 213 thousand (PLN 484 760 thousand as at 31 December 2019). A potential outflow of funds due to the fulfilment of the obligation takes place at the moment of the final resolution of the cases by the courts, which is beyond the control of the Group.

Information on the most important court proceedings relating to the issuer's contingent liabilities

1. Claims of Interbrok's clients

   Since 2008, the Bank has received 9 claims for damages in connection with the activities of Interbrok Investment E. Dróżdż i Spółka Spółka jawna (hereinafter Interbrok). Eight of the nine lawsuits were filed by former clients of Interbrok for the total amount of PLN 800 thousand with the proviso that the claims may be extended up to the total amount of PLN 5 950 thousand. The plaintiffs alleged that the Bank had aided in Interbrok's illegal activities, which caused damage to them. With regard to seven of the afore-mentioned cases, legal proceedings against the Bank were dismissed and the cases were finally concluded. In the eighth case, a plaintiff withdrew their suit waiving the claim and the Regional Court dismissed the action. As far as the ninth suit is concerned, the amount in dispute is PLN 276 499 thousand, including statutory interest and costs of proceedings. According to the claims brought in the suit, this amount comprises the receivables, acquired by the plaintiff by way of assignment, due to the parties aggrieved by Interbrok on account of a reduction (as a result of Interbrok's bankruptcy) of the receivables by a return of the deposits paid by the aggrieved for making investments on the forex market. The plaintiff claims the Bank's liability on the grounds of the Bank's aid in committing the illicit act of Interbrok, consisting in unlicensed brokerage operations. On 7 November 2017, the Regional Court in Warsaw dismissed the action in its entirety. The ruling is not final. The plaintiff appealed. By the judgment of 25 January 2021, the Court of Appeal in Warsaw dismissed the appeal of the plaintiff. The judgment of the District Court in Warsaw and the judgment of the Court of Appeal in Warsaw are final.

2. A lawsuit filed by LPP S.A.

   On 17 May 2018, mBank S.A. received a lawsuit filed by LPP S.A. with its registered office in Gdańsk seeking damages amounting to PLN 96 307 thousand on account of interchange fee. In the lawsuit, LPP S.A. petitioned the court for awarding the damages jointly from mBank S.A. and from other domestic bank.

   The plaintiff accuses the two sued banks as well as other banks operating in Poland of taking part in a collusion breaching the Competition and Consumer Protection Act and the Treaty on the Functioning of the European Union. In the plaintiff's opinion, the collusion took the form of an agreement in restriction of competition in the market of acquiring services connected with settling clients' liabilities towards the plaintiff on account of payments for goods purchased by them with payment cards in the territory of Poland.

   On 16 August 2018 mBank S.A. has submitted its statement of defence and requested that the action be dismissed. The court accepted the Defendants' requests to summon sixteen banks to join the proceedings and ordered that the banks be served with the summons. Two banks have notified of their intention to intervene in the case as an indirect intervener.

3. A lawsuit filed by Polski Koncern Naftowy ORLEN S.A.

   On 7 February 2020, mBank S.A. received a lawsuit filed by Polski Koncern Naftowy ORLEN S.A. (Orlen) with its registered office in Płock seeking damages amounting to PLN 635 681 thousand on account of interchange fee. In the lawsuit, Orlen petitioned the court for awarding the damages jointly from mBank S.A. and other domestic bank and also from Master Card Europe and VISA Europe Management Services.

   The plaintiff accuses the two sued banks as well as other banks operating in Poland of taking part in a collusion breaching the Competition and Consumer Protection Act and the Treaty on the Functioning of the European Union, i.e. a collusion restricting competition in the market of acquiring services connected with settling clients’ liabilities towards the plaintiff on account of card payments for goods and services purchased by clients on the territory of Poland.

   On 28 May 2020, mBank S.A. filed a response to the lawsuit.

4. Class action against mBank S.A. concerning the clause on changing interest rate

   On 4 February 2011, a class action filed with the Regional Court in Łódź on 20 December 2010 by the Municipal Consumer Ombudsman representing a group of 835 individuals, the Bank’s retail banking clients, was served on the Bank. The class action was filed to determine the Bank’s liability for the improper performance of mortgage loan agreements. It was in particular claimed that the Bank had improperly applied provisions of agreements on changing interest rate, namely that the Bank had not lowered interest on loans, despite the fact that, according to the Plaintiff, it was obliged to do so. The Bank does not agree with the above-mentioned allegations. The Bank responded to the lawsuit filing for its dismissal in whole.

   As at 17 October 2012, the group of class members consisted of 1 247 individuals. On 3 July 2013, the Court announced its judgment allowing the claim in full. According to the Court, the Bank did not properly execute the agreements concluded with consumers, as a result of which they suffered losses. On 30 April 2014, the Court of Appeal in Łódź dismissed the appeal of mBank S.A., upholding the stance adopted by the Regional Court expressed in the judgment. On 14 May 2015, the Supreme Court revoked the ruling of the Court of Appeal in Łódź and referred the case back to that court for re-examination. By the decision of 24 September 2015, the Court of Appeal in Łódź admitted the expert opinion evidence in order to verify the legality of mBank’s actions connected with changing the interest rates on the mortgage loans covered by the class action in the period from 1 January 2009 to 28 February 2010. On Hearing which took place on 15th July mBank S.A. withdrew mBank’s appeal against the ruling of 9 September 2013. In consequence the Appeal Court decided to dismissed proceedings what means that the ruling of the District Court in Łódź dated 3 July 2013 is final and non-appealable. The ruling dated 3 July 2013 does not question the validity of the concluded credit agreements. Once the ruling becomes final and non-appealable:

   • interest on the loans covered by the class action will be charged at the fixed interest rate applicable on the date the loans were granted;

   • a claim of the class members will arise for reimbursement of amounts potentially paid in excess of the fixed interest in the period covered by the class action.

   The total value of claims in this class action amounted to PLN 5.2 million.

   This case has already been validly closed. Up to now mBank has made most of the transfers to consumers taking part in these proceedings and adjusted the interest rate in all the loan contracts included in the proceeding until the sentence.

5. Class action against mBank S.A. concerning indexation clauses

   On 4 April 2016, the Municipal Consumer Ombudsman representing a group of 390 individuals, retail clients of mBank, who concluded agreements on CHF-indexed mortgage loans with mBank, filed a class action with the Regional Court in Łódź against the Bank.

   The class action includes alternative claims for declaring invalidity of the loan agreements in part i.e. in the scope of the provisions related to indexation, or in whole; or for finding that the indexation provisions are invalid as they permit indexation of over 20% and below 20% at the CHF exchange rate from the table of exchange rates of mBank S.A. applicable as at the date of conclusion of each of the loan agreements.

   As decided by the Court on 13 March 2018, the group is composed of 1 731 persons. On 19 October 2018 the court issued a judgment in which it dismissed all claim of the plaintiff. In the oral justification, the court stated that the Plaintiff had not shown that he had a legal interest in bringing the claim in question, and also referred to the validity of loan agreements indexed by CHF, stressing that both the contract itself and the indexation clause are in compliance with both applicable regulations and rules of social coexistence. On 11 January 2019, the appeal of the plaintiff to which the Bank submitted a response. On 27 February 2020, a hearing was held at the Court of Appeal in Łódź. On 9 March 2020, a verdict was passed in a case in which the Court of Appeal referred the case for re-examination of the Regional Court. On 9 June 2020, the Court of Appeal agreed to the plaintiff's motion to secure the plaintiff's claims by suspending the obligation to repay principal and interest instalments and prohibiting the bank from issuing calls for payment and terminating credit agreements. The Bank lodged a complaint about this decision, which the court decided to reject. On 24 July 2020, the Court also rejected the Bank's complaint against the decision to reject the complaint lodged on 13 July 2020 against the decision to grant security. The hearing is scheduled for 12 March 2021. As at 31 December 2020 the total value of claims in this class actions amounted to PLN 377 million.

6. Individual court proceedings concerning indexation clauses to CHF

   Apart from the class action proceeding there are also individual court proceedings initiated against the Bank by its customers in connection with CHF loan agreements. As at 31 December 2020 – 7 508 individual court proceedings (31 December 2019: 3 715 proceedings) were initiated against the Bank by its customers in connection with CHF loan agreements with the total value of claims amounting to PLN 1,454.2 million (31 December 2019: PLN 443.2 million).

   Out of the individual proceedings 6 870 proceedings (31 December 2019: 2 902 proceedings) with the total value of claims amounting to PLN 1 442.2 million (31 December 2019: PLN 430.1 million) related to indexation clauses in CHF loan agreements and include claims for declaring ineffectiveness or invalidity in part (i.e. to the extent that the agreement contains contractual provisions related to indexation) or invalidity in whole of the loan agreements.

   The carrying amount of mortgage and housing loans granted to individual customers in CHF as at 31 December 2020 amounted to PLN 13.6 billion (i.e. CHF 3.2 billion) compared to PLN 13.6 billion (i.e. CHF 3.5 billion) as at the end of 2019. Additionally the volume of the portfolio of loans granted in CHF that were already fully repaid as of 31 December 2020 amounted to PLN 6.8 billion (31 December 2019: PLN 6.3 billion).

   The Bank's approach to the measurement of provisions for legal risk associated with this portfolio of loans has been described in the Note 4 "Major estimates and judgments made in connection with the application of accounting policy principles".

Ruling of the Court of Justice of the European Union regarding a CHF mortgage

On 3 October 2019 the Court of Justice of the European Union issued the ruling in the prejudicial mode regarding a mortgage linked to the Swiss franc granted by a Polish bank. The submitted prejudicial questions were to determine, among other things, if a generally applicable custom can be used where there is no provision in domestic law that could replace an abusive exchange rate clause. In accordance with CJEU's ruling, the question of abusiveness will be decided by Polish courts. CJEU did not refer to this issue. In addition, CJEU did not make a clear-cut decision regarding the consequences of an exchange rate clause being considered abusive by a domestic court. However, the possibility of a credit agreement being performed further in PLN and with interest calculated according to LIBOR was found doubtful by the Court. If an exchange rate clause is found abusive, a domestic court must decide whether the agreement in question can be performed further or should be declared invalid, taking into account the client's will and the consequences of invalidity for the client. CJEU approved the application of a disposable norm (in the bank's opinion article 358 of the Polish Civil Code referring to the NBP fixing rate can be considered to be a disposable norm), if the invalidity of the agreement would be unfavourable for the client. CJEU rejected the application of general provisions referring to a custom or equity principles.

In October 2020, prejudicial questions were referred to CJEU in two individual cases against mBank. The question referred in first case aims at determining the starting point for the limitation period in the case of consumer claims for undue performance. The question referred in the second case aims at determining whether, in the event of declaring the exchange rate clause abusive, it is possible to apply in its place the provision of the Civil Code referring to the average NBP exchange rate.

The Bank expects decisions on both these matters at the turn of 2021 and 2022.

Supreme Court resolution on loans in CHF

On 29 January 2021 the motion for adopting a resolution has been submitted to the Supreme Court by the First President of the Supreme Court. The Supreme Court will answer to abusive provisions can be replaced with provisions of civil law or common practice, whether it is possible to maintain indexed/denominate loan as a PLN loan with an interest rate based on LIBOR, whether the theory of balance or the theory of two conditionalities will apply on the event of the CHF loan invalidity, the starting point of the limitation period in the case of the bank's claim for reimbursement of the amounts paid under the loan and whether banks and consumers can receive a remuneration from for using use of their funds by the other party.

The Supreme Court will hold a non-public seating on 25 March 2021. The bank will analyse the content of the resolution after its publication, in particular its expected impact on further jurisprudence and the parameters used in the calculation of legal risk provisions.

PFSA’s Chairman proposal

The general assumptions of the PFSA’s Chairman proposal to convert F/X loans to PLN have been announced in December 2020. As at the date of approval of these financial statements the details of the proposal have not been specified, including the legal and tax framework of the conversion and the population of clients to be addressed with conversion settlements.

The PFSA’s Chairman proposal assumes that indexed to / denominated in foreign currency loan (CHF / EUR / USD) would be converted as it was from beginning a PLN loan with an interest rate of WIBOR 3M increased by a margin used historically for such loans.

The Bank analyzed the costs it would have to incur in the indicated scenario, as the sum of the differences between the current balances of loans indexed to / denominated in a foreign currency (CHF / EUR / USD) and the corresponding hypothetical loan balances in PLN based on the 3M WIBOR rate increased by the loan margin in PLN granted at the same time and for the same period as the loan indexed to / denominated in foreign currencies (CHF / EUR / USD).

Hypothetical PLN loan balances include in their schedule differences from the actual repayments of loans indexed to / denominated in foreign currencies (CHF / EUR / USD) by adjusting the value of the outstanding principal according to the scheme provided by the PFSA.

The estimated potential impact of implementation of the conversion plan on mBank, according to the calculation based on the PFSA’s questionnaire dated 27 January 2021, would be:

- PLN 6.6 billion if 100% of active and repaid portfolio was converted (data unaudited),

- PLN 5.5 billion if only active portfolio was converted (data unaudited).

The above potential impact was calculated based on the data as of 31 December 2020 and based on granular assumptions provided by PFSA in that questionnaire. The PFSA’s Chairman proposal assumes that only active portfolio would be converted.

As stated in Note 45 Capital adequacy, as of 31 December 2020 the Group maintained capital adequacy ratios above the required levels. The amounts of excess capital, both related to Tier I ratio and total capital ratio, were higher than the potential impact of implementation of the PFSA’s Chairman proposal on the Group, according to the calculation based on the PFSA’s questionnaire.

As at the date of approval these financial statements mBank has not made any decisions on offering settlements according to the PFSA’s Chairman proposal nor has taken any steps to acquire any corporate consents in that matter. It will be a subject of further analysis and discussions with financial authorities. The PFSA’s proposal has not been taken into consideration when calculating provision for legal risk related to indexed loans.

As part of the analysis of the proposal, the banks participating in the working group – including mBank - submitted a letter to the NBP initiating dialogue to better understand the central bank’s potential readiness to conduct transactions that may be necessary in the process. The preliminary nature of this dialogue needs to be underscored.

The President of the National Bank of Poland in his press conference on 5 February 2021 supported the usage of an average NBP FX rate as a solution and advocated for compensation for the usage of capital. He also underlined that FX rate tables are allowed by the banking law and are a common market practice.

At the same time the President of the NBP took a view that a possibility of converting the CHF loans into “PLN + LIBOR” has no economic grounds.

The NBP, in the official statement on 9 February 2021, has informed of its favorable view on initiatives aimed at reducing the legal risk of foreign FX loans through settlements with the borrowers. The NBP also declared its readiness to consider the involvement in such initiatives if the following conditions are fulfilled:

- a sufficiently large group of banks joins the initiative (the majority of the FX portfolio covered by the settlements),
- banks present a reliable information about the interest of a significant part of their borrowers in signing the settlements,
- legal doubts as to the effectiveness of this initiative are eliminated in regards to corporate consents as well as to further legal claims related to settlements,
- banks present capital reconstruction plans.

Tax inspections

On 10 August 2020, mLeasing Sp. z o.o. a call was received from the First Masovian Tax Office in connection with the verification activities in the field of tax on goods and services for the month of June 2020. As a result of checking activities, no irregularities were found. The tax refund for June took place on 25 August 2020.

The tax authorities may inspect at any time the books and records within 5 years subsequent to the reported tax year and may impose additional tax assessments and penalties. In the opinion of the Management Board there are no circumstances, which would indicate that crystallising of material tax liabilities in this respect is probable.

Inspection by the Office of the Polish Financial Supervision Authority (PFSA Office)

In the period from October till December 2018 the PFSA Office employees carried out an inspection in the Bank in order to investigate whether the activities of mBank S.A. in the area of fulfilling its duties as the depositary were in conformity with the law and agreements on the performance of functions of the depositary, in particular in conformity with the Act of 27 May 2004 on Investment Funds and Management of Alternative Investment Funds (Journal of Laws of 2018, item 1355, as later amended).

The detailed findings of the inspection were presented in the protocol delivered to the Bank on 11 February 2019. On 25 February 2019 the Bank delivered to the PFSA office its objections to the protocol as well as additional explanations related to the issues being the subject of the inspection.

On 1 April 2019 the Bank received PFSA response to the objections to the inspection protocol as well as PFSA recommendations in regard to the adjustment of Bank's activity as a depositary bank for investment funds to the applicable law. All objections of the Bank have been rejected by the regulator.

On 25 April 2019 the Bank submitted to PFSA Office a declaration of actions taken as realization of post-inspection recommendations. PFSA by letter dated 4 September 2019 objected to the implementation of selected recommendations. On 11 October 2019 Bank submitted to PFSA the response addressing given objections, in which the description of taken actions was further specified as well as some new solutions for implementation were presented. On 5 December 2019, the PFSA Office sent to the Bank a reply to the letter containing the acceptance of some of the Bank's activities aimed at implementing post-audit recommendations and clarifications of other expectations that are being implemented. On 14 May 2020 the Bank formally confirmed the implementation of all the PFSA recommendations.

On 27 February 2020, the Bank received the decision of PFSA Office dated 25 February 2020 to initiate administrative proceedings regarding the imposition of an administrative penalty on the Bank, pursuant to the provisions of the Act dated 27 May 2004 on investment funds and management of alternative investment funds.

Proceedings initiated by the Office of Competition and Consumer Protection (UOKiK)

Proceedings for considering provisions of a template agreement as abusive instituted ex officio on 12 April 2019. The proceedings concern amendment clauses stipulating under which circumstances the bank is authorised to amend the terms and conditions of the agreement, including the amount of fees and commissions. In the opinion of the President of the Office of Competition and Consumer Protection (UOKiK), the amendment clauses used by the bank give it an unlimited right to unilaterally and freely change the manner of performing the agreement. As a consequence, the UOKiK President represents the view that the clauses used by the bank define the rights and obligations of consumers contrary to good morals and grossly violate their interest and, thus, are abusive. mBank does not agree with this stance. mBank responded to the decision on instituting the proceedings in letters dated 28 May 2019 and 10 January 2020. As at the date of approval these consolidated financial statements, the UOKiK President did not take any further actions in the case in question, did not take a stance, and did not respond to mBank's letters.

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33. Off-balance sheet liabilities

Off-balance sheet liabilities of the Group comprise:

- Loan commitments

The amounts and deadlines by which the Group will be obliged to realise its off-balance sheet liabilities by granting loans or other monetary services are presented in the table below.

- Guarantees and other financial facilities
- Other commitments

Loan commitments, guarantees and other financial facilities and other commitments

31.12.2020	Nominal amount of off-balance sheet commitments and financial guarantees under IFRS 9 impairment				Provisions on off-balance sheet commitments and financial guarantees under IFRS 9 impairment			
	Stage 1	Stage 2	Stage 3	POCI	Stage 1	Stage 2	Stage 3	POCI
Loan commitments	30 678 613	1 279 026	23 064	5 523	44 157	36 829	5 510	2 495
Guarantees and other financial facilities	6 384 768	918 829	121 128	36 166	4 541	6 134	80 055	25 940
Other liabilities	22 789	-	-	-	-	-	-	-

31.12.2019	Nominal amount of off-balance sheet commitments and financial guarantees under IFRS 9 impairment				Provisions on off-balance sheet commitments and financial guarantees under IFRS 9 impairment			
	Stage 1	Stage 2	Stage 3	POCI	Stage 1	Stage 2	Stage 3	POCI
Loan commitments	27 971 352	1 146 727	14 041	2 815	35 708	23 639	2 136	2 381
Guarantees and other financial facilities	7 785 545	963 174	186 466	3 242	4 781	4 713	79 684	390

The following table presents the Group's off-balance sheet commitments granted and received as well as nominal value of open positions of derivative transactions of the Bank as at 31 December 2020 and as at 31 December 2019.

Guarantees are presented in the table below based on the earliest contractual maturity date.

31.12.2020	Up to 1 year	1-5 years	More than 5 years	Total
1. Contingent liabilities granted and received	**29 446 160**	**11 616 856**	**5 023 107**	**46 086 123**
Commitments granted	**26 366 049**	**8 485 291**	**4 618 566**	**39 469 906**
1. Financing	23 224 024	6 035 337	2 726 865	**31 986 226**
a) Loan commitments	23 224 024	6 035 337	2 726 865	**31 986 226**
2. Guarantees and other financial facilities	3 119 236	2 449 954	1 891 701	**7 460 891**
a) Guarantees and standby letters of credit	3 119 236	2 449 954	1 891 701	**7 460 891**
3. Other liabilities	22 789	-	-	**22 789**
Commitments received	**3 080 111**	**3 131 565**	**404 541**	**6 616 217**
- Financial commitments received	33 019	426 410	-	**459 429**
- Guarantees received	3 047 092	2 705 155	404 541	**6 156 788**
2. Derivative financial instruments (nominal value of contracts)	**208 432 325**	**411 284 271**	**42 219 460**	**661 936 056**
Interest rate derivatives	107 207 677	383 124 263	40 655 240	**530 987 180**
Currency derivatives	97 585 364	28 114 449	919 765	**126 619 578**
Market risk derivatives	3 639 284	45 559	644 455	**4 329 298**
Total off-balance sheet items	**237 878 485**	**422 901 127**	**47 242 567**	**708 022 179**

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31.12.2019	Up to 1 year	1-5 years	More than 5 years	Total
1. Contingent liabilities granted and received	**32 479 904**	**6 033 390**	**3 554 723**	**42 068 017**
Commitments granted	**30 083 806**	**4 876 925**	**3 112 631**	**38 073 362**
1. Financing	24 635 711	2 824 772	1 674 452	**29 134 935**
a) Loan commitments	24 635 711	2 824 772	1 674 452	**29 134 935**
2. Guarantees and other financial facilities	5 448 095	2 052 153	1 438 179	**8 938 427**
a) Guarantees and standby letters of credit	5 448 095	2 052 153	1 438 179	**8 938 427**
Commitments received	**2 396 098**	**1 156 465**	**442 092**	**3 994 655**
- Financial commitments received	392 130	-	-	**392 130**
- Guarantees received	2 003 968	1 156 465	442 092	**3 602 525**
2. Derivative financial instruments (nominal value of contracts)	**200 227 125**	**350 824 493**	**45 135 622**	**596 187 240**
Interest rate derivatives	133 642 008	323 965 761	39 560 757	**497 168 526**
Currency derivatives	62 798 352	25 661 914	5 085 895	**93 546 161**
Market risk derivatives	3 786 765	1 196 818	488 970	**5 472 553**
Total off-balance sheet items	**232 707 029**	**356 857 883**	**48 690 345**	**638 255 257**

The nominal values of derivatives are presented in Note 20.

As at 31 December 2020, apart from financial commitments granted by the Bank, the largest impact on the amount of financial commitments granted had commitments granted by mFaktoring and mBank Hipoteczny respectively in amount of PLN 2 685 651 thousand and PLN 35 174 thousand (31 December 2019 respectively: PLN 1 944 564 thousand and PLN 449 612 thousand).

On 5 July 2019, mBank S.A. concluded a lease agreement for space in the Mennica Legacy Tower building, located at 18 Prosta street in Warsaw, to which the Bank's Warsaw headquarters was moved. Partially, the building was released for use in October 2020. The other part of the bulding will be released in March 2021. The approximate amount of liability related to the upcoming release will probably amount to about PLN 224 466 thousand.

34. Pledged assets

Assets may be pledged as collateral for repo/sell/buy back transactions, derivatives contract with other banks. Collateral may be also placed due to stock market derivatives such as futures, options and participation in stock market.

Collateral may be placed in different form (e.g. cash, securities and pledged assets).

Similarly, customers establish collateral on their assets to secure the transaction with the Group. If securities are subject to collateral (in buy/sell back transaction) they can be re-pledged in the opposite transaction (sell/buy back).

Moreover the Group accepts collaterals in the form of properties (esp. real estates) related to credit type transactions like mortgage loans, credit lines, banking guarantees.

The tables below present the breakdown of the measures possible to pledge by the main items of the statement of financial position of mBank Group. Treasury securities are the main component of the Group's liquidity collateral for the purpose of pledge.

31.12.2020	Assets			Collateral received in kind of securities related with buy/sell back transactions			Assets available for pledge (3+6)
	Total assets	Pledged assets	Eligible for pledge assets	Received	Reused	Available for pledge	
	1	2	3	4	5	6	7
Debt securities (Note 20, 21, 22 and 23) including:	**52 203 096**	**3 967 830**	**46 895 683**	**6 357 913**	**474 210**	**5 883 703**	**52 779 386**
- NBP bills	184 996	-	184 996	-	-	-	184 996
- Government bonds	44 848 250	3 967 830	40 880 420	6 357 913	474 210	5 883 703	46 764 123
- Other non-treasury securities	7 169 850	-	5 830 267	-	-	-	5 830 267
Cash collaterals (due to derivatives transactions) (Note 23)	752 224	752 224	-	-	-	-	-
Loans and advances to customers	109 611 481	9 415 079	-	-	-	-	-
Property collateral	-	-	-	-	-	-	-
Other assets	17 569 493	-	-	-	-	-	-
Total	**180 136 294**	**14 135 133**	**46 895 683**	**6 357 913**	**474 210**	**5 883 703**	**52 779 386**

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31.12.2019	Assets			Collateral received in kind of securities related with buy/sell back transactions			Assets available for pledge (3+6)
	Total assets	Pledged assets	Eligible for pledge assets	Received	Reused	Available for pledge	
	1	2	3	4	5	6	7
Debt securities (Note 20, 21, 22 and 23) including:	**35 876 137**	**3 193 568**	**31 141 370**	**3 362 331**	**-**	**3 362 331**	**34 503 701**
- NBP bills	3 219 627	-	3 219 627	-	-	-	3 219 627
- Government bonds	28 880 004	3 193 568	25 686 436	3 362 331	-	3 362 331	29 048 767
- Other non-treasury securities	3 776 506	-	2 235 307	-	-	-	2 235 307
Cash collaterals (due to derivatives transactions) (Note 23)	417 698	417 698	-	-	-	-	-
Loans and advances to customers	105 347 475	10 311 838	-	-	-	-	-
Property collateral	-	-	-	-	-	-	-
Other assets	17 079 273	-	-	-	-	-	-
Total	**158 720 583**	**13 923 104**	**31 141 370**	**3 362 331**	**-**	**3 362 331**	**34 503 701**

mBank Hipoteczny S.A. secures issued mortgage and public bonds with receivables obtained from loans and advances. As at 31 December 2020, the net carrying value of loans registered in the mortgage and public bonds register, presented above as pledged assets amounted to PLN 9 415 079 thousand (31 December 2019: PLN 10 311 838 thousand).

The value of treasury securities presented as pledged assets, except for collaterals due to sell/buy back transactions, includes collateral of liabilities due to the loan received from the EIB, collateral for the guaranteed deposits fund under the Bank Guarantee Fund (BFG) and collateral for the payment commitment to the BFG guarantee fund and forced restructuring fund.

35. Registered share capital

The total number of ordinary shares as at 31 December 2020 was 42 367 040 shares (31 December 2019: 42 350 367) at PLN 4 nominal value each. All issued shares were fully paid up.

REGISTERED SHARE CAPITAL (THE STRUCTURE) AS AT 31 DECEMBER 2020						
Share type	Type of privilege	Type of limitation	Number of shares	Series / face value of issue in PLN	Paid up	Registered on
ordinary bearer*	-	-	9 989 000	39 956 000	fully paid in cash	1986
ordinary registered*	-	-	11 000	44 000	fully paid in cash	1986
ordinary bearer	-	-	2 500 000	10 000 000	fully paid in cash	1994
ordinary bearer	-	-	2 000 000	8 000 000	fully paid in cash	1995
ordinary bearer	-	-	4 500 000	18 000 000	fully paid in cash	1997
ordinary bearer	-	-	3 800 000	15 200 000	fully paid in cash	1998
ordinary bearer	-	-	170 500	682 000	fully paid in cash	2000
ordinary bearer	-	-	5 742 625	22 970 500	fully paid in cash	2004
ordinary bearer	-	-	270 847	1 083 388	fully paid in cash	2005
ordinary bearer	-	-	532 063	2 128 252	fully paid in cash	2006
ordinary bearer	-	-	144 633	578 532	fully paid in cash	2007
ordinary bearer	-	-	30 214	120 856	fully paid in cash	2008
ordinary bearer	-	-	12 395 792	49 583 168	fully paid in cash	2010
ordinary bearer	-	-	16 072	64 288	fully paid in cash	2011
ordinary bearer	-	-	36 230	144 920	fully paid in cash	2012
ordinary bearer	-	-	35 037	140 148	fully paid in cash	2013
ordinary bearer	-	-	36 044	144 176	fully paid in cash	2014
ordinary bearer	-	-	28 867	115 468	fully paid in cash	2015
ordinary bearer	-	-	41 203	164 812	fully paid in cash	2016
ordinary bearer	-	-	31 995	127 980	fully paid in cash	2017
ordinary bearer	-	-	24 860	99 440	fully paid in cash	2018
ordinary bearer	-	-	13 385	53 540	fully paid in cash	2019
ordinary bearer	-	-	16 673	66 692	fully paid in cash	2020
Total number of shares			**42 367 040**			
Total registered share capital				**169 468 160**		
Nominal value per share (PLN)		**4**				

* As at the end of the reporting period

In 2020, the National Depository of Securities (KDPW) has registered 16 673 shares of mBank, which were issued as part of the conditional increase in the share capital of the Bank by issuance of shares with no subscription rights for the existing shareholders in order to enable beneficiaries of the incentive programmes to take up shares in mBank. As a result of the above registration, in 2020 mBank's share capital increased by PLN 66 692.

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Commerzbank AG is a shareholder holding over 5% of the share capital and votes at the General Meeting and as at 31 December 2019 it held 69.28% of the share capital and votes at the General Meeting of mBank S.A.

- The changes in the ownership structure of Bank's material shares packages

On 20 November 2020 mBank S.A. was notified by Nationale-Nederlanden Powszechne Towarzystwo Emerytalne S.A. (Nationale-Nederlanden PTE) about increasing in the share of funds managed by Nationale-Nederlanden PTE in the total number of votes at the General Meeting of mBank S.A. above 5% resulting from the purchase of mBanks' shares at the WSE, settled on 12 November 2020. As a result of this transaction, the funds managed by Nationale-Nederlanden PTE together have 2 125 162 shares of mBank S.A., which represents 5.02% of the share capital of mBank S.A. and entitles to 2 125 162 votes at the General Meeting of mBank S.A.

Before the acquisition of mBank S.A. shares, the funds managed by Nationale-Nederlanden PTE together held 2 099 331 shares of mBank S.A., which represented 4.96% of the share capital of mBank S.A. and entitled to 2 099 331 votes at the General Meeting of mBank S.A.

Moreover, on 8 December 2020 mBank S.A. was notified by Nationale-Nederlanden PTE about increasing in the share by Nationale-Nederlanden Otwarty Fundusz Emerytalny (Nationale-Nederlanden OFE) in the total number of votes at the General Meeting of mBank S.A. above 5% resulting from the purchase of mBanks' shares at the WSE, settled on 30 November 2020. After the settlement of the above-mentioned transaction, Nationale-Nederlanden OFE held a total of 2 145 215 shares in the Bank which represented 5.06% of the share capital of mBank S.A. and entitling to 2 145 215 votes at the General Meeting of mBank S.A.

Before the acquisition of mBank S.A. shares, the Nationale-Nederlanden OFE held a total 2 107 691 shares of mBank S.A., which represented 4.97% of the share capital of mBank S.A. and entitled to 2 107 691 votes at the General Meeting of mBank S.A.

According to the information received from Nationale-Nederlanden PTE, the funds managed by Nationale-Nederlanden PTE held a total of 2 178 642 shares of mBank S.A.

36. Share premium

Share premium is formed from the share premium obtained from the issue of shares reduced by the direct costs incurred with that issue. This capital is intended to cover all losses that may result from the business activity of the Bank.

The increase of share premium in 2020 and 2019 results from the issue of shares under incentive programmes described under Note 41.

37. Retained earnings

Retained earnings include: other supplementary capital, other reserve capital, general banking risk reserve, profit (loss) from the previous years and profit for the current year.

Other supplementary capital, other reserve capital and general banking risk reserve are created from profit for the current year and their aim is described in the by-laws or in other regulations of the law.

	31.12.2020	31.12.2019
Other supplementary capital	9 911 964	9 826 282
Other reserve capital	101 325	98 316
General banking risk reserve	1 153 753	1 153 753
Profit from the previous year	1 230 724	306 074
Profit for the current year	103 831	1 010 350
Total retained earnings	**12 501 597**	**12 394 775**

According to the Polish legislation, each Bank is required to allocate 8% of its net profit to a statutory undistributable other supplementary capital until this supplementary capital reaches 1/3 of the share capital.

In addition, the Group transfers some of its net profit to the general banking risk reserve to cover unexpected risks and future losses. The general banking risk reserve can be distributed only on consent of shareholders at a general meeting.

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38. Other components of equity

	31.12.2020	31.12.2019
Exchange differences on translating foreign operations	**(2 392)**	**(5 435)**
Unrealized gains (foreign exchange gains)	30 888	1 133
Unrealized losses (foreign exchange losses)	(33 280)	(6 568)
Valuation of debt securities at fair value through other comprehensive income	**185 333**	**74 321**
Unrealized gains on debt instruments	258 069	117 938
Unrealized losses on debt instruments	(1 784)	(7 778)
Deferred income tax	(70 952)	(35 839)
Cash flow hedges	**419 130**	**119 142**
Unrealized gains	569 033	150 802
Unrealized losses	(51 589)	(3 714)
Deferred income tax	(98 314)	(27 946)
Actuarial gains and losses relating to post-employment benefits	**(17 570)**	**(11 318)**
Actuarial gains	32	29
Actuarial (losses)	(21 724)	(14 003)
Deferred income tax	4 122	2 656
Total other components of equity	**584 501**	**176 710**

39. Dividend per share

On 27 March 2020, the 33rd Annual General Meeting of mBank S.A. adopted a resolution regarding the distribution of the net profit for 2019. The net profit of mBank S.A. in the amount of PLN 980 980 thousand was left undivided.

40. Explanatory notes to the statement of cash flow

Cash and cash equivalents

For the purpose of the statement of cash flows, the balance of cash and cash equivalents comprises the following balances with maturities shorter than three months.

	31.12.2020	31.12.2019
Cash and balances with the Central Bank (Note 19)	3 968 691	7 897 010
Loans and advances to banks (Note 23)	280 355	382 378
Total cash and cash equivalents	**4 249 046**	**8 279 388**

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Supplementary information to the cash flow statement

Explanation of differences between the change in the balances resulting from the balance sheet and the change disclosed in the cash flows from operating activities

	Year ended 31 December	
	2020	**2019**
Loans and advances to banks - change in the balance of the statement of financial position	**(3 012 510)**	**(1 795 412)**
The difference between the interest accrued and paid in cash in the period	(42 716)	(25 996)
Exclusion of a change in the balance of cash and cash equivalents	(102 023)	(301 033)
Total change in loans and advances to banks	**(3 157 249)**	**(2 122 441)**
Financial assets held for trading and hedging derivatives - change in the balance of the statement of financial position	**728 601**	**(763 646)**
The difference between the interest accrued and paid in cash in the period	67 535	93 922
Valuation included in other comprehensive income (gross)	370 356	43 825
Total change in financial assets held for trading and hedging derivatives	**1 166 492**	**(625 899)**
Loans and advances to customers - change in the balance of the statement of financial position	**(4 469 343)**	**(10 452 199)**
The difference between the interest accrued and paid in cash in the period	(201 524)	(83 149)
Total change in loans and advances to customers	**(4 670 867)**	**(10 535 348)**
Financial assets at fair value through other comprehensive income - change in the balance of the statement of financial position	**(12 724 140)**	**1 564 363**
Valuation included in other comprehensive income	146 125	(69 126)
The difference between the interest accrued and paid in cash in the period	(589 114)	(367 943)
Total change in financial assets at fair value through other comprehensive income	**(13 167 129)**	**1 127 294**
Debt securities measured at amortised cost - change in the balance of the statement of financial position	**(4 717 628)**	**(2 234 334)**
The difference between the interest accrued and paid in cash in the period	1 042	-
Total change in debt securities measured at amortised cost	**(4 716 586)**	**(2 234 334)**
Non-trading financial assets mandatorily at fair value through profit or loss - change in the balance of the statement of financial position	**18 018**	**(165 485)**
Acquisition of shares in subsidiaries not included in the consolidation	-	11 055
Disposals of shares in subsidiaries not included in the consolidation	(7 807)	-
Change non-trading financial assets mandatorily at fair value through profit or loss	**10 211**	**(154 430)**
Other assets (including non-current assets held for sale) - change in the balance of the statement of financial position	**(314 839)**	**210 679**
Balances unrealised in cash recognised in income statement	3 826	5 715
Exclusion of change in cash flows from investment activity	(85 241)	
Total change in other assets	**(396 254)**	**216 394**
Amounts due to other banks - change in the balance of the statement of financial position	**1 232 869**	**(1 941 955)**
The difference between the interest accrued and paid in cash in the reporting period	16 826	(14 842)
Exclusion of change in cash flows from financing activity	198 636	557 100
Total change in amounts due to other banks	**1 448 331**	**(1 399 697)**
Amounts due to customers - change in the balance of the statement of financial position	**21 037 530**	**14 652 076**
The difference between the interest accrued and paid in cash in the reporting period	(377 940)	(419 101)
Exclusion of change in cash flows from financing activity	125 092	641 383
Total change in amounts due to customers	**20 784 682**	**14 874 358**
Debt securities issued - change in the balance of the statement of financial position	**(3 438 826)**	**(614 440)**
The difference between the interest accrued and paid in cash in the reporting period	(118 543)	35 114
Exchange differences	(633 002)	(50 088)
Exclusion of change in cash flows from financing activity	4 545 077	404 989
Total change in debt securities issued	**354 706**	**(224 425)**
Changes in other liabilities (including liabilities held for sale) and provisions - change in the balance of the statement of financial position	**1 470 108**	**58 523**
Valuation of incentive programmes recognised in income statement (Note 13)	10 159	10 702
Exclusion of tax liabilities of certain financial institutions	(18 641)	(39 871)
Actuarial gains and losses relating to post-employment benefits recognised in other comprehensive income (Note 18)	(7 718)	(2 483)
Total change in other liabilities (including liabilities held for sale) and provisions	**1 453 908**	**26 871**

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Interest received and paid introduced in operating activities

	Year ended 31 December	
	2020	2019
Interest income, including:		
Loans and advances to banks	63 227	82 200
Loans and advances to customers	3 838 069	4 032 501
Debt securities	1 255 748	1 029 120
Interest income on derivatives classified into banking book	63 602	101 751
Interest income on derivatives concluded under hedge accounting	224 203	107 602
Other interest income	1 683	5 058
Total interest income	**5 446 532**	**5 358 232**

	Year ended 31 December	
	2020	2019
Interest expense, including:		
Settlements with banks due to deposits received	(17 489)	(17 781)
Settlements with customers due to deposits received	(536 585)	(725 432)
Security deposit received in relation with the guarantee granted to secure underwriting of securities	(109 098)	(329 380)
Other interest expense	(31 653)	(23 679)
Total interest expense	**(694 825)**	**(1 096 272)**

Cash flows from investing activities

In 2020 and in 2019, cash flows from investment activities mainly relate to the settlements regarding the purchase of intangible and tangible assets.

Cash flows from financing activities

Cash flows from financing activities mainly relate to the settlements regarding the issue of debt securities and to the settlements of long-term loans received from other banks (Note 28) and the European Investment Bank (Note 28). Moreover, cash flows from financing activities includes the settlements relates to subordinated liabilities.

	As at 31.12.2019	Cash flows	Change not connected with cash fows	As at 31.12.2020
Loans and advances to banks (Note 28)	189 901	(198 636)	9 235	500
Loans and advances to other customers (Note 28)	2 980 294	(5 592)	279 889	3 254 591
Leasing liabilities (Note 28)	496 912	(119 501)	394 524	771 935
Liabilities due to security deposits received in relation with the granted guarantees (Note 28)	17 435 143	(4 545 077)	1 106 251	13 996 317
Subordinated liabilities (Note 28)	2 500 217	(76 145)	154 255	2 578 327
Total liabilities from financing activities	**23 602 467**	**(4 944 951)**	**1 944 154**	**20 601 670**

	As at 31.12.2018	Cash flows	Change not connected with cash fows	As at 31.12.2019
Loans and advances to banks (Note 28)	747 381	(567 863)	10 383	189 901
Loans and advances to other customers (Note 28)	3 457 264	(519 145)	42 175	2 980 294
Leasing liabilities (Note 28)	-	(122 539)	619 451	496 912
Liabilities due to security deposits received in relation with the granted guarantees (Note 28)	18 049 583	(404 989)	(209 451)	17 435 143
Subordinated liabilities (Note 28)	2 474 163	(76 627)	102 681	2 500 217
Total liabilities from financing activities	**24 728 391**	**(1 691 163)**	**565 239**	**23 602 467**

In the change not related to cash flows were included exchange differences and accrued interest. The total cash outflow from leases (including cash flow related to short-term lease contracts, low-value asset lease contracts that are not short-term contracts and variable components of lease liabilities that are disclosed in cash flows from operating activities) amounted to PLN 122 511 thousand (PLN 131 370 thousand in 2019).

41. Share-based incentive programmes

2014 Incentive Programme for the Management Board Members of the Bank

On 31 March 2014 the Supervisory Board in accordance with the recommendation of Remuneration Committee of the Supervisory Board adopted a Regulation of the Incentive Programme in mBank S.A., which replaced the Regulation of the Incentive Programme in mBank S.A. dated at 7 December 2012.

On 2 March 2015 the Supervisory Board extended the duration of the program from 31 December 2018 to 31 December 2021.

Under the program the Management Board Members have the right to bonus, including non-cash bonus paid in Bank’s shares.

The net ROE of mBank Group and the monthly remuneration of the member of the Board as at 31 December form the basis for acquisition by Members of the Management Board of the right to bonus and for calculation of the amount of bonus for a given financial year. Equivalent of 50% of the base amount calculated based on ROE constitutes the so-called first part of the bonus. In regard to the remaining 50% of the base amount, the Remuneration Committee of the Supervisory Board can grant the second part of the bonus if it decides that a given Member of the Management Board achieved the annual/multi-year business and development objective. The decision of granting the second part of the bonus is the sole responsibility of Remuneration Committee of the Supervisory Board, which according to its own judgement and decision confirm MBO achievement taking into account the situation on financial markets in the last/previous financial period.

The sum of the first and the second part of bonus is the base bonus of the member of the Board for a given financial period. 40% of the base bonus constitutes non-deferred bonus and is paid in the year of determination of base bonus as follows: 50% in form of cash payment and 50% in Bank’s shares or bonds with pre-emptive rights to acquire shares.

60% of the base bonus is deferred bonus and is paid in three equal tranches in the next three following years after the year of determining the base bonus as follows: 50% of each of the deferred tranches in form of cash payment and 50% of each of the deferred tranches in form of non-cash payment in Bank’s shares or bonds with pre-emptive rights to acquire shares.

The Supervisory Board on the basis of recommendation of Remuneration Committee can make a decision to suspend in whole or reduce the amount of deferred tranche due to the later assessment of the performance of the Member of the Management Board over a period of time longer than one financial year (i.e. for the period of at least 3 years), which takes into account the business cycle of the Bank as well as the risk related to the bank's operations, but only when the acts or omissions of the Member of the Management Board had a direct and adverse impact on the Bank's financial result and market position within the assessment period and when at least one of the elements included in the assessment card was not fulfilled.

Remuneration Committee of the Supervisory Board can make a decision on suspending in whole or decreasing the non-deferred and deferred bonus amount for a given financial year, including deferred tranches not paid out yet, in a situation where one of the conditions of Article 142, paragraph 1 of the Banking Law Act, in particular in paragraph 2. Suspending in whole or decreasing the non-deferred and deferred bonus, as well as any deferred tranche by the Remuneration Committee of the Supervisory Board can also apply to the non-deferred and deferred bonus, including deferred tranche not paid out yet after expiry or termination of the management contract.

Under the program described above, the for 2017 was awarded for the last time. The last settlements fall on 2021.

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The table below presents the number of share options related to the 2014 incentive programme for Management Board Members of the Bank.

	31.12.2020		31.12.2019	
	Number of options	Weighted average exercise price (in PLN)	Number of options	Weighted average exercise price (in PLN)
Outstanding at the beginning of the period	**6 210**	**-**	**12 229**	**-**
Granted during the period	-	-	-	-
Forfeited during the period	-	-	-	-
Exercised during the period*	4 608	4	6 019	4
Expired during the period	-	-	-	-
Outstanding at the end of the period	**1 602**	**-**	**6 210**	**-**
Exercisable at the end of the period	**-**	**-**	**-**	**-**

*In 2020, the weighted average price of the shares was PLN 190.77 (in 2019 PLN 388.23).

Cash Part of the Bonus

50% of the base amount constitutes bonus cash payment. It is recognised in the income statement in the correspondence to liability to employees.

Share-Based Payments Settled in mBank S.A. Shares

50% of the base amount constitutes bonus payment settled in mBank S.A. shares. The cost of payments settled in shares is recognised in the income statement in the correspondence with other reserve capital.

This is equity-settled share-based program.

Employee programme for key management staff of mBank Group of 2014

On 31 March 2014, the Supervisory Board of mBank adopted on the basis of recommendation of Remuneration Committee a resolution amending the rules of the employee programme, which replaced the incentive programme for key management staff of mBank Group from 2013.

The aim of the programme is to ensure growth in the value of a subsidiary's shares by linking the interest of the key staff of mBank Group with the interest of the subsidiary and its shareholders and implementing an mBank Group policy of variable components of remuneration of persons holding managerial positions in mBank Group.

On 2 March 2015, the Supervisory Board of mBank extended the duration of the program from 31 December 2019 to 31 December 2022 in accordance with the recommendation of the Remuneration Committee.

As part of the programme, bonds in tranche III, IV, V and VI were allocated to and acquired by the eligible persons.

The last settlements of the above-mentioned Tranches were realized in 2017.

Beginning with Tranche VII the right to purchase bonds granted to the entitled person was divided into four parts, which may be realized respectively: I part – non-deferred bonds representing 50% of the 60% of the amount of discretionary bonus granted for a given financial year in the year of granting the right, and then another three equal parts – deferred bonds constituting 50% of the 40% of the amount of discretionary bonus granted for a given financial year on the lapse of 12, 24 and 36 months from the date of granting the rights. Beginning with Tranche VII the bonus for 2014 – 2017 was awarded. The last settlements are in 2021.

The Management Board of mBank/the Supervisory Board of a subsidiary in which the programme has been launched may decide to suspend in whole or reduce the number of bonds in a deferred but not yet paid tranche for an eligible person, if one of the cases referred to in Article 142 of the Banking Law Act occurs, in particular the case referred to in section 2, i.e. the occurrence or risk of a balance-sheet loss, risk of insolvency or bankruptcy, conditions laid down in agreements with programme participants under which work or other services are provided to the Bank and the subsidiaries.

Cash Part of the Bonus

The bonus in the amount of 50% of the base amount for the year is cash payment. It is recognised as a liability to employees and charged to the income statement in the correspondence to the liability to employees.

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Share-Based Payments settled in mBank S.A. shares

The bonus in the amount of 50% of the base amount constitutes a payment settled in mBank S.A. shares.

The cost of payments settled in shares is recognised in the income statement in the correspondence with other reserve capital.

This is equity-settled share-based program.

The table below presents change in the number and weighted average exercise prices of share options related to the 2014 incentive programme for key managers of mBank Group.

	31.12.2020		31.12.2019	
	Number of options	Weighted average exercise price (in PLN)	Number of options	Weighted average exercise price (in PLN)
Outstanding at the beginning of the period	**5 585**	**-**	**13 293**	**-**
Granted during the period	-	-	-	-
Forfeited during the period	-	-	342	-
Exercised during the period*	4 067	4	7 366	4
Expired during the period	-	-	-	-
Outstanding at the end of the period	**1 518**	**-**	**5 585**	**-**
Exercisable at the end of the period	**-**	**-**	**-**	**-**

*In 2020, the weighted average price of the shares was PLN 190.77 (in 2019 PLN 388.23).

2018 incentive programme for the Management Board Members and key staff of mBank Group – mBank Risk Takers

On 7 June 2018, the Supervisory Board, acting in line with the recommendation of the Remuneration Committee of the Supervisory Board and the decision of the Annual General Meeting of mBank S.A. of 9 May 2018, adopted the mBank S.A. Incentive Programme Rules.

The Programme replaced the existing programmes, that is the employee programme introduced by the resolution of the Extraordinary General Meeting of mBank S.A. of 27 October 2008, as amended, and the programme for the Management Board Members, introduced by the resolution of the Annual General Meeting of mBank S.A. of 14 March 2008, as amended. At the same time, the rights arising from bonds acquired under the replaced programmes are exercised under the rules of those programmes.

The new programme will be implemented from 1 January 2018 to 31 December 2028. Eligible persons under the programme include persons holding positions identified as having a material impact on the bank's risk profile pursuant to the Risk Takers Identification Policy, referred to as Risk Takers I or Risk Takers II, excluding Risk Takers II – Members of the Management Board of mBank Hipoteczny S.A., which applies a different incentive programme.

"Risk Taker I" means a Member of the Management Board of the bank. "Risk Taker II" means a person holding a position identified as having a material impact on the bank's risk profile pursuant to the Risk Takers Identification Policy, including a person holding a position of a Management Board Member in an mBank Group subsidiary.

On the terms and conditions stipulated in the Rules and the Risk Takers Remuneration Policy, Risk Takers will be able to acquire warrants free of charge, and, by way of exercising the rights arising from the warrants, to acquire shares.

Bonus for Risk Takers I

The Supervisory Board determines the bonus amount for a given calendar year for each Management Board Member individually, based on the assessment of MBO achievement with respect to the period of at least 3 years, with the proviso that the bonus amount depends on the bonus pool. The bonus pool is a total of base amounts calculated for each Management Board Member. The base amount is calculated a a multiple of the base salary, which depends on the Economic Profit (EP); EP is calculated for the period of 3 years pursuant to the rules specified in the Risk Takers Remuneration Policy.

The bonus consists of the non-deferred part (40% of the bonus) and the deferred part (60% of the bonus).

Both, the deferred part and the non-deferred part, are divided into equal portions: 50% paid in cash and 50% paid in subscription warrants. The non-deferred part in cash is paid in the year when the bonus is granted. The other half of the non-deferred part (50%) is paid in the form of subscription warrants, not earlier than after the lapse of 12 months from the date of the Annual General Meeting of mBank S.A.

The deferred part, both the cash portion and the subscription warrant portion, is paid in 5 equal annual tranches. In each tranche, the cash portion is paid once the consolidated financial statements of mBank Group for the previous calendar year have been approved, and the subscription warrant portion is paid not earlier than after the lapse of 12 months from the date on which the consolidated financial statements are approved.

Bonus for Risk Takers II

The bonus amount for a given calendar year is determined by the bank's Management Board for Risk Takers II (the bank's employees) or by a subsidiary's Supervisory Board for Risk Takers II (Members of the Management Board of an mBank Group subsidiary) on the basis of: assessment of MbO achievement for the period of the last three calendar years, the Economic Profit of mBank Group and the result of a business line/subsidiary/organisational unit.

The bonus consists of the non-deferred part (60% of the bonus) and the deferred part (40% of the bonus).

Both, the deferred part and the non-deferred part are divided into equal portions: 50% paid in cash and 50% paid in subscription warrants.

The non-deferred part in cash is paid in the year when the bonus is granted. The other half of the non-deferred part (50%) is paid in the form of subscription warrants, not earlier than after the lapse of 12 months from the date of the Annual General Meeting of mBank S.A.

The deferred part, both the cash portion and the subscription warrant portion, is paid in 3 equal annual tranches. In each tranche, the cash portion is paid once the consolidated financial statements of mBank Group for the previous calendar year have been approved, and the subscription warrant portion is paid not earlier than after the lapse of 12 months from the date on which the consolidated financial statements are approved.

In the case when the bonus amount determined for a Risk Taker II for a given calendar year does not exceed one-third of their total annual remuneration or PLN 200,000, the bonus may be paid in cash in a non-deferred form based on a decision of mBank's Management Board with regard to Risk Takers II (employees of the Bank) or by the Supervisory Board of a subsidiary with regard to Risk Takers II (members of the management boards of mBank Group subsidiaries).

The deferred bonus part for Risk Takers I and Risk Takers II is assessed in terms of its determination and payment. The Supervisory Board of mBank (with respect to Risk Takers I), the Management Board of mBank (with respect to Risk Takers II – the bank's employees) or the Supervisory Board of an mBank Group subsidiary (with respect to Risk Takers II – Members of the subsidiary's Management Board) may decide to withhold the full amount or to reduce the amount of a deferred tranche if it concludes that in a time horizon longer than one financial year, i.e. a period of at least 3 years, the Risk Taker had a direct and negative impact on the financial result or the market position of the bank/subsidiary/group, violated the rules and standards adopted in mBank Group or directly contributed to significant financial losses, where at least one of the scorecard components has not been met or any of the premises stipulated in Article 142 especially (2) of the Banking Law Act has occurred.

If the circumstances referred to above occur at the stage of determining the Risk Taker bonus amount, the Supervisory Board of mBank/the Supervisory Board of the subsidiary/the Management Board of mBank may decide not to grant a bonus for a given calendar year or to reduce it.

Moreover, a Risk Taker I or Risk Taker II may be obliged, under the rules and within the time limit determined by the decision of the Supervisory Board of mBank/the Supervisory Board of the subsidiary/the Management Board of mBank, to return the bonus granted and paid for a given calendar year (i.e. the non-deferred part and all deferred parts) if he/she has violated rules and standards adopted in mBank Group, has materially violated the generally applicable law or has directly contributed to significant financial losses being the consequence of his/her deliberate adverse actions to the detriment of mBank Group/the subsidiary or has contributed to financial sanctions being imposed on the bank/subsidiary by supervisory bodies under a final and non-appealable decision.

The decision determining the occurrence of the said events may be taken by the end of the calendar year when the last tranche of the deferred part of the bonus granted for the year in which the event occurred is paid.

In the case of a resolution of the General Meeting of mBank S.A. on payment of dividend for a given year, a Risk Taker I and a Risk Taker II to whom the bonus has been granted within the deferred or non-deferred part is entitled to a cash equivalent, regardless of the bonus, pursuant to the rules specified in the Risk Takers Remuneration Policy, in connection with the deferral of the portion paid in subscription warrants.

The bonus under the aforesaid programme was granted to Risk Takers I and Risk Takers II for 2018 and 2019.

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On 17 December 2020 the Supervisory Board, in accordance with a recommendation of the Remuneration Committee of the Supervisory Board, decided to amend the Risk Takers Remuneration Policy, bearing in mind the need to align the Policy with new Directive (EU) 2019/878 of the European Parliament and of the Council of 20 May 2019 amending Directive 2013/36/EU as well as the recommendation of the Polish Financial Supervision Authority on variable remuneration components at banks communicated in the letter dated 17 April 2020 regarding measures expected to be taken by banks in response to the Covid-19 pandemic outbreak. Zmian In particularly justified cases when there is a need to mitigate the risk connected with maintaining a sound capital base of the bank, enabling it to effectively respond to the economic situation in Poland arising from, for example, the Covid-19 pandemic, the Supervisory Board with regard to Risk Takers I and mBank's Management Board with regard to Risk Takers II may adopt a resolution to pay the cash tranche in whole or in part (both the non-deferred and deferred tranche) in the form of subscription warrants, starting from the bonus for 2020. Subscription warrants will be awarded in the acquisition periods set by the Supervisory Board, not earlier than 12 months after the date of the Annual General Meeting of mBank S.A. approving the consolidated financial statements of mBank Group for the previous calendar year.

Starting from the bonus for 2021, the deferral period for the cash tranche and the tranche awarded in the form of subscription warrants will be extended: from three to five years for Risk Takers II being members of senior management (applicable to Managing Directors and members of the management boards of mBank Group subsidiaries) and from three to four years for the remaining Risk Takers.

In the case when the bonus amount determined for a Risk Taker II (excluding Risk Takers II being members of senior management: Managing Directors and members of the management boards of mBank Group subsidiaries) for a given calendar year does not exceed one-third of their total annual remuneration or PLN equivalent of EUR 50,000 (as at the date of the decision awarding the bonus), the bonus may be paid in whole in cash in a non-deferred form based on a decision of mBank's Management Board.

The above principle applies to bonuses for 2021.

The table below presents change in the number and weighted average exercise prices of share warrants related to the 2018 incentive programme for Management Board Members of the Bank and for key managers of mBank Group.

	31.12.2020		31.12.2019	
	Number of warrants	Weighted average exercise price (in PLN)	Number of warrants	Weighted average exercise price (in PLN)
Outstanding at the beginning of the period	**17 067**	**-**	**-**	**-**
Granted during the period	24 195	-	17 870	-
Forfeited during the period	-	-	803	-
Exercised during the period*	7 998	4	-	-
Expired during the period	-	-	-	-
Outstanding at the end of the period	**33 264**	**-**	**17 067**	**-**
Exercisable at the end of the period	**-**	**-**	**-**	**-**

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Summary of the Impact of the Programmes on the Group's statement of financial position and income statement

Share-Based Payments Settled in Shares

The table below presents changes in other reserve capital generated by the above mentioned incentive programmes for share-based payments settled in mBank S.A. shares.

	31.12.2020	31.12.2019
Incentive programs		
As at the beginning of the period	**27 320**	**22 452**
- value of services provided by the employees	10 159	9 947
- settlement of exercised options	(7 150)	(5 079)
As at the end of the period	**30 329**	**27 320**

Cash Payments

The cost of the cash part of the programmes is presented in Note 13 "Overhead costs".

42. Transactions with related entities

mBank S.A. is the parent entity of mBank S.A. Group and Commerzbank AG is the ultimate parent of the Group as well as the direct parent of mBank S.A.

All transactions between the Bank and related entities were typical and routine transactions concluded on terms, which not differ from arm's length terms, and their nature, terms and conditions resulted from the current operating activities conducted by the Bank. Transactions concluded with related entities as a part of regular operating activities include loans, deposits and foreign currency transactions.

The Group provides standard financial services to the Bank's key management personnel, Members of the Supervisory Board of the Bank and close members of their families, which comprise i.e.: maintaining bank accounts, taking deposits, granting loans or other financial services. In the Bank's opinion, these transactions are concluded on market terms and conditions.

Pursuant the Banking Law, the extension of a loan, cash advance, bank guarantee or other guarantee to the Members of the Management Board and Supervisory Board of the Bank, persons holding managerial positions at the Bank as well as at entities related financially or organisationally therewith, is governed by the by-Laws adopted by the Supervisory Board of mBank S.A.

The by-Laws set out detailed rules and debt limits for loans, cash advances, bank guarantees, and other guarantees in relation to aforementioned persons and entities, which are consistent with the Bank's internal regulations defining the competences of granting credit decisions concerning retail and corporate clients of the Bank. A decision to grant a loan, cash advances, bank guarantee or other guarantee to a Member of the Management Board and Supervisory Board of the Bank, person holding managerial position at the Bank or an entity related financially or organisationally therewith in excess of the limits set by the Banking Law is taken by the resolution of the Management Board and by the resolution of the Supervisory Board.

The terms and conditions of such loans, cash advances, bank guarantees or other guarantees, including in particular those related to interest rates as well as fees and commissions, cannot be more advantageous than the terms and conditions offered by the Bank to its retail or corporate clients, respectively.

The table below presents the values of transactions between the Bank and companies of mBank Group and Members of the Supervisory Board and the Management Board of mBank, key executive management of mBank, Members of the Supervisory Board and the Management Board of Commerzbank and other related persons and entities, as well as Commerzbank AG Group entities. The amounts of transactions include assets and liabilities and related costs and income as at 31 December 2020 and as at 31 December 2019.

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	Members of Supervisory Board, Management Board and key management personnel of mBank as well as Supervisory Board and Management Board of Commerzbank AG		Other related companies and persons *		mBank's subsidiaries		Commerzbank AG		Other companies of the Commerzbank AG Group	
As at the end of the period	**31.12.2020**	**31.12.2019**	**31.12.2020**	**31.12.2019**	**31.12.2020**	**31.12.2019**	**31.12.2020**	**31.12.2019**	**31.12.2020**	**31.12.2019**
Statement of Financial Position										
Assets	2 104	2 040	748	2 058	109 256	160 187	863 952	528 688	2 806	19
Liabilities	10 214	23 422	5 829	1 484	14 144	31 518	3 091 380	2 059 006	69 810	709 071
Income Statement										
Interest income	42	53	32	70	1 531	8 154	49 832	59 928	400	698
Interest expense	(89)	(158)	(1)	(3)	(83)	(89)	(41 712)	(26 238)	(197)	(4 612)
Fee and commission income	38	46	10	11	765	538	6 025	4 353	49	49
Fee and commission expense	-	-	-	-	(661)	(1 249)	-	(1 030)	-	-
Other operating inccome	-	-	-	-	155	5 987	1 578	1 468	-	-
Overhead costs, amortisation and other operating expenses	-	-	-	-	(1)	(28)	(6 488)	(7 076)	-	-
Contingent liabilities granted and received										
Liabilities granted	743	957	234	407	372 741	355 716	1 721 547	2 124 709	7 409	3 502
Liabilities received	-	-	-	-	-	-	1 911 651	1 816 577	-	-

* Other related persons and entities include: close family members of Members of the Supervisory and the Management Board of mBank, key executive management of mBank, Members of the Supervisory Board and the Management Board of Commerzbank, entities controlled or jointly controlled by above mentioned persons.

At the end of 2020, the Management Board of mBank S.A. performed functions in the following composition:

1. Cezary Stypułkowski – President of the Management Board,
2. Andreas Böger – Vice-President of the Management Board, Chief Financial Office,
3. Frank Bock – Vice-President,
4. Krzysztof Dąbrowski – Vice-President of the Management Board, Head of Operations and IT,
5. Cezary Kocik – Vice-President of the Management Board, Head of Retail Banking,
6. Marek Lusztyn - Vice-President,
7. Adam Pers – Wiceprezes Zarządu ds. Bankowości Korporacyjnej i Inwestycyjnej.

The responibilities regarding Bank's risk management supervising, which is reserved for a Member of a Management Board approved by KNF, were temporarily assigned to whole Management Board operating collectively.

■ Change in the composition of the Management Board of mBank S.A.

On 25 June 2020, Supervisory Board of mBank S.A. adopted a resolution to dismiss Mr. Frank Bock from the function of the Vice President of the Management Board for Financial Markets mBank S.A. as of 31 December 2020.

The termination of the agreement with Mr. Frank Bock on 31 December 2020 is associated with the reorganization of the financial markets area within other business areas of the Bank, in order to increase the efficiency of the organizational and process structure, and its effect will be a reduction in the number of positions on the Bank's Management Board. Mr. Frank Bock will be involved in the reorganization of the area by the end of this year.

On 22 October 2020, Ms. Lidia Jabłonowska-Luba, Vice-President of the Management Board for Risk Management at mBank S.A., resigned from the position of a member of the Management Board of mBank S.A., from the position of Vice-President of the Management Board for Risk Management at mBank S.A., with the effective on 22 October 2020.

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On 22 October 2020, the Supervisory Board of mBank S.A. adopted a resolution to appoint, on 22 October 2020, Mr. Marek Lusztyn to the Management Board of mBank S.A., for the period until the end of the current term of office of the Management Board of mBank S.A.

From the date of the approval by the Polish Financial Supervision Authority to appoint Mr. Marek Lusztyn as a Member of the Management Board supervising the management of risk relevant to the Bank's operations, Mr. Marek Lusztyn will take the position of Vice President of the Management Board of mBank S.A. for Risk Management at mBank S.A. (overseeing the management of risks relevant to mBank S.A.'s operations).

- Changes in the composition of the Supervisory Board of mBank S.A.

On 28 September 2020, Supervisory Board of mBank S.A., received the resignation of Mr. Michael Mandel, effective from 23 October 2020, from membership in the Bank's Supervisory Board as well as from the Executive and Nomination Committee and the Remuneration Committee. Mr. Michael Mandel resigned in connection with the planned departure from Commerzbank.

By a resolution of the Supervisory Board of mBank S.A. of 22 October 2020, Mrs. Sabine Schmittroth was appointed as a member of the Supervisory Board of mBank S.A. on 23 October 2020 for the period until the end of the current term of the Supervisory Board.

Remuneration of the Management Board and Supervisory Board Members

Information on the salaries, bonuses and benefits paid and due to the Members of the Management Board of the Bank who were performing their functions at the end of 2020 and at the end of 2019, remuneration of the former Management Board Members and remuneration of Supervisory Board Members.

	2020	2019
mBank Management Board		
Basic salary	12 291 821	13 570 816
Other benefits	1 561 942	1 891 377
Bonus for previous year	1 560 000	1 560 000
Deffered bonus	1 380 230	1 762 899
Remuneration of the former Management Board Members		
Basic salary	1 359 355	-
Other benefits	185 897	-
Bonus for previous year	200 000	-
Deffered bonus	774 834	980 834
Compensation (no competition)	309 951	-
mBank Supervisory Board		
Basic salary	1 381 624	2 066 528

The total compensation of members of the Management Board consists of: basic salary, bonuses, termination payments of management agreement, prohibition of competitiveness payment, insurance costs and accommodation costs.

The above mentioned benefits are short-term employee benefits.

The total amount of remuneration received in 2020 by Bank's Management Board members was PLN 19 101 thousand (2019: PLN 18 785 thousand).

In accordance with the Bank's remuneration system, the members of the Management Board of the Bank may be eligible to receive bonuses for the year 2020, which would be paid out in 2021. Therefore, a provision was created for the payment of a cash bonus for 2020 for the members of the Management Board, which amounted to PLN 1 714 thousand as of 31 December 2020 (31 December 2019: PLN 4 113 thousand). The final decision concerning the level of the bonus will be taken by the Remuneration Committee of the Supervisory Board by 25 February 2021.

In 2020 and 2019, the members of the Management Board of mBank S.A. did not receive compensation for their role as members of the management boards and supervisory boards of the Bank's related companies.

The total compensation of Members of the Supervisory Board, the Management Board and other key executive management of the Bank that perform their duties in 2020 amounted to PLN 26 888 thousand (2019: PLN 27 411 thousand).

Detailed information on the remuneration of individual Members of the Management Board and the Supervisory Board, as well as the composition of the Management Board and the Supervisory Board were presented in the Management Board Report on the Performance of mBank S.A. Group in 2020 in item 14.7. "Composition, powers and procedures of the Management Board and the Supervisory Board".

Information regarding proprietary position in Bank shares by Members of the Management Board and by Members of the Supervisory Board

As at 31 December 2020, the Bank shares were held by five Members of the Management Board: Mr. Cezary Stypułkowski – 23 250 shares, Mr. Andreas Böger – 819 shares, Mr. Krzysztof Dąbrowski – 1 682 shares and Mr. Cezary Kocik – 2 161 shares and Mr. Adam Pers – 158 shares.

As at 31 December 2019, the Bank shares were held by five Members of the Management Board: Mr. Cezary Stypułkowski – 21 249 shares, Mr. Frank Bock – 334 shares, Mr. Andreas Böger – 270 shares, Mr. Krzysztof Dąbrowski – 1 000 shares and Mr. Cezary Kocik – 1 040 shares.

As at 31 December 2020 and as at 31 December 2019, the Bank shares were held by one Member of the Supervisory Board of mBank S.A., Mr. Jörg Hessenmüller, respectively: 7 958 shares and 7 175 shares. As at 31 December 2020 and as at 31 December 2019, other Members of the Supervisory Board of the Bank had no Bank's shares.

43. Acquisitions and disposals

- Liquidation of mFinance France S.A.

Due to the substitution with mFinance France S.A. (mFF), described in detail in Note 28, the consolidation of this company was discontinued as of December 2020. The substitution process was formally completed in October 2020. On 4 November 2020, the Extraordinary General Meeting of the IFF adopted a resolution on commencing the early dissolution of the company and appointing a liquidator.

- Sale of BDH Development Sp. z o.o.

On 16 December 2020, mBank S.A. and Archicom Polska S.A. signed a share sale agreement, under which mBank sold 100% of shares in the share capital of BDH Development Sp. z o.o. The sale transaction was described in Note 24.

44. Prudential consolidation

According to the Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending regulation (EU) No 648/2012 ("CRR Regulation"), mBank is a significant subsidiary of EU parent institution, responsible for the preparation of the consolidated prudentially financial data to fulfil the requirement of disclosures described in IAS 1.135 "Presentation of Financial Statements".

Financial information presented below does not represent the International Financial Reporting Standards ("IFRS") measures as defined by the standards.

mBank S.A. Group ("the Group") consists of entities defined in accordance with the rules of prudential consolidation, specified by the CRR Regulation.

Basis of the preparation of the consolidated financial data

mBank S.A. Group consolidated financial data based on the rules of prudential consolidation specified by the CRR Regulation ("Consolidated prudentially financial data") have been prepared for the 12-month period ended 31 December 2020 and for the 12-month period ended 31 December 2019.

The consolidated profit presented in the consolidated prudentially financial data may be included in consolidated Common Equity Tier 1 for the purpose of the calculation of consolidated Common Equity Tier 1 capital ratio, consolidated Tier 1 capital ratio and consolidated total capital ratio with the prior permission of the KNF or after approval by the General Meeting of shareholders.

The accounting policies applied for the preparation of the Group consolidated prudentially financial data are identical to those, which have been applied to the mBank S.A. Group consolidated financial data for year 2020, prepared in compliance with IFRS, except for the consolidation standards presented below.

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The consolidated prudentially financial data includes the Bank and the following entities:

Company	31.12.2020		31.12.2019	
	Share in voting rights (directly and indirectly)	Consolidation method	Share in voting rights (directly and indirectly)	Consolidation method
mBank Hipoteczny S.A.	100%	full	100%	full
mLeasing Sp. z o.o.	100%	full	100%	full
mFinanse S.A.	100%	full	100%	full
mFaktoring S.A.	100%	full	100%	full
Future Tech Fundusz Inwestycyjny Zamknięty	98,04%	full	98,04%	full
Tele-Tech Investment Sp. z o.o.	100%	full	100%	full
Asekum Sp. z o.o.	100%	full	100%	full
LeaseLink Sp. z o.o.	100%	full	100%	full
mElements S.A.	100%	full	-	-
mFinance France S.A.	-	-	99,998%	full

As of December 2020, the consolidation of mFinance France S.A. was discontinued. Beginning from January 2020, the Group started to consolidate the company mElements S.A. Beginning from March 2019, the Group started to consolidate the company LeaseLink Sp. z o.o.

Information on both of the above-mentioned companies is included in Note 1.

Entities included in the scope of prudential consolidation are defined in the Regulation CRR – institutions, financial institutions or ancillary services undertakings, which are subsidiaries or undertakings in which a participation is held, except for entities in which the total amount of assets and off-balance sheet items of the undertaking concerned is less than the smaller of the following two amounts:

a) EUR 10 million;
b) 1 % of the total amount of assets and off-balance sheet items of the parent undertaking or the undertaking that holds the participation.

The consolidated financial data combine items of assets, liabilities, equity, income and expenses of the parent with those of its subsidiaries eliminating the carrying amount of the parent's investment in each subsidiary and the parent's portion of equity of each subsidiary. Any related goodwill, if goodwill has negative value, it is recognised directly in the income statement. The profit or loss and each component of other comprehensive income is attributed to the Group's owners and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. If the Group loses control of a subsidiary, it shall account for all amounts previously recognised in other comprehensive income in relation to that subsidiary on the same basis as would be required if the Group had directly disposed of the related assets or liabilities

Intra-group transactions, balances and unrealised gains on transactions between companies of the Group are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

IFRS Consolidated Financial Statements 2020 PLN ('000)

Consolidated prudentially income statement

	Year ended 31 December	
	2020	**2019 - restated**
Interest income, including:	4 689 089	5 071 805
Interest income accounted for using the effective interest method	*4 208 012*	*4 523 624*
Income similar to interest on financial assets at fair value through profit or loss	*481 077*	*548 181*
Interest expenses	(679 053)	(1 068 892)
Net interest income	**4 010 036**	**4 002 913**
Fee and commission income	2 244 561	2 010 651
Fee and commission expenses	(736 272)	(740 035)
Net fee and commission income	**1 508 289**	**1 270 616**
Dividend income	4 926	22 673
Net trading income	184 752	134 516
Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss	15 572	69 259
Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss	92 425	24 904
Other operating income	217 563	176 787
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss	(1 225 604)	(712 337)
Result on provisions for legal risk related to foreign currency loans	(1 021 714)	(387 786)
Overhead costs	(1 979 708)	(1 952 630)
Depreciation	(430 628)	(375 498)
Other operating expenses	(234 788)	(260 062)
Operating profit	**1 141 121**	**2 013 355**
Taxes on the Group balance sheet items	(531 379)	(458 658)
Profit before income tax	**609 742**	**1 554 697**
Income tax expense	(505 985)	(544 445)
Net profit	**103 757**	**1 010 252**
Net profit attributable to:		
- Owners of mBank S.A.	103 831	1 010 350
- Non-controlling interests	(74)	(98)

IFRS Consolidated Financial Statements 2020 PLN ('000)

Consolidated prudentially statement of financial position

ASSETS	31.12.2020	31.12.2019
Cash and balances with the Central Bank	3 968 691	7 897 010
Financial assets held for trading and hedging derivatives	2 586 721	2 866 034
Non-trading financial assets mandatorily at fair value through profit or loss, including:	1 791 292	2 275 772
Equity instruments	*208 905*	*170 466*
Debt securities	*76 068*	*133 774*
Loans and advances to customers	*1 506 319*	*1 971 532*
Financial assets at fair value through other comprehensive income	35 492 108	22 773 921
Financial assets at amortised cost, including:	131 444 329	118 778 693
Debt securities	*15 952 501*	*11 234 873*
Loans and advances to banks	*7 354 268*	*4 341 723*
Loans and advances to customers	*108 137 560*	*103 202 097*
Non-current assets and disposal groups classified as held for sale	-	91 605
Intangible assets	1 178 698	955 440
Tangible assets	1 514 578	1 262 397
Current income tax assets	23 957	12 662
Deferred income tax assets	853 869	937 712
Other assets	1 282 424	956 928
TOTAL ASSETS	**180 136 667**	**158 808 174**
LIABILITIES AND EQUITY		
LIABILITIES		
Financial liabilities held for trading and hedging derivatives	1 338 564	948 764
Financial liabilities measured at amortised cost, including:	156 673 479	137 853 610
Amounts due to banks	*2 399 740*	*1 168 178*
Amounts due to customers	*137 699 095*	*116 750 072*
Debt securities issued	*13 996 317*	*17 435 143*
Subordinated liabilities	*2 578 327*	*2 500 217*
Fair value changes of the hedged items in portfolio hedge of interest rate risk	59 624	136
Provisions	1 766 368	739 296
Current income tax liabilities	225 796	161 534
Deferred income tax liabilities	690	82
Other liabilities	3 397 079	2 951 447
TOTAL LIABILITIES	**163 461 600**	**142 654 869**
EQIUTY		
Equity attributable to Owners of mBank S.A.	**16 673 133**	**16 151 303**
Share capital:	**3 587 035**	**3 579 818**
- Registered share capital	169 468	169 401
- Share premium	3 417 567	3 410 417
Retained earnings:	**12 501 597**	**12 394 775**
- Profit from the previous years	12 397 766	11 384 425
- Profit for the current year	103 831	1 010 350
Other components of equity	**584 501**	**176 710**
Non-controlling interests	**1 934**	**2 002**
TOTAL EQUITY	**16 675 067**	**16 153 305**
TOTAL LIABILITIES AND EQUITY	**180 136 667**	**158 808 174**

45. Capital adequacy

One of the Bank's main tasks is to ensure an adequate level of capital. As part of the capital management policy of mBank Group, the Bank creates a framework and guidelines for the most effective planning and use of the capital base, which:

- are compliant with external and internal regulations in force,
- guarantee a continuity of financial targets achievement, 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 capital management policy in mBank Group is based on two pillars:

- maintenance of an optimal level and structure of own funds with the application of available methods and means, like among others retention of net profit, subordinated loan or issue of shares,
- effective use of existing capital, among others through application of a set of measures of 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 fundament of reinforcement of the capital basis in future periods. This enables to maintain the Common Equity Tier 1 capital ratio (calculated as a quotient of Common Equity Tier 1 capital to the total risk exposure amount), Tier 1 ratio (calculated as a quotient of Tier 1 capital to the total risk exposure amount) and the total capital ratio (calculated as a quotient of own funds and the total risk exposure amount) at the level higher than required by the supervision authority.

The strategic goals of mBank Group are aimed at maintaining the total capital ratio as well as the Common Equity Tier 1 capital ratio above the level required by the supervision authority. This allows to maintain business development while meeting the supervisory requirements in the long perspective.

<u>Capital ratios</u>

The adequacy assessment of the capital base, including among others: the calculation of capital ratios and the leverage ratio, the own funds and the total capital requirement in the mBank Group was made according to the following regulations:

- the Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012, with further ammendments (CRR Regulation);
- the Commission Implementing Regulation (EU) No 680/2014 of 16 April 2014 laying down implementing technical standards with regard to supervisory reporting of institutions according to Regulation (EU) No 575/2013 of the European Parliament and of the Council with further amendments (ITS Regulation);
- the Banking Act of 29 August 1997 (Dz.U. from year 2002 No 72, item 665) with further amendments;
- the Act on Macro-prudential Supervision of the Financial System and Crisis Management of 5 August 2015 (Dz.U. 2015 item 1513);
- Regulation of the Minister of Development and Finance of 25 May 2017 on the application of higher risk weights to credit exposures secured by mortgages on real estate property;
- Regulation of the Minister of Development and Finance of 1 September 2017 regarding the systemic risk buffer.

The entities included in the scope of prudential consolidation according to the rules of the CRR Regulation are taken into account in the process of calculating consolidated own funds and the own funds requirements.

As a result of the Act on Macro-prudential Supervision over the Financial System and Crisis Management in the Financial System ("the Act") that entered into force in 2015 and transposed the CRD IV provisions to the Polish prudential regulations, as of 31 December 2019 the mBank Group is obliged to ensure adequate own funds to meet conservation capital buffer designated under the provisions of the Act of 2.5% of total risk exposure amount.

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As of the end of 2020 the countercyclical capital buffer rate set for relevant exposures in Poland according to the article 83 of the Act amounted to 0%. mBank Group specific countercyclical capital buffer calculated in accordance with the provisions of the Act as the weighted average of the countercyclical buffer rates that apply in the countries where the relevant credit exposures of the Group are located, amounted to 4 bps as of 31 December 2020 (6 bps as of 31 December 2019). The value of the indicator was predominantly affected by the exposures of mBank's foreign branches in the Czech Republic and Slovakia, where the countercyclical buffer rates at the end of 2020 were: 0.5% and 1.0% (at the of 2019 1.5% and 1.5% respectively).

In 2016 the Bank received an administrative decision of the KNF that identified Bank as other systemically important institutions (O-SII). Bank was a subject to a capital buffer which on the basis of KNF administrative decision of 14 October 2019 amounted to 0.75% of the total risk exposure amount, calculated in accordance with article 92(3) of the CRR Regulation, to be maintained on individual and consolidated levels. The value of the buffer specified in the administrative decision applies as of 31 December 2019.

Starting from 1 January 2018 the Regulation of the Minister of Development and Finance with regard to systemic risk buffer entered into force. The Regulation introduced systemic risk buffer of 3% of the total risk exposure amount applied to all exposures located in Poland. Due to the exceptional socio-economic situation that arose after the outbreak of the global COVID-19 pandemic, this requirement was lifted by repealing the Regulation of the Minister of Finance, which has been in force since 19 March 2020.

Consequently, the all-in-one combined buffer requirement set for the mBank Group as of the end of 2020 amounted to 3.04% of the total risk exposure amount (2019: 6.14%).

Additionally, as a result of risk assessment carried out in 2020 by the KNF within the supervisory review and evaluation process (BION), in particular with regard to the evaluation of the risk related to the portfolio of foreign exchange retail mortgage loans, the mBank Group received on the consolidated level an individual recommendation to maintain own funds to cover additional capital requirement of 2.82% for total capital ratio and 2.11% for Tier 1 capital ratio (on individual basis: 3.24% and 2.43% respectively). Additional capital requirement in Pillar II set by the KNF in 2019 encompasses also additional risk factors related to the FX mortgage loan portfolio such as operational risk, market risk or risk of collective default of borrowers.

The important component affecting an additional capital requirement within Pillar II related to the BION supervisory evaluation quantifying the risk of foreign exchange retail mortgage loans portfolio, where taking into account the specificity of the Bank portfolio, the following factors were taken into account:

- the share of loans with LTV >100% in the portfolio;
- the level of the Bank margin from the foreign exchange retail mortgage loans portfolio;
- sensitivity of the Bank's total capital ratio to exchange rates and interest rates changes;
- the Bank preparation for loan portfolio conversion.

During 2020 and 2019 capital ratios both on the individual and consolidated level were above the required values taking into account the components described above.

mBank Group	31.12.2020		31.12.2019	
Capital ratio	Required level	Reported level	Required level	Reported level
Total capital ratio	13.86%	19.86%	17.25%	19.46%
Tier 1 ratio	11.15%	16.99%	14.47%	16.51%

The consolidated leverage ratio calculated in accordance with the provisions of CRR Regulation and Commission Delegated Regulation (EU) 2015/62 of 10 October 2014, amending Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to the leverage ratio, including transitional definition of Tier 1 capital, amounted to 7.85% at the end of 2020 (8.25% at the end of 2019).

Own Funds

In accordance with the CRR Regulation, the consolidated own funds consist of consolidated Common Equity Tier 1 capital, consolidated Additional Tier 1 capital and consolidated Tier 2 capital, however items that could be treated as Additional Tier 1 capital are not identified in the Group.

Common Equity Tier 1 capital of mBank Group contains:

- paid up capital instruments and the related share premium accounts,
- previous years retained earnings,
- independently reviewed interim profits,
- accumulated other comprehensive income,
- other reserves,
- funds for general banking risk,
- items deducted from a Common Equity Tier 1 capital (fair value gains and losses arising from the institution's own credit risk related to derivative liabilities, value adjustments due to the requirements for prudent valuation, intangible assets, AIRB shortfall of credit risk adjustments to expected losses, own Tier 1 instruments, regulatory adjustments relating to accumulated other comprehensive income and net impairment losses and excess of provisions over the expected AIRB recognized losses).

Tier 2 capital of mBank Group contains capital instruments and the related share premium accounts (subordinated liabilities with specified maturity).

The consolidated own funds of mBank Group as of 31 December 2020 amounted to PLN 17 588 012 thousand. Additionally the consolidated Common Equity Tier 1 capital of mBank Group amounted to PLN 15 046 912 thousand (31 December 2019: PLN 16 363 190 thousand and PLN 13 882 865 thousand respectively) .

Total risk exposure amount (TREA)

The total risk exposure amount of mBank Group contains:

- risk weighted exposure amounts for credit risk, counterparty credit risk, dilution risk and free deliveries,
- risk exposure amount for market risk, including position risk, foreign exchange risk and commodities risk,
- risk exposure amount for operational risk,
- risk exposure amount for credit valuation adjustment,
- other risk exposure amounts including supervisory floor.

As at 31 December 2020 the AIRB approach was applied to the calculation of own funds requirements for credit and counterparty credit risk for the following portfolios:

- mBank corporate portfolio,
- mBank retail mortgage loan portfolio,
- mBank real estate-related specialised lending exposures (IRB slotting approach),
- mBank retail non-mortgage exposures,
- mBank retail microenterprises mortgage loan portfolio (conditional consent),
- bank exposures (conditional consent),
- mLeasing S.A. credit exposure (conditional consent),
- mBank Hipoteczny SA specialized lending exposures (IRB slotting approach).

In case of portfolios with conditional consent to the application of AIRB approach, mBank Group applies supervisory floor, which means that where the own funds requirement for credit risk calculated under AIRB approach is lower than the own funds requirement for credit risk calculated under standardised approach, it is necessary to supplement it up to the level of the own funds requirement for credit risk calculated under standardised approach.

With regard to retail mortgage exposures (microenterprises) and portfolio of commercial bank exposures, high significance conditions specified by the banking supervision have been met, and the Group is waiting for formal confirmation by the banking supervision.

The total risk exposure amount of mBank Group as at 31 December 2020 amounted to PLN 88 539 932 thousand, including PLN 78 412 013 thousands of risk exposure amount for credit risk, counterparty credit risk and supervisory floor (31 December 2019: PLN 84 105 802 thousand).

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Internal capital

The ICAAP (Internal Capital Adequacy Assessment Process) implemented in mBank Group aims at adjusting capital resources to the level and the risk profile arising from mBank Group’s operations.

These resources are at a safe level. In the regulatory approach, the value of the Group's own funds is significantly above the value required to cover the Group's total capital requirement determined pursuant to the CRR Regulation. Similarly, in the economic approach, capital resources in the form of risk coverage potential are significantly higher than the value of internal capital estimated for the Group pursuant to the Regulation of the Minister of Development and Finance of 6 March 2017 on the market management system and internal control system, remuneration policy and a detailed method for internal capital assessment.

The internal capital of mBank Group as at 31 December 2020 amounted to PLN 7 579 222 thousand.

Capital adequacy	31.12.2020	31.12.2019
Common Equity Tier 1 Capital	**15 046 912**	**13 882 865**
Total Own Funds	**17 588 012**	**16 363 190**
Risk weighted exposure amounts for credit, counterparty credit, dilution risk and free deliveries:	78 376 480	74 843 596
- including under standardised approach	21 385 766	19 972 726
- including under AIRB approach	56 982 598	54 868 396
- including risk exposure amount for contributions to the default fund of a CCP	8 116	2 474
Settlement / delivery risk exposure amount	-	-
Total risk exposure amount for position, foreign exchange and commodities risks	886 913	913 708
Total risk exposure amount for operational risks	8 834 765	7 993 942
Additional risk exposure amount due to fixed overheads	-	-
Total risk exposure amount for credit valuation adjustments	406 241	184 345
Total risk exposure amount for large exposures in the trading book	-	-
Other risk exposure amounts	35 533	170 211
Total risk exposure amount	**88 539 932**	**84 105 802**
Comon Equity Tier 1 capital ratio	**16.99%**	**16.51%**
Total capital ratio	**19.86%**	**19.46%**
Internal capital	**7 579 222**	**6 215 450**

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OWN FUNDS	31.12.2020	31.12.2019
Own funds	**17 588 012**	**16 363 190**
TIER 1 CAPITAL	**15 046 912**	**13 882 865**
Common Equity Tier 1 Capital	**15 046 912**	**13 882 865**
Capital instruments eligible as CET1 Capital	3 586 897	3 579 747
Paid up capital instruments	169 330	169 330
Share premium	3 417 567	3 410 417
(-) Own CET1 instruments	-	-
Retained earnings	1 282 602	553 874
Previous years retained earnings	1 230 724	306 074
Profit or loss eligible	51 878	247 800
Accumulated other comprehensive income	584 501	176 710
Other reserves	10 013 289	9 924 598
Funds for general banking risk	1 153 753	1 153 753
Adjustments to CET1 due to prudential filters	(45 137)	(31 023)
Fair value gains and losses arising from the institution's own credit risk related to derivative liabilities	(2 497)	(2 166)
(-) Value adjustments due to the requirements for prudent valuation	(42 640)	(28 857)
(-) Intangible assets	(578 518)	(927 456)
(-) Other intangible assets gross amount	(601 443)	(955 440)
Deferred tax liabilities associated to other intangible assets	22 925	27 984
(-) IRB shortfall of credit risk adjustments to expected losses	-	(43 022)
Provision for cash flow hedging instruments	(419 130)	(119 142)
CET1 capital elements or deductions - other	(531 345)	(385 174)
Additional Tier 1 capital	**-**	**-**
TIER 1 CAPITAL	**2 541 100**	**2 480 325**
Capital instruments and subordinated loans eligible as T2 capital	2 422 757	2 480 325
Tier 2 capital elements or deductions - other	-	-
AIRB Excess of provisions over expected losses eligible	118 343	-

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Credit risk	31.12.2019	31.12.2018
Risk weighted exposure amounts for credit risk, counterparty credit risk, dilution risk and free deliveries	**78 376 480**	**74 843 596**
Standardised approach	**21 385 766**	**19 972 726**
SA exposure classes excluding securitisation positions	21 385 766	19 972 726
Central governments or central banks	2 178 526	2 372 251
Regional governments or local authorities	55 311	84 303
Public sector entities	9 280	15 553
Multilateral Development Banks	-	-
International Organisations	-	-
Institutions	307 216	331 063
Corporates	9 201 651	9 595 404
Retail	4 015 341	2 357 298
Secured by mortgages on immovable property	4 238 767	4 178 342
Exposures in default	860 014	463 609
Items associated with particular high risk	142 081	100 699
Covered bonds	-	-
Claims on institutions and corporates with a short-term credit assessment	-	-
Collective investments undertakings (CIU)	-	-
Equity	307 735	418 468
Other items	69 844	55 736
AIRB approach	**56 982 598**	**54 868 396**
AIRB approaches when neither own estimates of LGD nor Conversion Factors are used	-	-
AIRB approaches when own estimates of LGD and/or Conversion Factors are used	53 277 762	52 016 332
Central governments and central banks	-	-
Institutions	887 040	741 377
Corporates - SME	6 965 356	6 704 405
Corporates - Specialised Lending	8 154 414	6 799 726
Corporates - Other	17 840 218	18 152 484
Retail - Secured by real estate SME	1 104 980	1 002 315
Retail - Secured by real estate non-SME	5 203 587	5 295 297
Retail - Qualifying revolving	-	-
Retail - Other SME	4 578 595	4 257 821
Retail - Other non-SME	8 543 572	9 062 907
Equity AIRB	-	-
Securitisation positions IRB	-	-
Other non credit-obligation assets	3 704 836	2 852 064
Risk exposure amount for contributions to the default fund of a CCP	**8 116**	**2 474**

46. Other information

- Establishment of the subsidiary mTowarzystwo Funduszy Inwestycyjnych Spółka Akcyjna

On 22 December 2020 the Management Board of mBank S.A. decided to establish its own investment fund company by way of founding a company under the name of mTowarzystwo Funduszy Inwestycyjnych Spółka Akcyjna (mTFI S.A.). mTFI S.A. will be a wholly owned subsidiary of the Bank. The operations of mTFI may have in the future a material impact on the Group's results.

The Bank will start a formal, legal and regulatory process aimed at registration of mTFI S.A. in the National Court Register and applying for a consent of Polish Financial Supervision Authority to conduct operations of an investment funds management company.

47. Events after the balance sheet date

From 31 December 2020 until the date of approval of these consolidated financial statements, no events occurred, which would require additional disclosure in these consolidated financial statements.