mBank S.A. Group
Consolidated
IFRS Financial Statements
2021

Official Financial Statements of mBank S.A. Group for 2021 was prepared in accordance with the requirements of the ESEF. This document is not the official version of the Financial Statements of mBank S.A. Group for 2021, but was prepared on the basis of the original prepared in the ESEF format and is a copy of it. This document was not the subject of the attestation procedures performed by the statutory auditor.

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

SELECTED FINANCIAL DATA

The selected financial data presented below are supplementary information to these Consolidated Financial Statements of mBank S.A. Group for 2021.

SELECTED CONSOLIDATED FINANCIAL DATA		PLN thousand		EUR thousand	
		Year ended 31 December		Year ended 31 December	
		2021	2020	2021	2020
I.	Interest income	4 431 737	4 688 353	968 157	1 047 864
II.	Fee and commission income	2 714 896	2 244 561	593 096	501 668
III.	Net trading income	96 890	184 752	21 167	41 293
IV.	Operating profit	17 596	1 141 110	3 844	255 042
V.	Profit / (loss) before income tax	(591 031)	609 731	(129 117)	136 277
VI.	Net profit / (loss) attributable to Owners of mBank S.A.	(1 178 753)	103 831	(257 510)	23 207
VII.	Net profit attributable to non-controlling interests	(60)	(74)	(13)	(17)
VIII.	Net cash flows from operating activities	10 803 934	1 328 005	2 360 226	296 814
IX.	Net cash flows from investing activities	(508 006)	(444 346)	(110 979)	(99 313)
X.	Net cash flows from financing activities	(1 994 726)	(4 944 884)	(435 768)	(1 105 200)
XI.	Total net increase / decrease in cash and cash equivalents	8 301 202	(4 061 225)	1 813 479	(907 699)
XII.	Basic earnings / (loss) per share (in PLN/EUR)	(27.82)	2.45	(6.08)	0.55
XIII.	Diluted earnings / (loss) per share (in PLN/EUR)	(27.77)	2.45	(6.07)	0.55
XIV.	Declared or paid dividend per share (in PLN/EUR)	-	-	-	-

SELECTED CONSOLIDATED FINANCIAL DATA		PLN thousand		EUR thousand	
		As at		As at	
		31.12.2021	31.12.2020 - restated	31.12.2021	31.12.2020 - restated
I.	Total assets	199 538 885	178 871 617	43 383 677	38 760 427
II.	Amounts due to other banks	3 359 558	2 399 740	730 434	520 010
III.	Amounts due to customers	159 935 129	137 698 668	34 773 042	29 838 491
IV.	Equity attributable to Owners of mBank S.A.	13 716 050	16 673 133	2 982 139	3 612 970
V.	Non-controlling interests	1 866	1 934	406	419
VI.	Share capital	169 540	169 468	36 861	36 723
VII.	Number of shares	42 384 884	42 367 040	42 384 884	42 367 040
VIII.	Book value per share (in PLN/EUR)	323.61	393.54	70.36	85.28
IX.	Total capital ratio	16.58	19.86	16.58	19.86

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

- for items of the statement of financial position – exchange rate announced by the National Bank of Poland as at 31 December 2021: EUR 1 = 4.5994 PLN, 31 December 2020: EUR 1 = 4.6148 PLN;
- for items of the income statement – exchange rate calculated as the arithmetic mean of exchange rates announced by the National Bank of Poland as at the end of each month of 2021 and 2020: EUR 1 = 4.5775 PLN and EUR 1 = 4.4742 PLN, respectively.

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CONSOLIDATED INCOME STATEMENT

	Note	Year ended 31 December	
		2021	**2020**
Interest income, including:	6	4 431 737	4 688 353
Interest income accounted for using the effective interest method		*3 947 950*	*4 207 276*
Income similar to interest on financial assets at fair value through profit or loss		*483 787*	*481 077*
Interest expenses	6	(327 694)	(679 053)
Net interest income		**4 104 043**	**4 009 300**
Fee and commission income	7	2 714 896	2 244 561
Fee and commission expenses	7	(824 875)	(736 276)
Net fee and commission income		**1 890 021**	**1 508 285**
Dividend income	8	5 046	4 926
Net trading income	9	96 890	184 752
Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss	10	4 608	15 572
Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss	11	93 690	93 527
Other operating income	12	232 384	218 052
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss	15	(873 226)	(1 225 642)
Costs of legal risk related to foreign currency loans	34	(2 758 079)	(1 021 714)
Overhead costs	13	(2 020 629)	(1 980 500)
Depreciation		(436 254)	(430 628)
Other operating expenses	14	(320 898)	(234 820)
Operating profit		**17 596**	**1 141 110**
Tax on the Bank's balance sheet items		(608 627)	(531 379)
Profit / (loss) before income tax		**(591 031)**	**609 731**
Income tax expense	16	(587 782)	(505 974)
Net profit / (loss) attributable to:		**(1 178 813)**	**103 757**
- Owners of mBank S.A.		(1 178 753)	103 831
- Non-controlling interests		(60)	(74)

Net profit / (loss) attributable to Owners of mBank S.A.	17	**(1 178 753)**	**103 831**
Weighted average number of ordinary shares	17	**42 369 790**	**42 355 695**
Earnings / (loss) per share (in PLN)	17	**(27.82)**	**2.45**
Weighted average number of ordinary shares for diluted earnings	17	**42 450 509**	**42 379 726**
Diluted earnings / (loss) per share (in PLN)	17	**(27.77)**	**2.45**

Notes presented on pages 10–177 constitute an integral part of these Consolidated Financial Statements.

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CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Year ended 31 December	
		2021	2020
Net profit / (loss)		**(1 178 813)**	**103 757**
Other comprehensive income net of tax, including:	18	**(1 788 889)**	**407 791**
Items that may be reclassified subsequently to the income statement			
Exchange differences on translation of foreign operations (net)		4 898	3 043
Cash flows hedges (net)	18	(919 332)	299 988
Change in valuation of debt instruments at fair value through other comprehensive income (net)	18	(892 950)	111 012
Items that will not be reclassified to the income statement			
Actuarial gains and losses relating to post-employment benefits (net)	18	7 059	(6 252)
Reclassification to investment properties (net)	18	11 436	-
Total comprehensive income (net)		**(2 967 702)**	**511 548**
Total comprehensive income (net), attributable to:			
- Owners of mBank S.A.		(2 967 642)	511 622
- Non-controlling interests		(60)	(74)

Notes presented on pages 10–177 constitute an integral part of these Consolidated Financial Statements.

IFRS Consolidated Financial Statements 2021 (PLN thousand)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

ASSETS	Note	31.12.2021	31.12.2020 - restated	01.01.2020 - restated
Cash and balances with the Central Bank	19	12 202 266	3 968 691	7 897 010
Financial assets held for trading and hedging derivatives	20	2 589 076	2 586 721	2 866 034
Non-trading financial assets mandatorily at fair value through profit or loss, including:	21	1 417 191	1 784 691	2 267 922
Equity instruments		*224 389*	*202 304*	*162 616*
Debt securities		*81 128*	*76 068*	*133 774*
Loans and advances to customers		*1 111 674*	*1 506 319*	*1 971 532*
Financial assets at fair value through other comprehensive income	22	36 206 059	35 498 061	22 773 921
Financial assets at amortised cost, including:	23	140 296 538	130 179 902	118 412 330
Debt securities		*16 164 103*	*15 952 501*	*11 234 873*
Loans and advances to banks		*7 229 681*	*7 354 268*	*4 341 758*
Loans and advances to customers		*116 902 754*	*106 873 133*	*102 835 699*
Fair value changes of the hedged items in portfolio hedge of interest rate risk	20	1 055 478	-	-
Non-current assets and disposal groups classified as held for sale	24	31 247	-	10 651
Intangible assets	25	1 283 953	1 178 698	955 440
Tangible assets	26	1 542 250	1 514 577	1 262 397
Investment properties	27	127 510	-	-
Current income tax assets		28 147	23 957	12 662
Deferred income tax assets	32	1 392 350	853 880	937 712
Other assets	28	1 366 820	1 282 439	956 949
TOTAL ASSETS		**199 538 885**	**178 871 617**	**158 353 028**
LIABILITIES AND EQUITY				
LIABILITIES				
Financial liabilities held for trading and hedging derivatives	20	2 011 182	1 338 564	948 764
Financial liabilities measured at amortised cost, including:	29	179 348 925	156 673 052	137 763 369
Amounts due to banks		*3 359 558*	*2 399 740*	*1 166 871*
Amounts due to customers		*159 935 129*	*137 698 668*	*116 661 138*
Debt securities issued		*13 429 782*	*13 996 317*	*17 435 143*
Subordinated liabilities		*2 624 456*	*2 578 327*	*2 500 217*
Fair value changes of the hedged items in portfolio hedge of interest rate risk	20	110 033	59 624	136
Liabilities included in disposal groups classified as held for sale	24	7 425	-	1 315
Provisions	31	811 455	501 691	371 741
Current income tax liabilities		61 910	225 796	161 534
Deferred income tax liabilities	32	89	690	82
Other liabilities	30	3 469 950	3 397 133	2 952 782
TOTAL LIABILITIES		**185 820 969**	**162 196 550**	**142 199 723**
EQUITY				
Equity attributable to Owners of mBank S.A.		**13 716 050**	**16 673 133**	**16 151 303**
Share capital:		**3 593 944**	**3 587 035**	**3 579 818**
Registered share capital	37	169 540	169 468	169 401
Share premium	38	3 424 404	3 417 567	3 410 417
Retained earnings:	39	**11 326 494**	**12 501 597**	**12 394 775**
- Profit from the previous years		12 505 247	12 397 766	12 394 775
- Profit (loss) for the current year		(1 178 753)	103 831	-
Other components of equity	40	**(1 204 388)**	**584 501**	**176 710**
Non-controlling interests		**1 866**	**1 934**	**2 002**
TOTAL EQUITY		**13 717 916**	**16 675 067**	**16 153 305**
TOTAL LIABILITIES AND EQUITY		**199 538 885**	**178 871 617**	**158 353 028**

Total capital ratio (%)		**16.58**	**19.86**	**19.46**
Common Equity Tier I capital ratio (%)		**14.16**	**16.99**	**16.51**
Book value		**13 716 050**	**16 673 133**	**16 151 303**
Number of shares		**42 384 884**	**42 367 040**	**42 350 367**
Book value per share (in PLN)		**323.61**	**393.54**	**381.37**

Notes presented on pages 10–177 constitute an integral part of these Consolidated Financial Statements.

IFRS Consolidated Financial Statements 2021 (PLN thousand)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Changes in equity from 1 January to 31 December 2021

	Share capital		Retained earnings		Other components of equity	Equity attributable to Owners of mBank S.A.	Non-controlling interests	Total equity
	Registered share capital	Share premium	Profit from the previous years	Profit for the current year				
Equity as at 1 January 2021	**169 468**	**3 417 567**	**12 501 597**	**-**	**584 501**	**16 673 133**	**1 934**	**16 675 067**
Total comprehensive income	**-**	**-**	**-**	**(1 178 753)**	**(1 788 889)**	**(2 967 642)**	**(60)**	**(2 967 702)**
Issuance of ordinary shares	72	-	-	-	-	72	-	72
Other increase or decrease in equity	-	-	-	-	-	-	(8)	(8)
Stock option program for employees	**-**	**6 837**	**3 650**	**-**	**-**	**10 487**	**-**	**10 487**
value of services provided by the employees	-	-	*10 487*	-	-	*10 487*	-	*10 487*
settlement of exercised options	-	*6 837*	*(6 837)*	-	-	-	-	-
Equity as at 31 December 2021	**169 540**	**3 424 404**	**12 505 247**	**(1 178 753)**	**(1 204 388)**	**13 716 050**	**1 866**	**13 717 916**

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.	Non-controlling interests	Total equity
	Registered share capital	Share premium	Profit from the previous years	Profit for the current year				
Equity as at 1 January 2020	**169 401**	**3 410 417**	**12 394 775**	**-**	**176 710**	**16 151 303**	**2 002**	**16 153 305**
Total comprehensive income	**-**	**-**	**-**	**103 831**	**407 791**	**511 622**	**(74)**	**511 548**
Issuance of ordinary shares	67	-	-	-	-	67	-	67
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**	**12 397 766**	**103 831**	**584 501**	**16 673 133**	**1 934**	**16 675 067**

Notes presented on pages 10–177 constitute an integral part of these Consolidated Financial Statements.

IFRS Consolidated Financial Statements 2021 (PLN thousand)

CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	Year ended 31 December	
		2021	2020 - restated
Profit / (loss) before income tax		**(591 031)**	**609 731**
Adjustments:		***11 394 965***	***718 274***
Income taxes paid		(837 687)	(444 196)
Depreciation, including depreciation of fixed assets provided under operating lease	25, 26	468 584	466 724
Foreign exchange (gains) losses related to financing activities		205 130	942 252
(Gains) losses on investing activities		14 965	(94 232)
Dividends received	8	(5 046)	(4 926)
Interest income (income statement)	6	(4 431 737)	(4 688 353)
Interest expense (income statement)	6	327 694	679 053
Interest received		4 676 029	5 446 532
Interest paid		(234 411)	(694 825)
Changes in loans and advances to banks		96 423	(3 157 249)
Changes in financial assets and liabilities held for trading and hedging derivatives		(1 452 131)	1 166 492
Changes in loans and advances to customers		(9 529 116)	(3 773 745)
Changes in financial assets at fair value through other comprehensive income		(2 054 013)	(13 167 129)
Changes in securities at amortised cost		(284 047)	(4 716 586)
Changes of non-trading securities mandatorily at fair value through profit or loss		(17 617)	10 211
Changes in other assets		(61 058)	(396 254)
Changes in amounts due to banks		991 300	1 448 331
Changes in amounts due to customers		23 322 323	20 784 682
Changes in issued debt securities		(246 519)	354 706
Changes in provisions		309 764	129 950
Changes in other liabilities		136 135	426 836
A. Cash flows from operating activities		**10 803 934**	**1 328 005**
Disposal of shares in subsidiaries, net of cash disposed		5 147	7 807
Disposal of intangible assets and tangible fixed assets		85 802	95 620
Dividends received	8	5 046	4 926
Acquisition of shares in subsidiaries		(14 597)	-
Purchase of intangible assets and tangible fixed assets		(589 404)	(552 487)
Other investing outflows		-	(212)
B. Cash flows from investing activities		**(508 006)**	**(444 346)**
Proceeds from loans and advances from banks		-	500
Issue of debt securities	29	3 497 354	60 000
Issue of ordinary shares		72	67
Repayments of loans and advances from banks		-	(196 140)
Repayments of other loans and advances		(1 358 250)	-
Redemption of debt securities		(3 980 595)	(4 605 077)
Payments of lease liabilities		(93 616)	(119 501)
Interest paid from loans and advances received from banks and from subordinated liabilities		(59 691)	(84 733)
C. Cash flows from financing activities		**(1 994 726)**	**(4 944 884)**
Net increase / decrease in cash and cash equivalents (A+B+C)		**8 301 202**	**(4 061 225)**
Effects of exchange rate changes on cash and cash equivalents		(9 649)	30 883
Cash and cash equivalents at the beginning of the reporting period		4 249 046	8 279 388
Cash and cash equivalents at the end of the reporting period	42	**12 540 599**	**4 249 046**

Notes presented on pages 10–177 constitute an integral part of these Consolidated Financial Statements.

IFRS Consolidated Financial Statements 2021 (PLN thousand)

EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

Name of reporting entity or other means of identification	mBank S.A.
Explanation of change in name of reporting entity or other means of identification from end of preceding reporting period	-
Domicile of entity	00-850 Warszawa, ul. Prosta 18
Legal form of entity	joint stock company
Country of incorporation	Poland
Address of registered office of entity	00-850 Warszawa, ul. Prosta 18
Principal place of business	Poland
Description of nature of entity's operations and principal activities	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
Name of parent entity	Commerzbank AG
Name of ultimate parent of group	Commerzbank AG

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. (corporate and investment banking segment, retail banking segment as well as treasury and other segment) 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 Bank;
- 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.

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

As at 31 December 2021, 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 No 26 and Resolutions No 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 to mBank Spółka Akcyjna (abbreviated mBank S.A.).

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

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

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

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

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

As at 31 December 2021 the headcount of mBank S.A. amounted to 6 075 FTEs (Full Time Equivalents) and of the Group to 6 738 FTEs (31 December 2020: Bank 6 034 FTEs, Group 6 688 FTEs).

As at 31 December 2021 the employment in mBank S.A. was 7 088 persons and in the Group 9 464 persons (31 December 2020: Bank 7 065 persons, Group 9 426 persons).

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

Corporate and Investment Banking Segment

- 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 mortgage bonds. 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., subsidiary

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

Retail Banking Segment

- 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 40 offices of mFinanse and 149 mKiosks placed in shopping centres.

- 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 Sp. z o.o. 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

mElements S.A. operates 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.

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Treasury and Other Segment

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

On 15 July 2021, mBank S.A. signed a conditional agreement for the sale of shares in the subsidiary Tele Tech Investment Sp. z o.o. and bonds issued by this company. After fulfilling the conditions precedent, on 19 July 2021, the Bank sold 100% of shares in the subsidiary and all bonds held by the Bank issued by that subsidiary. Hence, starting from July 2021, the Group ceased to consolidate the subsidiary Tele Tech Investment Sp. z o.o.

As of December 2020, the consolidation of mFinance France S.A. was discontinued. The business activities of the company was conducted in the business segment "Treasury and Other". Discontinuation of consolidation resulted from the substitution described in detail in Note 29 of Consolidated financial statements of mBank Group S.A. for 2020, published on 25 February 2021. In November 2020, the liquidation of the company began. On 22 April 2021, the Ordinary General Shareholders' Meeting of the subsidiary decided to end the liquidation of the subsidiary on 22 April 2021 and thus to submit an application for the removal of the subsidiary from the French register of enterprises.

On 16 December 2020, mBank S.A. and Archicom Polska S.A. signed an agreement for the sale of shares, under which mBank sold 100% of shares in the share capital of BDH Development 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	31.12.2021		31.12.2020	
	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
G-Invest Sp. z o.o.	100%	full	100%	full
mElements S.A.	100%	full	100%	full
Asekum Sp. z o.o.	100%	full	100%	full
LeaseLink Sp. z o.o.	100%	full	100%	full
Tele-Tech Investment Sp. z o.o.	-	-	100%	full
mFinance France S.A.	-	-	99.998%	-

The Management Board of mBank S.A. approved these consolidated financial statements for issue on 1 March 2022.

2. Description of relevant accounting policies

The principal accounting policies used in the preparation of these consolidated financial statements are set forth below. These accounting policies have been applied consistently in all periods presented, except for a change in accounting policy implemented since the beginning of 2021 regarding recognition of the impact of legal risk concerning indexation clauses in mortgage and housing loans in CHF. Until the end of 2020 the Group recognized provisions for legal proceedings in accordance with IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" in relation to both active and repaid loans. In view of changes in conditions, such as the growing number of court cases and the predominantly unfavourable court judgments stating the invalidity of the contract in whole or certain provisions thereof the Group expects that it will not obtain the full amount of contractual cash flow related to those loans. Therefore in relation to active loans the Group revised its estimates of cash flows and adjusted the gross carrying amount of those loans in accordance with IFRS 9 "Financial Instruments" paragraph B5.4.6. as the change in expected cash flows is not related to credit risk and therefore is not recognised as expected credit losses. The recognition of the impact of legal risk related to repaid loans remained unchanged.

The Group changed its accounting policies as allowed by IAS 8 in order to provide users of financial statements with more relevant information regarding the impact of the CHF mortgage and housing loan portfolio and related legal risk on the financial position, financial performance and cash flows of the Group. In the Group's opinion such approach provides better reflection of value of CHF-indexed loans in the statement of financial position. The changed approach will also allow for better comparability of financial statements across financial sector as such the accounting treatment constitutes the prevailing market practice in this respect. These changes are described in the note 2.31.

2.1. Accounting basis

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

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, financial assets failing SPPI test and financial assets and liabilities designated at fair value through profit or loss, debt and equity instruments at fair value through other comprehensive income, investment properties 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 2020 presented in these mBank S.A. Group 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.

The Management Board, in its assessment of the appropriateness of the going concern assumption for the Bank and the Group companies, considered, inter alia, net loss incurred by the Bank and the Group in 2021 in the amount of PLN 1 215 353 thousand and PLN 1 178 813 thousand, respectively. This loss results from the legal risk costs recognized in 2021 related to mortgage and housing loans granted to individual customers in CHF, as described in detail in Note 34.

The profitability of core business model of the Bank and the Group remained high and stable in 2021. As at 31 December 2021 and as at the date of approving these consolidated financial statements, the Bank and the Group complied with all regulatory requirements, including those relating to capital adequacy and liquidity. Also recovery plan indicators in the areas of liquidity, capital and assets quality demonstrate the stable and robust situation of the Bank and the Group, as described in detail in Note 3.2.6.

Therefore, as of the date of approving these consolidated financial statements, the Bank Management Board has not identified any events that could indicate that the continuation of the operations by the Group is endangered in the period of at least 12 months from 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.

Amounts calculated with the use of negative interest rates are qualified accordingly to interest income in case when they relate to financial liabilities, and to interest expenses when they relate to financial assets.

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 contracts 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.

Step 2: Identifying performance obligations in the contract

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

Step 3: Determining the transaction price

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.

Step 4: Allocating the transaction price to the performance obligations

The transaction price is allocated to each separate performance obligation, or distinct good or service, so that revenue is recorded at an amount that depicts the amount of consideration that the 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.

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

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 instalment payment for premium on insurance products sold through the Internet platform. The fee on instalment 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: "Corporate and Investment Banking Segment", "Retail Banking", "Treasury and Other business" and "FX Mortgage Loans".

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 or in case of substantial modification of the financial asset.

Financial assets measured at fair value through profit or loss

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

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

The 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 2.3), except for derivatives the recognition of which is discussed in Note 2.13, 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,
- change of the legal form/type of financial instrument.

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 effects 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.

When contract terms are modified as a result of a market-wide reform of the interest rate benchmark, including the replacement of the interest rate benchmark with an alternative benchmark, when:

- the basis for determining contractual cash flows has changed in the contract and the new basis is considered economically equivalent to the old basis, such change is recognized through a change in the effective interest rate;
- changes concern other areas, or have not been considered economically equivalent, such changes are recognized on general principles, in particular they are evaluated for a significant modification.

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.

Financial 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 thresholds of materiality (thresholds 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 if at least one of the following conditions is not met:

1. the past due exposure amount exceeds PLN 400 for retail exposures in Polish branch and exposures of Private Banking debtors, registered in corporate systems, CZK 2500 for retail exposures in the foreign branch of the Bank in Czech Republic, EUR 100 for retail exposures in the foreign branch of the Bank in Slovakia and PLN 2000 for exposures in the area of corporate and investment banking,
2. the ratio of the past due exposure amount to the total balance sheet exposure amount exceeds 1%.

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 Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending regulation (EU) No 648/2012 ("CRR Regulation").

The 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 micro companies' 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 (corporate banking) 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,
    d. limitation of heirs' liability for inheritance debts.

Cases that meet these criteria may also be included in the process of debt portfolio sale.

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,
    b. the statute of limitations on the Group's claim.

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 IFRS9, the methodology is described in Note 3.3.6 Calculating expecting credit losses,
- the amount initially recognised less the cumulative amount of income recognised in accordance with the principles of IFRS 15 when appropriate.

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 and amounts due from other banks.

2.12. Sell and repurchase agreements

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

Securities sold with a repurchase clause (repos or sell/buy back) are reclassified in the financial statements as pledged assets if the entity receiving them has the contractual or customary right to sell or pledge them as collateral security. The liability towards the counterparty is recognised as amounts due to other banks, deposits from other banks, other deposits or amounts due to customers, depending on its nature. Securities purchased together with a resale clause (reverse repos or buy/sell back) are recognised as loans and advances to other banks or other customers, depending on their nature. For assets subject to repurchase agreements, the Bank is exposed to the same risks as those associated with holding identical assets not subject to repurchase agreements.

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. 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 initial 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 generating 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.

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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 (1.5-18 years). Expenses attached to the maintenance of computer software are expensed when incurred. Expenses directly linked to the development of identifiable and unique proprietary computer programmes controlled by the Bank, which are likely to generate economic benefits in excess of such costs expected to be gained over a period exceeding one year, are recognised as intangible assets. Direct costs comprise personnel expenses directly related to the software.

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

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

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

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

Investment properties are defined as land and buildings held for the purpose of earning rental income or because they are expected to increase in value. Investment property also includes right-of-use assets that meet the definition of investment property under IAS 40. On initial recognition investment properties are measured at cost including directly attributable transaction costs.

In subsequent measurements, investment properties are measured at fair value. The fair value of a right-of-use that meets the definition of investment property excludes the value of expected cash outflows from lease payments, which are presented separately in the Bank's statement of financial position as a lease liability in accordance with IFRS 16.

Current income and expenses are recognised in other operating income or expenses. Remeasurement changes arising from changes in fair value are also shown under other operating income or expenses in the income statement for the period. As at the date of reclassification of the property occupied by the Group to investment property, the difference between the carrying amount of the property determined in accordance with IAS 16 or IFRS 16 and its fair value is recognized by the Group (i) in the profit or loss account in the event of a decrease in the carrying amount or reversal of a previously recognised impairment loss on this property, or (ii) in other comprehensive income, in the event of an increase in the current value above the amount of the reversed impairment loss. On subsequent disposal of the investment property, the revaluation reserve in other comprehensive income is transferred to retained earnings. The transfer from other comprehensive income to retained earnings is not made through the income statement.

2.19. Inventories

Inventories comprise assets held for lease as well as assets taken over as a result of terminated lease agreements. Inventories are presented in the item Other assets and 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. 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.

2.20. 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.

2.21. 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.

2.22. 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.

2.23. 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".

2.24. 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.

mBank S.A. Group as a lessee

If lease definition is fulfilled, 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 reasonably certain to exercise that option, and
- periods covered by an option to terminate the lease if the Group as a lessee is reasonably 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 right-of-use assets are classified in tangible fixed assets (Note 26). Leasing liabilities are recognized as financial liabilities measured at amortised cost (Note 29).

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 activities.

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. The Group recognises finance income over the lease term on a systematic and rational basis. 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.

2.25. Provisions

Loan commitments 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.

2.26. 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. Cash-settled part of the programme as well as the part based on phantom shares increases the costs of the given period in relation to liabilities. Expenses are recognised over the term of the programme.

2.27. 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,
- fair value measurement of assets reclassified to investment property.

2.28. 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.

2.29. 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.

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2.30. New standards, interpretations and amendments to published standards

These financial statements include the requirements of all the International Accounting Standards and the International Financial Reporting Standards endorsed by the European Union, and the related with them interpretations which have been endorsed and binding for annual periods starting on 1 January 2021.

Standards and interpretations endorsed by the European Union

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

Standards and interpretations	Description of the changes	The beginning of binding period	Impact on the Group's financial statements in the period of their initial application
Amendments to IFRS 4, Extension of the Temporary Exemption from Applying IFRS 9	Amendments to IFRS 4 extend the temporary exemption from application of the IFRS 9 so that insurers will be required to apply IFRS 9 for annual periods beginning on or after 1 January 2023. The extension maintains the alignment between the expiry date of the temporary exemption and the effective date of IFRS 17, which replaces IFRS 4.	1 January 2021	The application of the changes to the standard had 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	Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 Interest Rate Benchmark Reform – Phase 2 relate to the modification of financial assets, financial liabilities and lease liabilities, specific hedge accounting requirements, and disclosure requirements applying IFRS 7 resulting from the implementation of IBOR reform. The amendments to the standards require that in the case of a modification of the base for calculating cash flows, which is equivalent to the previous base and is the result of the implementation of the reform, the modification should be recognized as a result from a change in the variable interest rate. Regarding hedge accounting, amendments allow for the continuation of the existing relationships that were modified as a result of the IBOR reform, after appropriate modification of the documentation of the hedging relationship. Specific disclosures are also required in order to allow users to understand the nature and extent of risks arising from the IBOR reform to which the entity is exposed to and how the entity manages those risks as well as the entity's progress in transitioning from IBORs to alternative benchmark rates. IFRS 4 was also amended to require insurers that apply the temporary exemption from IFRS 9 to apply the amendments in accounting for modifications directly required by IBOR reform.	1 January 2021	In 2021, the Bank worked on the implementation of IBOR reform. As a result, financial instruments based on the reference rates covered by reform were modified by replacing the IBOR with alternative benchmark rates. In order to correctly recognize the changes described above, in accordance with the requirements of the amended standards, the Bank assessed the economic equivalence of the changes introduced and recognized them in the books in accordance with the results of this assessment. The Group also modified the documentation of hedging relationships to reflect the changes resulting from the reform. The amendments did not have significant impact on the balance sheet of the modified instruments or on the interest income resulting from these instruments. The detailed information regarding IBOR reform is provided below in this note.

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

Standards and interpretations	Description of the changes	The beginning of the binding period	Impact on the Group's financial statements in the period of initial application
Annual Improvements to IFRS Standards 2018-2020	Annual Improvements include changes to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, Illustrative Examples accompanying IFRS 16 Leases and IAS 41 Agriculture. The amendment to IFRS 9 clarifies which fees the entity includes when it applies the '10 per cent test' in assessing whether to derecognize a financial liability. The amendment to IFRS 16 removes the illustration of payments from the lessor relating to leasehold improvements.	1 January 2022	The application of the amended standard will have no significant impact on the financial statements.
Amendments to IAS 16 Property, Plant and Equipment: Proceeds before Intended Use	Amendments to IAS 16 prohibit a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use. Instead, a company will recognize such sales proceeds and related cost in profit or loss.	1 January 2022	The application of the amended standard will have no significant impact on the financial statements.
Amendments to IAS 37 Onerous contracts – Cost of Fulfilling the Contract	Amendments to IAS 37 specifies which costs to include in estimating the cost of fulfilling a contract for the purpose of assessing whether the contract is onerous.	1 January 2022	The application of the amended standard will have no significant impact on the financial statements.
Amendments to IFRS 3 Reference to the Conceptual Framework	Amendments to IFRS 3 replaced references to the Framework with references to the 2018 Conceptual Framework. They also added a requirement that, for transactions and other events within the scope of IAS 37 or IFRIC 21, an acquirer applies IAS 37 or IFRIC 21 (instead of conceptual framework) to identify the liabilities it has assumed in business combination. Moreover, the standard added an explicit statement that an acquirer does not recognize contingent asset acquired in a business combination.	1 January 2022	The application of the amended standard will have no significant impact on the financial statements.
Amendments to IFRS 16, COVID-19-related Rent Concessions beyond 30 June 2021	In amendment to IFRS 16 COVID-19-related Rent Concessions beyond 30 June 2021 (the 2021 amendment) the Board extended the availability of the practical expedient that permits lessees not to assess whether rent concessions that occur as a direct consequence of the COVID-19 pandemic and meet specified conditions are lease modifications by one year.	1 April 2021	The application of the amended standard will have no significant impact on the financial statements.
IFRS 17, Insurance contracts	IFRS 17 defines a new approach to the recognition, valuation, presentation and disclosure of insurance contracts. The main purpose of IFRS 17 is to guarantee the transparency and comparability of insurers' financial statements. IFRS 17 introduces a number of significant changes in relation to the existing requirements of IFRS 4. They concern, among others: methods for the valuation of insurance liabilities, recognition a revenues and result from insurance contract.	1 January 2023	The application of the amended standard will have no significant impact on the financial statements.
Amendments to IFRS 17, Insurance contracts	Amendments to IFRS 17 include a two-year deferral of the effective date and the fixed expiry date of the temporary exemption from applying IFRS 9 granted to insurers meeting certain criteria. Preparers of financial statements are no longer required to apply IFRS 17 to certain credit cards and similar arrangements, and loans that provide insurance coverage.	1 June 2023	The application of the amended standard will have no significant impact on the financial statements.

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Standards and interpretations not yet endorsed by the European Union

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

Standards and interpretations	Description of the changes	The beginning of the binding period	Impact on the Group's financial statements in the period of initial application
Amendments to IAS 12, Deferred tax related to assets and liabilities arising from a single transaction	The amendments to the standards require that the entities recognise in the financial statements deferred tax assets and liabilities resulting from transactions, other than business combinations, in which equal amounts of deductible and taxable temporary differences arise on initial recognition.	1 January 2023	The application of the amended standard will have no significant impact on the financial statements.
Amendments to IAS 1, Classification of liabilities as current or non-current	Amendments to IAS 1 affect the requirements for the presentation of liabilities in the financial statements. In particular, they explain one of the criteria for classifying liabilities as non-current.	1 January 2023	The application of the amended standard will have no significant impact on the financial statements.
Amendment to IAS 8, Definition of Accounting Estimates	In amendment to IAS 8, the definition of a change in accounting estimates was replaced with a definition of accounting estimates. Under the new definition, accounting estimates are monetary amounts in financial statements that are subject to measurement uncertainty. The introduction of a definition of accounting estimates and other amendments to IAS 8 was aimed to help entities distinguish changes in accounting policies from changes in accounting estimates.	1 January 2023	The application of the amended standard will have no significant impact on the financial statements.
Amendments to IAS 1 and IFRS Practice Statement 2 Disclosure of Accounting Policies	Amendments to IAS 1 and IFRS Practice Statement 2 are intended to help preparers in deciding which accounting policies to disclose in their financial statements. The amendments introduce the requirement to disclose material accounting policy information instead of significant accounting policies with some clarifications and examples how an entity can identify material accounting policy information.	1 January 2023	The application of the amended standard will have no significant impact on the financial statements.
IFRS 17, Insurance contracts and IFRS 9	The amendments to the standards introduces optional facilities to minimize the accounting mismatch between financial assets and liabilities presented in the comparative data of the financial statements of entities applying IFRS 17 and IFRS 9 for the first time.	1 January 2023	The application of the amended standard will have no significant impact on the financial statements.

The interest rate benchmark reform

In 2021, mBank continued efforts to implement the reform of reference rates initiated by Regulation 2016/1011 of The European Parliament and of the Council of 8 June 2016 on indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds and amending Directives 2008/48/EC and 2014/17/EU and Regulation (EU) No 596/2014 (further "BMR") which resulted, inter alia, in the Financial Conduct Authority's (further "FCA") decision to cease quoting or lose representativeness of LIBOR rates (hereinafter IBOR reform). In order to effectively implement the changes resulting from the IBOR reform, a project has already been launched at mBank in 2020 involving mBank's units responsible for risk management, treasury, retail and corporate banking, financial markets, IT, accounting, reporting and compliance areas. The implementation of the project is supervised by the Steering Committee and the Capital, Asset and Liability Management Committee of mBank.

The key risks faced by the Bank in relation to the IBOR reform identified and managed under the project are:

- risks resulting from lack of established market practices and uncertainty related to transition of the contracts to new alternative reference rates, which could lead to deterioration of the risk profile of these contracts
- risk of customers not cooperating with the Bank in the process of introducing IBOR reform required contractual changes and the resulting uncertainty concerning the appropriate basis to calculate the contractual cashflows after cessation of or losing representativeness of LIBOR indexes,
- risk of delayed implementation of required IT changes which could hinder correct interest calculation or financial asset and liabilities valuation.
- operational risks related to the number of contracts that require amending as a result of the IBOR reform, including risks related to mass processing of clients' personal data required to implement changes to client contracts.

As a result of the project, the Bank updated and implemented changes to its action plan in the event of material changes or discontinuation of an index or benchmark, developed and started the process of introducing fallback clauses in its customer contracts.

WIBOR and EURIBOR indices, as a result of actions of Polish and European regulators, were reformed and brought in line with the BMR regulation, which significantly reduced the risk of reform in their scope and limited the necessary changes to the implementation of emergency clauses in case of discontinuation of quoting these rates in the future.

On 19th January 2021 the European Parliament amended the BMR regulation granting the European Commission the power to designate an alternative reference index for indices in scope of the IBOR reform. Such by law replaces all references to the index that ceases to be published in all contracts and financial instruments whose provisions do not provide for solutions in the event of permanent cessation of the index publication. On October 14, 2021, the European Commission issued Regulation (EU) 2021/1847 on the designation of a statutory replacement for certain settings of CHF LIBOR and designated an alternative reference rate. This decision significantly reduced the risks related to cessation of publishing of this reference index.

In order to mitigate the risks related to other reference indices, mBank participated in works of the working groups established by Polish Bank Association and took advantage of the solutions developed consultation process led by International Swaps and Derivatives Association (ISDA) and other international organisations.

In the fourth quarter 2021 the Bank has intensified activities related to implementing required changes to contracts with retail and corporate customers based on reference indices for European Commission had not designated alternative reference rates. Particular emphasis, in order to maximise the percentage of annexed agreements was placed on effective and transparent communication of the required changes and training of the Bank’s staff to prepare for implementation of the new contract clauses. As a result of these actions, according to Banks estimation, as at the end of 2021, over 40% of mortgage loans based on LIBOR EUR were successfully amended to include the required clauses.

In addition, with exception for single cases, all loan agreements from the corporate segment based on LIBOR family indices include fallback clauses addressing events of change or cessation of reference rates.

Derivative instruments based on LIBOR rates (except for LIBOR USD) were converted to instruments based on alternative reference rates by clearing houses or in case of derivatives not cleared centrally in accordance with methodology developed by ISDA in the course of market consultations.

Bank has also adjusted risk models to the new reference rates and implemented IT changes to properly handle the new reference rates as well as business relevant products and instruments based on those rates. Due to complexity of the IT systems, further changes in this area will continue in 2022

As result of the action taken by the Bank, at year end 2021, the Bank has significantly mitigated the risks associated with the IBOR reform described above.

The table below presents the Bank’s exposure as at 31 December 2021 to material reference rates in scope of the IBOR reform for which the transition to the alternative reference rates was yet not completed.

(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
EUR LIBOR	2 996	18	-
USD LIBOR	1 098	4	108
CHF LIBOR	12 194	1 779	(8 804)
GBP LIBOR	70	-	-
JPY LIBOR	5	-	-
Others	3	-	-

As WIBOR, EURIBOR and PRIBOR rates have been recognised as compliant with the BMR Regulation, exposures based on these rates are not presented in the above table as at 31 December 2021. If in the future it turns out that these rates no longer comply with the requirements of the BMR Regulation, mBank will activate the appropriate procedures provided for in such a case by the action plan.

The amounts of assets, liabilities and derivative instruments based on CHF LIBOR reference rate after the end of the current interest rate period, that is until the end of first quarter 2022, will expire or be converted either to SARON Compound rate adjusted for appropriate tenor related spread, in line with the European

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Commission Regulation dated 14 October 2021 mentioned above, or to other reference agreed in the contract.

In case of LIBOR USD based contracts, both loans and derivatives, mBank will continue efforts to introduce to contracts with customers relevant fallback clauses and alternative reference rate based on those clauses. However, taking into account the mBank's limited exposure and that by the end of 2021 fallback clauses were already implemented to corporate loan portfolio, the bank does not perceive any significant risks related to this process.

In case of LIBOR EUR based contracts, approximately half of the Bank's exposure will be converted to EURIBOR in first quarter of 2022. The rest of the portfolio, in cases where customers did not respond or refused to signed contract annexes introducing the alternative reference rate, the contractual interest will be calculated based on the interest rate valid for the previous interest period. The Bank does not exclude the possibility of signing an appropriate annex at a later date at the initiative of the customer.

mBank currently is not offering any products based on BMR non-compliant reference rates.

The impact of the IBOR reform on hedge accounting is presented in Note 20.

2.31. Comparative data

- Impact of the legal risk related to court cases concerning indexation clauses in mortgage and housing loans in CHF

Starting from 2021, the Group changed the accounting policy for recognizing the impact of the legal risk related to court cases concerning indexation clauses in mortgage and housing loans in CHF. Until the end of 2020 the Group recognized provisions for legal proceedings in accordance with IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" in relation to both active and repaid loans. In view of changes in conditions, such as the growing number of court cases and the predominantly unfavourable court judgments stating the invalidity of the contract in whole or certain provisions thereof the Group expects that it will not obtain the full amount of contractual cash flow. Therefore in relation to active loans the Group revised its estimates of cash flows and adjusted the gross carrying amount of those loans in accordance with IFRS 9 "Financial Instruments" paragraph B5.4.6. as the change in expected cash flows is not related to credit risk and therefore is not recognised as expected credit losses. The comparative data as at 1 January 2020 and 31 December 2020 and for the period from 1 January to 31 December 2020 have been restated accordingly. The recognition of the impact of legal risk related to repaid loans remained unchanged.

The above change did not affect the equity and the income statements of the Group and the Bank in the comparative periods presented in these financial statements. The data on capital ratios for comparative periods remained unchanged.

The impact of the introduced adjustments on the comparative data is presented in the following tables.

Restatements in consolidated statement of financial position at 1 January 2020

ASSETS	01.01.2020 before restatement	restatement	01.01.2020 after restatement
Financial assets at amortised cost, including:	118 779 885	(367 555)	118 412 330
Debt securities	*11 234 873*	-	*11 234 873*
Loans and advances to banks	*4 341 758*	-	*4 341 758*
Loans and advances to customers	*103 203 254*	*(367 555)*	*102 835 699*
Other assets	39 940 698	-	39 940 698
TOTAL ASSETS	**158 720 583**	**(367 555)**	**158 353 028**

LIABILITIES AND EQUITY	01.01.2020 before restatement	restatement	01.01.2020 after restatement
Provisions	739 296	(367 555)	371 741
Other liabilities	141 827 982	-	141 827 982
TOTAL LIABILITIES	**142 567 278**	**(367 555)**	**142 199 723**
TOTAL EQUITY	**16 153 305**	**-**	**16 153 305**
TOTAL LIABILITIES AND EQUITY	**158 720 583**	**(367 555)**	**158 353 028**

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Restatements in consolidated statement of financial position at 31 December 2020

ASSETS	**31.12.2020 before restatement**	**restatement**	**31.12.2020 after restatement**
Financial assets at amortised cost, including:	131 444 579	(1 264 677)	130 179 902
Debt securities	*15 952 501*	-	*15 952 501*
Loans and advances to banks	*7 354 268*	-	*7 354 268*
Loans and advances to customers	*108 137 810*	*(1 264 677)*	*106 873 133*
Other assets	48 691 715	-	48 691 715
TOTAL ASSETS	**180 136 294**	**(1 264 677)**	**178 871 617**

LIABILITIES AND EQUITY	**31.12.2020 before restatement**	**restatement**	**31.12.2020 after restatement**
Provisions	1 766 368	(1 264 677)	501 691
Other liabilities	161 694 859	-	161 694 859
TOTAL LIABILITIES	**163 461 227**	**(1 264 677)**	**162 196 550**
TOTAL EQUITY	**16 675 067**	**-**	**16 675 067**
TOTAL LIABILITIES AND EQUITY	**180 136 294**	**(1 264 677)**	**178 871 617**

Restatements in consolidated statement of cash flows for the period from 1 January to 31 December 2020

	Period from 01.01.2020 to 31.12.2020 before restatement	**restatement**	**Period from 01.01.2020 to 31.12.2020 after restatement**
Profit / (loss) before income tax	**609 731**	**-**	**609 731**
Adjustments, including:	***718 274***	**-**	***718 274***
Changes in loans and advances to customers	(4 670 867)	897 122	(3 773 745)
Changes in provisions	1 027 072	(897 122)	129 950
Other adjustments	4 362 069	-	4 362 069
A. Cash flows from operating activities	**1 328 005**	**-**	**1 328 005**
B. Cash flows from investing activities	**(444 346)**		**(444 346)**
C. Cash flows from financing activities	**(4 944 884)**		**(4 944 884)**
Net increase / decrease in cash and cash equivalents (A+B+C)	**(4 061 225)**	**-**	**(4 061 225)**
Effects of exchange rate changes on cash and cash equivalents	30 883	-	30 883
Cash and cash equivalents at the beginning of the reporting period	8 279 388	-	8 279 388
Cash and cash equivalents at the end of the reporting period	**4 249 046**	**-**	**4 249 046**

The changes in the comparative data, as described above, has been included in these consolidated 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 2021 – external environment

The mBank Group is taking steps to achieve full compliance with regulatory requirements.

CRR/CRD IV regulatory package

The Group has implemented changes to the CRR/CRD IV regulatory package, in particular:

- Regulation (EU) 2019/876 of the European Parliament and of the Council of 20 May 2019 amending Regulation (EU) No 575/2013 as regards the leverage ratio, the net stable funding ratio, requirements for own funds and eligible liabilities, counterparty credit risk, market risk, exposures to central counterparties, exposures to collective investment undertakings, large exposures, reporting and disclosure requirements, and Regulation (EU) No 648/2012,
- Directive (EU) 2019/878 of the European Parliament and of the Council of 20 May 2019 amending Directive 2013/36/EU as regards exempted entities, financial holding companies, mixed financial holding companies, remuneration, supervisory measures and powers and capital conservation measures,

most of which, were binding starting from 28 June 2021.

The altered provisions of the Directive have already been transposed into the Polish law by amendments to the Banking Law Act and other acts, as well as secondary legislation.

The Group is also adapting its processes and systems on an ongoing basis with regard to changes in mandatory reporting and Pillar III disclosures.

Regulatory changes resulting from the work of the Basel Committee on Banking Supervision

The Group monitors regulatory developments arising from the work of the Basel Committee on Banking Supervision. In particular, these related to the review of the methodologies for calculating capital requirements (the so-called Basel 4). On 27 October 2021 the European Commission adopted a draft amendment to the EU banking legislation (CRR/CRD IV), which aims to implement the updated Basel standards into EU legislation, primarily with regard to the calculation of capital requirements for individual risks. The new requirements would be effective from 2025.

The Group analyses the proposed regulatory changes and assesses their impact in preparation for their implementation. It also follows the legislative work in this area, as the published draft amendments have not yet been finally endorsed in the EU and may still change during the legislative work.

Directive BRRD2

The provisions of Directive BRRD2 [Directive (EU) 2019/879 of the European Parliament and of the Council of 20 May 2019 amending Directive 2014/59/EU as regards loss absorption capacity and recapitalisation of credit institutions and investment firms and Directive 98/26/EC] have also been transposed into the Polish legal order as part of the amendment of the Act on the Bank Guarantee Fund, deposit guarantee scheme and compulsory restructuring and certain other acts. The aforementioned legal acts introduced changes to the rules for calculating and maintaining the MREL requirement. This in turn has necessitated modification of the Fund's previous approach to determining the MREL requirement for banks. The first binding inerim MREL target should be fulfilled by 31 December 2021 and the Group has met this requirement, however the final target should be met by 31 December 2023.

AIRB models

In 2016 - 2021 the EBA published documents, as part of a broader regulatory initiative concerning revision of the Internal Ratings Based Approach (AIRB), which include:

- draft Regulatory Technical Standards on assessment methodology for IRB approach,
- guidelines on PD estimation, LGD estimation and treatment of defaulted assets,
- guidelines and regulatory technical standard on estimation and identification of an economic downturn in IRB modelling (with regard to LGD parameter),
- guidelines on Credit Risk Mitigation for institutions applying the IRB approach with own estimates of LGDs,
- Commission delegated regulation (EU) 2021/598 of 14 December 2020 supplementing Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to regulatory technical standards for assigning risk weights to specialized lending exposures.

In June 2021 mBank submitted the application for approval of material changes in all PD, CCF and LGD parameters models in portfolios covered by AIRB approach to banking supervisory authorities. The implementation of AIRB models adapted to the aforementioned guidelines is planned for 2022, immediately after the approval of the banking supervisory authorities.

The Group adjusted the CRE dedicated model to Regulation 2021/598, which will apply from April 2022. As part of this process, the Bank submitted notification addressing the model adjustment to the banking supervisory authorities in February 2022. The model adjustment will not be classified as significant change according to the criteria specified in RTS 529/2014.

PFSA recommendations

In order to update good practices binding on banks, including in the context of new guidelines and requirements defined by the European supervisory authorities, taking into account regulatory solutions and practices applied in other countries, PFSA regularly works on updating recommendations addressed to banks. Work is currently underway on:

- updating Recommendation G concerning interest rate risk management. Work on the amendment has been temporarily suspended;
- updating Recommendation A related to derivatives activities, which will replace the current Recommendation A issued in 2010. Further consultations with the banking sector are currently underway.

In 2021, PFSA issued an updated Recommendation R on the principles of credit risk management and recognition of expected credit losses. Recommendation R entered into force on 1 January 2022. Works on the implementation of the requirements of Recommendation R are continued by the Group in 2022. The most important changes resulting from the implementation of Recommendation R in the area of the definition of default and expected credit losses are described in Note 3.3.6.2.4

IBOR reform

The Group is carrying out a project which is aimed at preparing for the cessation of LIBOR rates announced by FCA (Financial Conduct Authority) on 5 March 2021. LIBOR reference rates are used both in products offered to retail and corporate clients and in financial markets instruments. At the same time, the Group continues to carry out project work addressing further changes to the publication or changes to the calculation rules for other benchmarks used in financial products and instruments. Detailed information on the impact of IBOR reform is presented in Note 2.30 and Note 20.

EBA guidelines and standards on interest rate risk in the banking book

In December 2021 EBA launched consultations specifying technical aspects of the revised framework regarding interest rate risks for banking book (IRRBB):

- project of Guidelines on IRRBB and credit spread risk arising from the banking book (CSRBB)
- project of RTS on the IRRBB standardised approach,
- project of RTS on IRRBB supervisory outlier tests.

These regulations contain detailed provisions and requirements for the management of interest rate risk in the banking book that will apply to banks in the context of the regulatory changes that have taken place in CRD IV with regard to interest rate risk in the banking book. Consultations with the banking sector are currently underway.

Regulations in the area of sustainable development

From 18 June 2020, Regulation 2020/852 of the European Parliament and of the Council on the establishment of a framework to facilitate sustainable investments (Regulation on the EU Taxonomy), is in force. This regulation is a key element of the EU Action Plan, the so-called Green Deal for financing sustainable economic growth. The plan is to redirect capital flows towards sustainable investments and ensure market transparency. The taxonomy introduces a single EU classification system for activities for sustainable development. It is a tool to support entrepreneurs and investors in sustainable investment decisions. On 4 June 2021 EU Commission issued Delegated Regulation no 2021/2139 establishing the technical criteria that define sustainable economic activities making a significant contribution to climate change mitigation or climate change adaptation.

The act specifying the provisions of Article 8 of the Taxonomy is the EU Commission Delegated Regulation No 2021/2178 of 6 July 2021, which precisely defines the scope of information on sustainable economic activity disclosed by large non-financial enterprises and credit institutions. It specifies in detail the content and presentation of the information disclosed and the deadlines for mandatory disclosures. The act establishes a transitional period (from 1 January 2022 to 31 December 2023) for financial institutions regarding the disclosure of information. During the transitional period, financial institutions shall only disclose information about Taxonomy eligible exposures.

Regulation (EU) 2019/2088 of the European Parliament and of the Council on sustainability-related disclosures in the financial services sector (SFDR) has been in force since 10 March 2021. The regulation defines the scope of disclosures, including information about:

- the adopted strategy regarding risks related to sustainable development for investment decisions,
- negative impact of investment decisions on the factors of sustainable development,
- ensuring consistency of the remuneration policy with the introduction of risks to sustainable development into the business.

In June 2021, the European Banking Authority (EBA) published a report on the management and supervision of environmental, social and governance (ESG) risks for credit institutions and investment firms. The document presents:

- a common definition of ESG-related risks,
- review of assessment methods that are necessary for effective risk management,
- recommendations related to the recognition of ESG-related risks in the business strategy, bank management rules and the risk management process.

Detailed information on how mBank S.A. addresses sustainability issues is described in chapter 12 of the Management Board Report on Performance of mBank S.A. (regarding taxonomy in subchapter 6).

3.2. Principles of risk management

In 2021, in connection with the COVID-19 pandemic and its impact on the economic situation, the Group constantly monitored its 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 policies and the credit risk management process to the economic situation, taking into account the impact of the coronavirus pandemic. An important element of risk management is the consideration of the environmental, social and corporate governance (ESG) impacts on credit development. The result of the ESG risk analysis is taken into account when making a credit decision to grant financing and annually when renewing the customer's PD-rating.

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:

- 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.

Additionally, in the mortgage segment, the bank takes into account the potential reduction in borrower salaries.

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 management culture

The foundations of the risk 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 mBank 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 organizational units of the risk management area, Security and Compliance function, determines framework and guidelines for managing individual risks, supports and supervises Business in their implementation and independently analyses and assesses the risk. 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 supervises the Bank's operations in the area of the risk management system. This includes approving the Risk Management Strategy of the mBank 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 designs, implements and ensures the operation of the risk management system. In particular the Management Board defines and implements 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 establishes the organisational structure of the Bank and allocates tasks and responsibilities to individual organizational units, ensuring the appropriate distribution of roles in the risk management. The Management Board is also responsible for developing, implementing, effectiveness and updating written strategies, policies and procedures for: risk management system, internal capital adequacy assessment process, capital management and capital planning, and internal control system.

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 i.a.: risk policies, risk assessment processes and tools, risk limit system, assessment of the quality and profitability of the portfolio of exposures to clients, approval of introducing new products to the offer.
- **Model Risk Committee** is responsible for supervising the model risk management process, performing an informative, legislative, decision-making and discussion function in this respect.
- **Capital, Assets and Liabilities Committee** is responsible for the systematic monitoring of the balance sheet structure and capital, and the allocation of funds within acceptable risks. Its purpose is to optimize financial result, as well as to shape and allocate capital in a way that maximizes return on equity of the mBank Group.
- **Sustainable Development Committee of mBank Group** is a platform for making decisions, issuing recommendations and dialogue on sustainable development. The Committee shapes, promotes and monitors sustainable development in the mBank Group.
- **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 Deputy Chairman 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.

<u>Material risks in the mBank Group's operations</u>

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

The following risks were recognized as material for the Group as of 31 December 2021: credit risk, market risk, operational risk, business risk (including strategic risk), liquidity risk, compliance risk, reputational risk, model risk, capital risk (including risk of excessive leverage), tax risk and FX loans 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 undergoing concern scenario.

<u>Capital and liquidity buffers</u>

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 a 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

The Group 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 own funds of the institution.

The profitability of core business model of the Group remained high and stable in 2021. The results for 2021 were influenced by extraordinary events, independent from the core business of the Group i.e. recognizing in 2021 costs of legal risk related to the currency loan portfolio in the amount of PLN 2 758 079 thousand.

It should be emphasized that despite the consolidated net loss in 2021 in the amount of PLN 1 178 813 thousand, in accordance with the applicable provisions regarding recovery plans, in particular Article 142(2) of the Banking Law, the prerequisite related to significant deterioration of the financial situation of the Bank and the Group has not been met.

Recovery plan indicators in the areas of liquidity, capital and assets quality demonstrate the stable and robust 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 internal rules. 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 Group with a realistic opportunity to repay receivables. In making a decision about granting a credit risk bearing product, the Group strives to obtain collateral adequate to the accepted risk. The Group 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. Carefully selected, most liquid flats securing retail credits can be valuated using automatically based on historical transactional data.

Each collateral is monitored. Frequency of monitoring depends on the type of collateral and is specified in internal regulations.

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 assessed taking into account the financial 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.

mBank 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.

<u>Collateral accepted for transactions in derivative instruments</u>

mBank 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.

<u>Collaterals accepted by the mBank Group subsidiaries</u>

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. The subsidiary 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, as well as deposits. The company manages the residual value risk based on Eurotax Glass'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, colour 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 instalments 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:

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

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

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

Sub-portfolio	1				2			3		4		5			6	7	8	
PD rating	1.0 – 1.2	1.4	1.6	1.8	2	2.2	2.4 – 2.6	2.8	3	3.2 – 3.4	3.6 – 3.8	4	4.2 – 4.6	4.8	5	5.2 – 5.8	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								Sub-investment 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 the 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 (mLeasing, mBank Hipoteczny), 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/back tests 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 detail in other internal regulations of mBank and other Group subsidiaries. The validated models are those that are directly or indirectly used in the assessment of capital adequacy under the AIRB approach, those directly or indirectly used in the process of calculation of provisions under IFRS 9 and others listed in the Bank's List of Models PZM.

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 detail 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:

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

In the Bank the assignment 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 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 if for each loss-events assigned to debtor, probation period has elapsed and, additionally in case of corporate clients, debtor's assessment carried out after probation period, has not shown that the debtor is unlikely to fully repay its obligations without recourse to realizing security.

Probation period refers to the period in which debtor properly fulfils its obligations, calculated from the moment event leading to loss-event ceases.

Probation period is calculated separately for each loss-event. Probation period is also maintained when the exposure due to which loss-event has occurred has been repaid, written off or sold. Probation period equals:

- for distressed restructuring – 12 months,
- for other loss-events – 3 months.

During probation period, the Bank assesses debtor's credit behaviour, and the exit from probation period depends on proper service.

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:

1. the number of days of delay in paying the amount due is greater than or equal to 31 days, taking into account materiality thresholds:
   a. the absolute threshold refers to the past due exposure amount and amounts to PLN 400 for retail exposures in Polish branch and exposures of Private Banking debtors, registered in corporate systems, CZK 2 500 for retail exposures in the foreign branch of the Bank in the Czech Republic, EUR 100 for retail exposures in the foreign branch of the Bank in Slovakia and PLN 2 000 for exposures in the area of corporate and investment banking,
   b. the relative threshold refers to the ratio of the past due exposure amount to the total balance sheet exposure amount and amounts to 1%,
2. the number of days of delay in paying the amount due of exposure is greater than or equal to 91 days (without materiality thresholds),
3. occurrence of the Forborne performing flag (the client status shows that he or she is experiencing difficulties in repaying the loan commitment, as defined by the Bank),
4. occurrence of the Watch List 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),
5. deterioration of the risk profile of the entire exposure portfolio due to the type of product, industry or distribution channel (for retail customers).

The quantitative criterion of the Transfer Logic is based on a significant deterioration in credit quality, which is assessed on the basis of relative and absolute 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 and exposure characteristics. Where relative and absolute change in long-term PD exceeds “the transition thresholds”, 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 Group applies the LCR criterion to clients from the government and central bank segment with investment grade ratings. The LCR criterion is also applied to clients from segments such as: Banks, Local Government Units and NBFI (Non-Banking Financial Institution). The LCR criteria are 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 of the principal, interest or fees is over 90 days (in the case of exposures to Banks over 14 days). Number of days past due is calculated at the debtor level and commences when both absolute and relative materiality thresholds have been exceeded, where:
    a. absolute threshold refers to the sum of all overdue amounts related to the debtor's liabilities towards the Bank and amounts to PLN 2 000 for corporate and investment banking debtors and PLN 400 for Private Banking debtors registered in corporate systems,
    b. relative threshold refers to the ratio of all overdue amounts related to the debtor's liabilities towards the Bank to the sum of balance sheet exposures related to given debtor and amounts to 1%;
2. the Bank's sale of the credit obligation with material economic loss related to change in creditworthiness of the debtor;
3. the Bank performed distressed restructuring (the materiality threshold from which the Bank considers a diminished financial obligation to be defaulted is 1%);
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. fraud (embezzlement) of the debtor;
8. Bank expecting suffering a loss on the client;
9. occurrence of cross default (till 31.12.2021 inclusive the cross-default rationale was preceded by an expert assessment by analysts).

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

The list of definite loss events in retail portfolio:

1. the number of days past due of the principal, interest or fees is over 90 days. Number of days past due is calculated at the debtor level and commences when both absolute and relative materiality thresholds have been exceeded, where:
    a. absolute threshold refers to the sum of all overdue amounts related to the debtor's liabilities towards the Bank and amounts to PLN 400 for polish branch, CZK 2 500 for the foreign branch of the Bank in the Czech Republic and EUR 100 for the foreign branch of the Bank in Slovakia,
    b. relative threshold refers to the ratio of all overdue amounts related to the debtor's liabilities towards the Bank to the sum of balance sheet exposures related to given debtor and amounts to 1%;
2. the Bank performed distressed restructuring (the materiality threshold from which the Bank considers a diminished financial obligation to be defaulted is 1%);
3. termination of the agreement by the Bank in the event of breach of the loan agreement by the debtor;
4. obtaining information on the submission of a petition for consumer bankruptcy by the debtor, conducting court proceedings in this matter or a judgment by the court of consumer bankruptcy;
5. obtaining information about the submission of an application by the debtor to initiate or to conduct bankruptcy / restructuring proceedings against the debtor, which, in the Bank's opinion, may result in delay or failure to repay the liability;

6. recognition of the contract as fraudulent;
7. the Bank's sale of the credit obligation with material economic loss related to change in creditworthiness of the debtor;
8. uncollectable status of debt;
9. pay-out of low-down payment insurance;
10. occurrence of cross default.

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) or, in the case of the retail portfolio, the minimum horizon of 12-month horizon and horizon to maturity. If the exposure credit risk increased significantly since the initial recognition (exposure is in 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 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 micro companies’ 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 value of exposure and the present value of the estimated future cash flows discounted with the effective interest rate, including the costs of debt collection and collateral enforcement. 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. The 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 Group 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 three 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 three 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,
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 (LtPD, LtEAD, LtLGD). In the estimates the Bank uses, among others, generally available macroeconomic and financial indicators (GDP, employment in the enterprise sector, unemployment rate, level of export/import, salaries, monetary financial institutions receivables from households), 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

In 2021 the following significant modifications were introduced to the models used for determination of expected credit losses:

1. update of macroeconomic variables utilized in models accompanied by recalibration of lifetime PD and transfer logic models, especially taking into account the new recommendation R released by The Polish Financial Supervision Authority (regulations have become effective since 1 January 2022). The total impact of these changes, in the context of the expected credit loss amounted to PLN 64 million (positive impact). Additionally, the impact on fair value valuation of non-mortgage loans portfolio was estimated at PLN 7.5 million (positive impact),
2. implementation of dedicated PD lifetime and LGD lifetime models for specialized lending portfolio as well as modifications in the transfer logic algorithm. The implementation of the above-mentioned models led to the enlargement of the expected credit loss by PLN 101 million (negative impact).

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

Starting from 1 January 2021, Group has implemented the definition of default in line with the EBA guidelines from 18 January 2017 (EBA/GL/2016/07).

The Group maintained its current application of the definition of default at the client level, also for retail banking exposures.

The new definition of default is used consistently both for the purposes of the own funds requirements calculation and for estimating impairment and expected credit loss. In line with supervisory expectations, it also plays a meaningful role in internal credit risk management processes.

On the implementation date of the EBA/GL/2016/07 guidelines, the share of NPL exposure in the loan portfolio decreased. On the consolidated level the NPL_{REG} ratio (ratio calculated according to EBA guideline) decreased by 0.06 pp (from 4.38% as of 31 December 2020 to 4.32% as of 1 January 2021).

The observed direction of changes is a consequence of introducing for mortgage loans portfolio the obligations from paragraphs 95 – 105 EBA guidelines, concerning the treatment of joint credit obligations. The positive effect of using the above-mentioned regulations is balanced with the negative effect of introducing a continuous method of calculating days past due and by lowering the materiality threshold to PLN 400.

In case of the corporate and investment banking portfolio, no material impact of changes to the EBA/GL/2016/07 guidelines on the NPL level. This is due to the fact that the corporate area in the assessment of the default status is mostly based on an expert judgment approach, that identifies probability of default much earlier than being past due more than 90 days. Thus, changes in the calculation of days past due introduced by the guidelines had an immaterial impact on the level of NPL in the corporate area.

The impact of the implementation of the EBA guidelines EBA/GL/2016/07 on the costs of credit risk, recognized by the Group in the profit and loss account amounted to PLN 37.8 million (negative impact).

In addition, from 1 January 2022, a change in the method of marking the cross-default loss event in the area of corporate banking was implemented - there was a switch to automatic marking (expert assessment of analysts was excluded). The change did not have a significant impact on the level of the default portfolio.

3.3.6.2.4. The most important changes resulting from the implementation of Recommendation R

On 15 April 2021, the Polish Financial Supervision Authority (PFSA) issued Recommendation R on the principles of credit exposure classification, estimation and recognition of expected credit losses and credit risk management, which entered into force on 1 January 2022.

The revised Recommendation R is a set of best practices regarding the classification of credit exposures, estimation and recognition of expected credit losses, in accordance with the accounting and credit risk management policies adopted and applicable at banks. The most important adjustments resulting from the content of the Recommendation covered the following areas:

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- definition of default - no need to change the definition of default was identified as part of the adaptation to Recommendation R. The rules of the recommendation influenced the specification of some loss events and the modification of the debt collection process;
- classification into Stages - adjusting the catalogue of criteria of the Transfer Logic algorithm:
  - in terms of quality criteria, the following two elements have been added to the previously used criteria:
    - deterioration of the risk profile of the entire exposure portfolio, due to the type of product, industry or distribution channel - applies to retail banking,
    - a delay in repayment for a given exposure exceeding 90 days from the maturity of a loan / loan instalment – principal, interest or fees, in a situation where the materiality criteria of an overdue credit obligation are not met for a given exposure - applies to retail and corporate banking;
  - in terms of the quantitative criterion, the following changes were made:
    - adjusting the definition of the relative and absolute change of the long-term PD to the requirements of Recommendation R,
    - updating the thresholds of the Transfer Logic, taking into account the long-term perspective (departure from the cyclical recalibration of the thresholds based on the current portfolio data; ensuring the constancy of the thresholds expected by the supervisor throughout the life of the contract by determining the thresholds based on a long-term sample of data),
    - taking into account the model segmentation compliant with the cross-sections suggested in the R recommendation;
- process changes:
  - extending the approval process of expected credit losses to include the Vice President of the Management Board for Risk Management (CRO),
  - increasing the frequency of back tests of expected credit losses and risk parameters up to quarterly.

The most important changes implemented in the scope of expected credit losses and their impact are presented in Note 3.3.6.2.2. The Group does not expect any significant impacts from the changes in 2022.

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 a 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).

<u>Portfolio measured at amortized cost</u>

Sub - portfolio	31.12.2021		31.12.2020	
	Exposure (%)	Provision coverage (%)	Exposure (%)	Provision coverage (%)
1	20.17	0.02	16.46	0.01
2	28.70	0.05	27.46	0.07
3	14.12	0.17	12.79	0.21
4	17.12	0.59	25.79	0.55
5	10.21	2.00	7.44	2.31
6	0.54	4.40	0.42	5.34
7	2.10	7.44	2.29	7.03
8	0.63	0.07	0.58	0.18
Other	3.33	0.04	3.32	0.14
Default category	3.08	54.53	3.45	58.43
Total	**100.00**	**2.21**	**100.00**	**2.56**

As at 31 December 2021, 48.87% 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 2020: 43.92%).

3.3.7. Fair value for credit assets

If the conditions for the measurement of a credit asset at amortised cost (IFRS 9, par. 4.1.2) are not met, then it is measured at fair value through profit and loss or by 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 behavioural 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 application of prepayment factors,
- uncertainty of cash flows resulting from credit risk throughout the forecasted lifetime of the exposure by modification of 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 case of retail exposures the valuation reflected by LGD parameters, and in case of corporate exposures it 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 the Note 2.22. 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 2021 and 2020, the Group did not have any repossessed collaterals that were difficult to sell. As at 31 December 2021, value of repossessed collaterals was PLN 64 613 thousand (31 December 2020: PLN 103 730 thousand) included mainly leasing assets. The value of repossessed collaterals was included in the item inventories (Note 28).

3.3.9. The mBank Group Forbearance Policy

<u>Definition</u>

The mBank Group 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 the 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 the year 2021, the Group continued to offer its clients assistance tools aimed at supporting them in a difficult situation resulting from the ongoing COVID-19 epidemic. The purpose of these tools was to help maintain the financial liquidity of customers by reducing the financial burden in the short term. A detailed description of the support tools, as well as the rules and scale of application can be found in the Note 4.

Risk management

Forbearance measures have been an integral part of the 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:

- the 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 more than 30 days overdue at the end of probation period.

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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 more than 30 days overdue and at the same time the due amount does not exceed PLN 500 at the end of the 2-year probation period.

Portfolio characteristics

	31.12.2021			31.12.2020		
	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	**120 080 864**	**(3 178 110)**	**116 902 754**	**110 513 959**	**(3 640 826)**	**106 873 133**
of which: forborne exposures	1 971 957	(419 194)	1 552 763	2 284 573	(497 959)	1 786 614
of which: defaulted	*1 050 880*	*(383 925)*	*666 955*	*1 044 713*	*(454 351)*	*590 362*
Loans and advances to customers mandatorily at fair value through profit or loss			**1 111 674**			**1 506 319**
of which: forborne exposures			11 991			109 927
of which: defaulted			*7 487*			*97 187*
Forborne exposures, total			**1 564 754**			**1 896 541**
of which: defaulted			*674 442*			*687 549*

Change of carrying value of forborne exposures	31.12.2021	31.12.2020
As at the beginning of the period	**1 896 541**	**1 616 237**
Outflow from forborne exposures	(841 642)	(343 811)
Inflow to forborne exposures	644 181	752 777
Changes in existing exposures	(134 326)	(128 662)
As at the end of the period	**1 564 754**	**1 896 541**

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

Forborne exposures by client segment	31.12.2021	31.12.2020
Loans and advances to customers		
Loans to individuals	861 609	820 285
including: housing and mortgage loans	*562 047*	*593 019*
Loans to corporate clients	703 145	1 076 256
Loans and advances to public sector	-	-
Total	**1 564 754**	**1 896 541**

Forborne exposures by type of assistance	31.12.2021	31.12.2020
Refinancing	123 251	101 739
Modification of terms and conditions	1 441 503	1 794 802
Total	**1 564 754**	**1 896 541**

Forborne exposures by geographical breakdown	31.12.2021	31.12.2020
Poland	1 506 744	1 848 693
Other countries	58 010	47 848
Total	**1 564 754**	**1 896 541**

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Forborne exposures by days past due	31.12.2021	31.12.2020
Not past due	196 632	458 309
Past due less than 30 days	974 417	1 126 249
Past due 31 - 90 days	122 736	65 090
Past due over 90 days	270 969	246 893
Total	**1 564 754**	**1 896 541**

Forborne exposures by industry	31.12.2021	31.12.2020
Individual customers	861 609	820 034
Real estate	222 589	197 431
Professional activities	97 022	25 680
Food sector	79 374	101 992
Construction	78 525	427 707
Wood, furniture and paper products	55 699	54 931
Automotive industry	28 013	38 384
Construction materials	23 468	15 846
Manufacturing	20 870	713
Culture, sports, entertainment	17 787	8 691
Other industries	79 798	205 132
Total	**1 564 754**	**1 896 541**

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:

- 36.28% banks,
- 12.35% central counterparties (CCP),
- 8.34% financial institutions,
- 43.03% corporates, private banking and others.

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

Client type	Credit exposure 2021 (PLN m)	Credit exposure 2020 (PLN m)
Banks with CSA	1 444	1 479
Banks w/o CSA	-	-
CCP	491	354
Corporations with limit	1 712	1 890
Non-Bank Financial Institutions	332	302
Private Banking	-	(1)
Corporations with cash collateral and other customers	1	(13)

**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**
	2021	2020	2021	2020	2021		2020	
NPV***	22.46	86.95	2.07	29.91	11.62	332.08	57.01	345.70
Collateral received (including collateral posted to custodian)	528.85	275.31	-	-	-	100.52	-	67.60
Collateral posted (including collateral posted to custodian)	463.80	175.35	583.31	307.24	-	-	-	-

**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;*
****NPV with initial margin adjustment for banks, CCPs and corporates with CSA*

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 2021 and as at 31 December 2020 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 I,
- 10% of the gross loan corporate portfolio for medium risk sectors but not higher than 50% of Tier I,
- 7% of the gross loan corporate portfolio for high-risk sectors but not higher than 35% of Tier I.

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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 the mBank 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).

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 the mBank Group

No.	Sectors	Gross value 31.12.2021	%	Gross value 31.12.2020	%
1.	Individual customers	72 295 383	60.21%	64 734 776	58.58%
2.	Real estate	6 661 564	5.55%	7 211 368	6.53%
3.	Construction	4 677 025	3.89%	4 843 129	4.38%
4.	Transport and logistics	3 222 142	2.68%	2 758 935	2.50%
5.	Food sector	3 081 562	2.57%	2 869 995	2.60%
6.	Metals	2 593 747	2.16%	2 159 089	1.95%
7.	Construction materials	2 081 422	1.73%	1 908 325	1.73%
8.	Automotive industry	1 943 961	1.62%	1 800 110	1.63%
9.	Chemicals and plastic products	1 930 242	1.61%	1 836 669	1.66%
10.	Financial sector	1 879 984	1.57%	1 668 335	1.51%
11.	Power and heat engineering	1 654 554	1.38%	1 358 741	1.23%
12.	Professional activities	1 619 745	1.35%	1 350 347	1.22%
13.	Wholesale trade	1 548 896	1.29%	1 231 929	1.11%
14.	Retail trade	1 358 529	1.13%	1 332 389	1.21%
15.	Wood, furniture and paper products	1 269 529	1.06%	1 682 940	1.52%
16.	IT	1 143 067	0.95%	1 077 032	0.97%
17.	Fuels	1 071 485	0.89%	757 337	0.69%
18.	Healthcare	997 238	0.83%	778 940	0.70%
19.	Rental and leasing activities	906 910	0.76%	871 694	0.79%
20.	Pharmacy	757 987	0.63%	895 675	0.81%

As at 31 December 2021, the total exposure of the Bank in the above sectors (excluding household customers) amounted to 33.65% of the credit portfolio (31 December 2020 – 34.74%).

The table below presents the risk of limited sectors in mBank as at the end of 2021 and 2020.

No.	Sectors	31.12.2021	31.12.2020
1.	Financial sector	Low	Low
2.	Fuels	n/a*	Medium
3.	Food sector	Medium	Medium
4.	Construction	High	High
5.	Automotive industry	n/a*	n/a*
6.	Metals	Medium	High
7.	Chemistry and materials	n/a*	n/a*
8.	Power	Medium	Medium

*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 2021 and at the end of 2020 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 is defined 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 PFSA Recommendations (among others A, C, G and I) and the EBA guidelines, concerning market risk management.

The fundamental principle applied in the organisation of the market risk management 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 tenor structure for the stable part of savings accounts is modelled.

The VaR and IR BPV measurement results presented later in the report show the perspective including modelling of stable parts of capital and non-maturity products (NMD products).

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 the mBank Group.

<u>Value at Risk</u>

In 2021, the 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	2021				2020			
	mBank Group		mBank		mBank Group		mBank	
	31.12.2021	Mean	31.12.2021	Mean	31.12.2020	Mean	31.12.2020	Mean
VaR IR	16 199	10 693	15 825	11 024	11 332	9 169	11 091	9 365
VaR FX	2 096	3 312	2 095	3 276	2 333	1 478	2 196	1 390
VaR EQ	-	-	-	-	-	-	-	-
VaR CS	86 724	63 057	85 154	61 846	77 291	53 573	76 296	52 497
VaR	**83 808**	**59 744**	**79 934**	**59 744**	**66 246**	**47 259**	**66 191**	**46 512**
Stressed VaR	**139 372**	**155 427**	**136 733**	**153 259**	**154 612**	**134 063**	**152 842**	**130 963**

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 banking and trading book) and positions resulting from interest rate exchange transactions. The increase of VaR value was caused by increased volatility on the financial markets.

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 banking and trading book.

(PLN million)	IR BPV				CS BPV			
	mBank Group		mBank		mBank Group		mBank	
	31.12.2021	31.12.2020	31.12.2021	31.12.2020	31.12.2021	31.12.2020	31.12.2021	31.12.2020
Banking book	1 199	(1 197)	1 302	(1 195)	(11 709)	(13 934)	(11 499)	(13 739)
Trading book	112	(2)	112	(2)	(209)	(205)	(209)	(205)
Total	**1 311**	**(1 199)**	**1 414**	**(1 197)**	**(11 918)**	**(14 139)**	**(11 708)**	**(13 944)**

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 prices 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 2021 the economic capital for market risk for the mBank Group was PLN 1 292.4 million and for mBank was PLN 1 238.7 million. For comparison, at the end of 2020, values of this measure amounted to PLN 1 266.4 million and PLN 1 202.8 million, respectively. The amount of economic capital for market risk in 2021 was determined mainly by the change in the interest rate position. Reversing the interest rate profile and shortening the average maturity of the treasury bonds portfolio resulted in a decrease of this measure, which was neutralized by the increase of the volatility on the financial markets.

3.6. Currency risk

The Group is exposed to changes in currency exchange rates due to other than PLN financial assets and liabilities. The following tables present the exposure of the Group to currency risk as at 31 December 2021 and 31 December 2020. They present carrying amount of assets and liabilities of the Group broken down by currency.

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31.12.2021	PLN	EUR	USD	CHF	CZK	Other	Total
ASSETS							
Cash and cash balances with central banks	8 472 636	3 356 377	75 411	1 029	285 356	11 457	12 202 266
Financial assets held for trading and hedging derivatives	1 277 894	1 293 039	16 052	2	1 719	370	2 589 076
Non-trading financial assets mandatorily at fair value through profit or loss, including:	1 264 660	51 449	100 782	-	300	-	1 417 191
Equity instruments	*222 303*	*1 786*	-	-	*300*	-	*224 389*
Debt securities	-	-	*81 128*	-	-	-	*81 128*
Loans and advances to customers	*1 042 357*	*49 663*	*19 654*	-	-	-	*1 111 674*
Financial assets at fair value through other comprehensive income	35 747 501	150 972	288 845	-	18 741	-	36 206 059
Financial assets at amortised cost, including:	98 417 520	18 500 846	1 349 299	9 390 545	12 510 502	127 826	140 296 538
Debt securities	*16 164 103*	-	-	-	-	-	*16 164 103*
Loans and advances to banks	*286 780*	*940 640*	*209 785*	*1 727*	*5 758 863*	*31 886*	*7 229 681*
Loans and advances to customers	*81 966 637*	*17 560 206*	*1 139 514*	*9 388 818*	*6 751 639*	*95 940*	*116 902 754*
Fair value changes of the hedged items in portfolio hedge of interest rate risk	1 055 478	-	-	-	-	-	1 055 478
Non-current assets and disposal groups classified as held for sale	31 247	-	-	-	-	-	31 247
Intangible assets	1 282 649	12	-	-	1 292	-	1 283 953
Tangible assets	1 507 374	9 090	-	-	25 786	-	1 542 250
Investment properties	127 510	-	-	-	-	-	127 510
Current income tax assets	70	-	-	-	28 077	-	28 147
Deferred income tax assets	1 390 472	-	-	-	1 878	-	1 392 350
Other assets	1 174 160	124 763	2 306	3 716	61 875	-	1 366 820
TOTAL ASSETS	**151 749 171**	**23 486 548**	**1 832 695**	**9 395 292**	**12 935 526**	**139 653**	**199 538 885**
LIABILITIES							
Financial liabilities held for trading and hedging derivatives	821 901	1 174 908	14 055	-	-	318	2 011 182
Financial liabilities measured at amortised cost, including:	126 408 570	29 595 038	4 947 345	6 477 715	11 062 474	857 783	179 348 925
Amounts due to banks	*2 384 266*	*278 109*	*30 087*	*667 062*	-	*34*	*3 359 558*
Amounts due to customers	*119 585 607*	*21 074 487*	*4 917 258*	*2 437 554*	*11 062 474*	*857 749*	*159 935 129*
Debt securities issued	*2 926 950*	*8 242 442*	-	*2 260 390*	-	-	*13 429 782*
Subordinated liabilities	*1 511 747*	-	-	*1 112 709*	-	-	*2 624 456*
Fair value changes of the hedged items in portfolio hedge of interest rate risk	-	-	-	-	110 033	-	110 033
Liabilities included in disposal groups classified as held for sale	7 425	-	-	-	-	-	7 425
Provisions	700 292	4 184	880	105 109	985	5	811 455
Current income tax liabilities	33 288	1 840	-	-	26 782	-	61 910
Deferred income tax liabilities	-	89	-	-	-	-	89
Other liabilities	2 849 250	292 785	204 575	9 267	75 885	38 188	3 469 950
TOTAL LIABILITIES	**130 820 726**	**31 068 844**	**5 166 855**	**6 592 091**	**11 276 159**	**896 294**	**185 820 969**
Net on-balance sheet position	**20 928 445**	**(7 582 296)**	**(3 334 160)**	**2 803 201**	**1 659 367**	**(756 641)**	**13 717 916**
Loan commitments and other commitments	28 533 925	1 922 468	278 099	3	638 255	2 538	31 375 288
Guarantees, banker's acceptances, documentary and commercial letters of credit	4 956 447	1 503 796	493 112	146	1 839	33 201	6 988 541

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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	12 665 627	11 461 886	127 930	130 179 902
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*	*12 664 172*	*5 150 141*	*87 832*	*106 873 133*
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**	**12 726 870**	**11 957 814**	**163 698**	**178 871 617**
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	454 238	43 365	1 972	883	1 152	81	501 691
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	**112 149 901**	**28 212 602**	**5 213 474**	**6 183 055**	**9 728 528**	**708 990**	**162 196 550**
Net on-balance sheet position	**21 340 618**	**(9 014 610)**	**(3 878 750)**	**6 543 815**	**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

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 identification, 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 (PFSA), in particular Recommendation G, and EBA guidelines (EBA/GL/2018/02) the Bank monitors the banking book structure in terms of repricing risk, basis risk, yield curve risk and customer option risk.

The basic measures of interest rate risk 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 (SOT).

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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, delta NII limit, SOT, limits for market risk - imposed on Value at Risk (VaR), stress tests as well as IR 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 and upper clients interest rate changes resulting from legal provisions;
- behavioural options including deposit termination and loan prepayments are calculated on the basis of the historical average.

In addition, the Bank calculates monthly 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, the Bank takes into account the risk of partial or total early repayment of the loan before its maturity/ withdrawal of funds from term accounts before their maturity. The prepayment/withdrawal algorithm used is based on the historical average and its result is the annual prepayment rate/deposits withdrawal rate by major currencies (PLN, CHF, EUR, CZK) and the portfolio of retail and corporate clients. As at 31 December 2021, the percentage annual prepayments estimated for the purposes of the above-mentioned risk measures were as follows: retail clients (8%), corporate clients (10%) (31 December 2020, accordingly: 9% and 18%).

The Bank aims at stabilization of the net interest income (NII) and optimisation of profit and loss and EVE changes within the accepted risk appetite.

As at 31 December 2021 and 31 December 2020, 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**	
	31.12.2021	**31.12.2020**	**31.12.2021**	**31.12.2020**
Sudden parallel increase of 200 bp	598 194	284 008	(398 397)	(880 873)
Sudden parallel decrease by 200 bp	(1 371 483)	(862 460)	425 964	974 577
Parallel shock up	575 424	279 017	(513 194)	(893 384)
Parallel shock down	(1 728 614)	(1 054 944)	552 547	986 934
More steep shock	(1 123 731)	(565 329)	87 539	33 025
More flat shock	166 404	(156 800)	(187 360)	(181 862)
Short term rates shock up	324 095	(67 690)	(349 279)	(439 965)
Short term rates shock down	(2 026 454)	(969 131)	364 488	174 392
Maximum	(2 026 454)	(1 054 944)	(513 194)	(893 384)
Tier I Capital	13 552 027	15 046 912	13 552 027	15 046 912

	Δ NII*	
	31.12.2021	**31.12.2020**
Parallel up by 100 bp	**351 795**	**153 348**
- PLN	192 007	37 971
- USD	33 153	1 375
- EUR	78 538	80 871
- CHF	14 439	15 810
- CZK	33 528	17 143
- others	130	178
Parallel down by 100 bp	**(715 290)**	**(537 950)**
- PLN	(509 030)	(384 436)
- USD	(38 009)	(9 662)
- EUR	(112 241)	(107 288)
- CHF	2 389	18 254
- CZK	(51 239)	(54 034)
- others	(7 160)	(784)

**- measure calculated at mBank level.*

The increase in delta NII and the decrease in delta EVE in most scenarios result from the adjustment of the Bank's position to the market situation. Taking into account the expected growth of the inflation, the interest rate increases planned by the Monetary Policy Council and the expected market interest rates, at the end of 2021 the Bank kept a much larger part of its assets in instruments with a variable interest rate. Moreover, the sensitivity of delta NII was influenced by the updated assumptions concerning the pricing policy of deposit accounts. This measure is calculated taking into account specific methodological assumptions, including balance sheet stability, historical margins for rolled products, price elasticity, adequate in a given market situation, which means that measure should not be treated as a forecast of the net interest income, but a sensitivity measure for a given moment in certain conditions.

Changes of delta NII and delta EVE were caused also by increase of balance sheet total which was observed between 2020 and 2021.

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)	**31.12.2021**	**31.12.2020**
for position in PLN	5 115	8 965
for position in USD	41	42
for position in EUR	91	546

To calculate these values, there was assumed that the structure of financial assets and liabilities disclosed in the financial statements as at 31 December 2021 and 31 December 2020 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 million at the end of 2021 and 2020).

The table below presents VaR values as at 31 December 2021 and 31 December 2020, calculated using the parameters specified above.

PLN 000's	VaR	
	31.12.2021	31.12.2020
Interest rate risk	165	35
Currency risk	32	62
Total VaR	**171**	**97**

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.

31.12.2021	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	3 358 985	-	-	-	-	8 843 281	**12 202 266**
Loans and advances to banks	7 031 001	84 178	114 497	-	-	5	**7 229 681**
Debt and equity securities and investments in subsidiaries	10 893 068	1 731 419	12 159 580	22 746 304	5 522 422	219 508	**53 272 301**
Loans and advances to customers	63 980 055	42 514 658	3 040 821	7 654 434	464 901	399 985	**118 054 854**
Other assets and derivative financial instruments	152 212	146 010	63 605	78 458	9 360	2 869 203	**3 318 848**
Total assets	**85 415 321**	**44 476 265**	**15 378 503**	**30 479 196**	**5 996 683**	**12 331 982**	**194 077 950**
LIABILITIES							
Amounts due to banks	2 625 925	559 921	170 353	-	-	3 359	**3 359 558**
Amounts due to customers	150 938 236	3 321 794	1 715 174	2 663 625	1 627	1 294 673	**159 935 129**
Debt securities issued	764 879	2 834 964	3 856 656	4 633 291	1 339 992	-	**13 429 782**
Subordinated liabilities	758 076	1 112 710	753 670	-	-	-	**2 624 456**
Other liabilities and derivative financial instruments	255 909	127 668	112 698	135 706	19 190	4 745 187	**5 396 358**
Total liabilities	**155 343 025**	**7 957 057**	**6 608 551**	**7 432 622**	**1 360 809**	**6 043 219**	**184 745 283**
Total interest repricing gap	**(69 927 704)**	**36 519 208**	**8 769 952**	**23 046 574**	**4 635 874**		

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	34 216 277	2 469 520	5 193 314	298 243	307 568	**108 567 354**
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**	**39 973 095**	**21 603 124**	**23 527 701**	**7 084 989**	**5 659 747**	**175 300 505**
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)**	**30 790 545**	**14 827 889**	**14 831 860**	**6 007 484**		

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 can also arise from off-balance sheet commitments.

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 new 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 2021, the liquidity situation was monitored and remained on a very high level. This year was a continuation of the year 2020 in terms of economic conditions (COVID-19 pandemic), which resulted in a significant increase in balances on customer accounts with a twice lower increase in the dynamics of lending. This situation had a direct impact on the strengthening of the liquidity position.

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 2021, 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 since 30 April 2020 and Commission Implementing Regulation (EU) 2021/451 of 17 December 2020 the Bank calculates the supervisory liquidity measures. In 2021 and in 2020, the supervisory limits were not exceeded. Moreover, the Bank conducts an in-depth analysis of long-term liquidity and sets internal limits (management action triggers) on involvement in long-term assets. Internal limits and appropriate buffers are also imposed on supervisory measures. Relevant analysis of the stability and structure of the funding sources, including the core and concentration level of term deposits and current accounts are performed. Additionally the Bank analyses the volatility of balance sheet and off-balance sheet items, in particular open credit line facilities and current accounts and overdrafts limits utilisation.

The ongoing analysis covers liquidity under normal and 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 stress, market stress 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 the Czech National Bank in CZK and debt securities issued by the European Investment Bank in PLN.

Values of these reserves amounted to:

Value of liquidity reserves (in PLN million)	
31.12.2021	**31.12.2020**
54 097	51 088

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)	
31.12.2021	**31.12.2020**
750	785

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.

The following measures are reported weekly:

- early warning indicators (EWI),
- recovery indicators.

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 Capital, Assets and Liabilities Committee of the mBank Group (CALCO).

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 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 - 31.12.2021		gap LAB Base Case - 31.12.2020	
	bucket	cumulative	bucket	cumulative
up to 1 working day	33 864	33 864	22 968	22 968
up to 3 working days	2 267	36 131	3 038	26 006
up to 7 calendar days	515	36 646	(124)	25 882
up to 15 calendar days	(1 476)	35 170	398	26 280
up to 1 month	(1 795)	33 375	1 294	27 574
up to 2 months	(775)	32 600	3 021	30 595
up to 3 months	(502)	32 098	(184)	30 411
up to 4 months	(158)	31 940	195	30 606
up to 5 months	(531)	31 409	195	30 801
up to 6 months	(264)	31 145	(91)	30 710
up to 7 months	(260)	30 885	60	30 770
up to 8 months	(475)	30 410	265	31 035
up to 9 months	(2 462)	27 948	(117)	30 918
up to 10 months	(850)	27 098	(196)	30 722
up to 11 months	(987)	26 111	(528)	30 194
up to 12 months	(1 148)	24 963	(2 608)	27 586

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 22.1 billion - the exchange rate of 31 December 2021 was used in calculation) had a positive impact on the level of liquidity gap, exceeding the dynamics of the development of lending activities (PLN 7.0 billion - the exchange rate of 31 December 2021 was used in calculation). As at 31 December 2020 PLN 20.4 billion and PLN 3.2 billion respectively.

The Bank has a limited number of transactions with rating downgrade trigger clauses, which require the Bank to provide additional security or to prepay outstanding obligations if Banks's credit rating deteriorates. The amount of the maximum liability resulting therefrom, in the event that the Bank's rating is downgraded to BB+ or lower by two rating agencies, as at the 31 of December 2021, amounted to CHF 314 million (CHF 314 million as of 31 December 2020). However, this potential liability is not unconditional. Contract clauses do not preclude the parties from agreeing the amount, form and timing of additional security on a case-by-case basis.

In 2021 and 2020 the Bank's liquidity remained at a safe level which was reflected in surplus of liquid assets over short-term liabilities according to LAB in various scenarios and supervisory liquidity measures.

LAB cash flows gaps mismatch in terms up to 1 month and up to 1 year within 2021 and 2020 and values of regulatory measures LCR and NSFR are presented in the following table:

	31.12.2021	31.12.2020
LAB Base Case 1M	33 375	27 574
LAB Base Case 1Y	24 963	27 586
LCR	203%	202%
NSFR	152%	-

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

The LCR and NSFR regulatory measures 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 2020 to the end of 2021 the L/D ratio slightly changed from 70.3% to 66.3% for the Bank and from 78.8% to 74.0% 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 29). The loans and issuances together with subordinated loans (Note 29) are the core funding source for the portfolio of mortgage loans in CHF. According to the cessation of granting new mortgage loans in CHF, Bank's receivables in this currency have been decreasing successively along with loans repayments.

In the third quarter of 2021, mBank has issued green senior nonpreferred bonds (NPS) of nominal worth EUR 500 million, qualifying for the MREL index, refinancing maturing unsecured bonds of EUR 428 million, which the bank redeemed on the 26th of November 2021.

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.

The financing strategy is based on the following assumptions:

- diversifying sources and timing of financing,
- maintaining safe regulatory levels and internal liquidity measures,
- stable increase in transaction deposits,
- incurring liabilities eligible for the MREL indicator,
- maintaining the issuing capacity of mBank Hipoteczny, but with the Bank's greater involvement in financing the subsidiary by purchasing its covered bonds,
- increasing financial independence from the majority shareholder.

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 (mBank Hipoteczny 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 - 31.12.2021		gap LAB Base Case - 31.12.2020	
	bucket	cumulative	bucket	cumulative
up to 1 working day	35 454	35 454	24 870	24 870
up to 3 working days	2 335	37 789	3 051	27 921
up to 7 calendar days	580	38 369	(171)	27 750
up to 15 calendar days	(1 616)	36 753	423	28 173
up to 1 month	(1 646)	35 107	1 509	29 682
up to 2 months	(636)	34 471	3 231	32 913
up to 3 months	(213)	34 258	(257)	32 656
up to 4 months	(390)	33 868	324	32 980
up to 5 months	(474)	33 394	324	33 304
up to 6 months	(765)	32 629	(36)	33 268
up to 7 months	(564)	32 065	(296)	32 972
up to 8 months	(314)	31 751	430	33 402
up to 9 months	(2 860)	28 891	15	33 417
up to 10 months	(711)	28 180	(419)	32 998
up to 11 months	(803)	27 377	(349)	32 649
up to 12 months	(1 077)	26 300	(2 481)	30 168

LAB gaps mismatch in terms up to 1 month and up to 1 year within 2021 and 2020 and supervisory liquidity measure LCR on Group level are presented in the following table:

	31.12.2021	31.12.2020
LAB Base Case 1M	35 107	29 682
LAB Base Case 1Y	26 300	30 168
LCR Group	216%	218%
NSFR Group	149%	-

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

For other subsidiaries, due to lower total assets and simpler 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.

31.12.2021	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Amounts due to banks	2 677 736	561 539	171 634	5	-	**3 410 914**
Amounts due to customers	152 136 946	3 823 474	1 809 378	1 589 602	605 897	**159 965 297**
Debt securities issued	208 191	332 061	4 451 285	9 620 700	324 018	**14 936 255**
Subordinated liabilities	21 385	5 479	41 832	948 576	1 931 767	**2 949 039**
Other liabilities	2 219 224	8 699	136	224	-	**2 228 283**
Total liabilities	**157 263 482**	**4 731 252**	**6 474 265**	**12 159 107**	**2 861 682**	**183 489 788**
Total assets	**34 265 728**	**6 551 546**	**29 971 815**	**83 215 352**	**76 078 496**	**230 082 937**
Net liquidity gap	**(122 997 754)**	**1 820 294**	**23 497 550**	**71 056 245**	**73 216 814**	**46 593 149**

31.12.2020	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Amounts due to banks	2 485 433	-	-	-	-	**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**
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**

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 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 assets backed securities.

Lease liabilities by maturity dates (undiscounted) are presented in the Note 29.

Remaining contractual maturities for guarantees issued are presented in the Note 35.

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3.8.2. Cash flows from derivatives

Derivative financial instruments settled on a net basis

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

- forward Rate Agreements (FRA),
- options,
- warrants,
- overnight index swaps (OIS)
- interest rate swaps (IRS),
- cross currency interest rate swaps (CIRS),
- commodity swaps,
- bonds forwards,
- commodity forwards,
- CO_2 emission forwards.

In the Group financial instruments for commodities are concluded back-to-back and till 2019 were insignificant from the liquidity risk perspective.

The table below shows derivative financial liabilities of the Group, the valuation of which was negative as of end of 2021 and 2020. Cash flows from these instruments are grouped by appropriate remaining maturities as at the balance sheet date and are presented in undiscounted values.

31.12.2021	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Forward Rate Agreements (FRA)	10 523	9 284	23 322	687	-	**43 816**
Overnight Index Swap (OIS)	944	5 243	(14 568)	(7 110)	4 004	**(11 487)**
Interest Rate Swaps (IRS)	33 614	212 177	1 853 907	6 016 108	339 724	**8 455 530**
Cross Currency Interest Rate Swaps (CIRS)	(3 532)	(1 612)	26 245	5 116	1 087	**27 304**
Options	32	336	(14 192)	(10 391)	(448)	**(24 663)**
Other	2 495	26 753	25 247	2 446	-	**56 941**
Total derivatives settled on a net basis	**44 076**	**252 181**	**1 899 961**	**6 006 856**	**344 367**	**8 547 441**

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**

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 are settled on a gross basis, grouped by appropriate remaining maturities as at the balance sheet date.

31.12.2021	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Currency derivatives:						
- outflows	20 651 873	9 887 238	9 148 596	4 478 284	-	**44 165 991**
- inflows	20 627 103	9 854 123	9 155 092	4 420 085	-	**44 056 403**

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**

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 35.

3.9. Operational risk

Operational risk is understood as the possibility of a loss resulting from inadequate or failed internal processes, people and systems or from external events, including also legal risk.

It is comprehensive in nature, which may have a significant impact on the Bank's operations and standing. Apart from the environment and external events, its source may be the Bank itself. Due to their dynamic nature, external and internal factors influencing operational risk are subject to constant analysis.

According to the Risk Catalogue of the mBank Group, operational risk includes in particular:

- legal risk,
- conduct risk ("conduct risk"),
- IT risk,
- risk of cyber threats,
- risk of external fraud,
- risk of internal fraud,
- outsourcing risk,
- personnel and organizational risk,
- physical security risk,
- the risk of errors in implementation, delivery and process management.

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 the 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. When deciding on the acceptable level of operational risk, the following analysis is considered: costs vs. benefits.

Due to the dynamics of changes in factors affecting operational risk, the key elements of the risk management process are identification, assessment, control and monitoring of the effectiveness of risk reduction, counteracting the materialisation of operational risk and reporting.

The basic tools used to identify, assess and monitor risk include:

1. Self-Assessment of Operational Risk Management Effectiveness, which is performed by organizational units of the Bank and the Group companies. The purpose of this process is to ensure the risk identification and assessment and appropriate modifications. In addition, it supports the communication process about the need to change and improve control processes.
2. The Register of Operating Losses is a database of losses resulting from operational events that arise. mBank also uses access to external databases on operational losses and uses them to analyse operational risk and potential threats to which institutions operating in the financial sector are exposed.
3. The key risk indicators KRI and risk indicators RI support the ongoing monitoring of risk. The process makes it possible to predict in advance the occurrence of an increased level of operational risk and to react appropriately by organizational units in order to avoid the occurrence of operational events and losses.
4. Operational risk scenarios that describe the risks associated with the occurrence of rare but potentially very severe operational risk events.
5. Providing opinions on products before the implementation of a new or modified product offer and the impact of the outsourcing agreement on the operational risk profile.

Some tools support several stages of the operational risk management process.

The mBank Group has a system of regular monitoring of operational events and warning signals coming from the tools, which enables the monitoring of the operational risk profile and ensures regular remedial actions, at the level of the Management Board and Supervisory Board.

Regular monitoring allows the Group to quickly detect weaknesses in the risk management system. Thanks to the identification and analysis of the circumstances related to the recorded event and the operational loss, the Group can better understand the reasons for the occurrence of an operational event and adequately prevent their repetition also in other areas of the organization.

The Bank also places great emphasis on monitoring operational risk and reacting appropriately to emerging potential threats. Timely monitoring of processes is to help early identify negative trends that may lead to significant material losses in the Bank.

Operational losses

In 2021, as part of operational risk management, the mBank Group faces in particular losses connected with legal risk related to the foreign currency loan portfolio, cyber threats and external fraud.

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) external fraud and (ii) clients, products and business practices.

The following table presents the distribution of actual gross losses by operational risk category, incurred by the mBank Group in 2021 and 2020.

Operational risk category	Total gross losses (in PLN thousand)	
	2021	2020
External fraud	20 493	14 343
Clients, products and business practices for foreign currency loans	2 781 503	1 021 714
Clients, products and business practices, excluding foreign currency loans	64 238	46 835
Implementation, delivery and process management	4 350	9 760
Other	6 395	14 021
Total	**2 876 979**	**1 106 673**

The high share of losses in the "Clients, products and business practices" category in 2021 was mainly due to incurred costs of legal risk provisions related to mortgage and housing loans granted to individual customers in CHF. Detailed information on this issue is presented in Note 34.

The level of operational risk losses is monitored on an ongoing basis and regularly reported to the Bank's Management Board, the Bank's Supervisory Board and to the committees of the Business and Risk Forum. There are escalation mechanisms in the mBank Group when the operational loss thresholds are exceeded. They ensure an appropriate analysis of operational events and trigger corrective actions. Information on an event for which the effect or the sum of realized or unrealized effects in the amount of PLN 1 million and higher is reported to Vice President of the Management Board for Risk Management and Internal Audit Department.

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 among others:

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. 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 the mBank Group.

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

- verification of the planned data within planning process,
- 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 the mBank Group.

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

Reputation risk can be secondary to other types of risk, such as credit, market, liquidity and operational risks. Reputation risk is also a primary risk when it arises directly from an ethically, environmentally or socially controversial activity. This risk is identified, measured and monitored.

To monitor and manage reputation risk, the Group uses various tools and methods:

- implementation of policies and regulations in the area of compliance, security, human and employee rights as well as services for industries and areas sensitive to the reputation risk of the Bank,
- reputation risk assessment based on negative publications,
- customer satisfaction analysis,
- employee satisfaction research,
- employer brand research,
- crisis management,
- reputation risk analysis when implementing new and modifying existing products,
- analysis of customer complaints,
- building awareness in the area of compliance,
- analysis of violations of employee rights and other rules of the bank's operation.

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 the mBank Group.

The capital management in the 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 the mBank Group. This is supported by stress test analyses, which – among others – are based on scenarios of macro environment change, 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 the mBank Group is provided in Note 47.

3.14. FX loans portfolio risk

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

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

This risk relates to the possibility of realizing losses resulting from court decisions unfavourable 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 favourable to the Bank.

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 legal risk costs related to loans in foreign currencies,
- cooperation and communication with external institutions on indexed loans.

More information on legal risk related to mortgage and housing loans granted to individual customers in CHF is included in the Note 34.

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

3.15. Tax risk

The purpose of the tax risk management (process) is effective and safe performance of all obligations provided for by the tax law. Therefore, 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:

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

3.16. Fair value of assets and liabilities

Fair value is the price that would be received 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

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.

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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.

	31.12.2021		31.12.2020	
	Carrying value	Fair value	Carrying value	Fair value
Financial assets at amortised cost				
Debt securities	**16 164 103**	**14 890 079**	**15 952 501**	**16 445 401**
Loans and advances to banks	**7 229 681**	**7 227 533**	**7 354 268**	**7 347 513**
Loans and advances to customers, including:	**116 902 754**	**117 116 749**	**106 873 133**	**107 694 550**
Loans and advances to individuals	**70 391 454**	**71 630 064**	**62 929 892**	**64 818 035**
Current accounts	7 252 733	7 488 229	6 807 188	6 948 249
Term loans	62 752 303	63 755 417	55 831 484	57 578 566
Other	386 418	386 418	291 220	291 220
Loans and advances to corporate entities	**46 359 179**	**45 333 802**	**43 713 672**	**42 641 296**
Current accounts	5 135 475	4 996 982	4 105 526	3 989 429
Term loans, including finance lease	37 423 062	36 747 140	37 016 811	36 060 532
Reverse repo or buy/sell back transactions	187 630	187 630	103 832	103 832
Other loans and advances	3 599 368	3 388 406	2 471 122	2 471 122
Other	13 644	13 644	16 381	16 381
Loans and advances to public sector	**152 121**	**152 883**	**229 569**	**235 219**
Financial liabilities at amortised cost				
Amounts due to other banks	**3 359 558**	**3 359 558**	**2 399 740**	**2 399 740**
Amounts due to customers	**159 935 129**	**159 918 070**	**137 698 668**	**137 726 122**
Debt securities issued	**13 429 782**	**13 518 622**	**13 996 317**	**14 172 566**
Subordinated liabilities	**2 624 456**	**2 616 703**	**2 578 327**	**2 552 098**

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

<u>Loans and advances to banks and loans and advances to customers</u>

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.

<u>Financial liabilities</u>

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.

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In the 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 2021 and 31 December 2020.

31.12.2021	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	14 890 079	12 100 420	-	2 789 659
Loans and advances to banks	7 227 533	-	-	7 227 533
Loans and advances to customers	117 116 749	-	-	117 116 749
FINANCIAL LIABILITIES				
Amounts due to banks	3 359 558	-	-	3 359 558
Amounts due to customers	159 918 070	-	2 812 699	157 105 371
Debt securities issued	13 518 622	6 673 840	-	6 844 782
Subordinated liabilities	2 616 703	-	2 616 703	-
Total financial assets	**139 234 361**	**12 100 420**	**-**	**127 133 941**
Total financial liabilities	**179 412 953**	**6 673 840**	**5 429 402**	**167 309 711**

31.12.2020	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	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	107 694 550	-	-	107 694 550
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	**131 487 464**	**13 395 856**	**-**	**118 091 608**
Total financial liabilities	**156 850 526**	**6 369 433**	**6 848 369**	**143 632 724**

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 29). 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 29). 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:

- 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;
- 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;
- 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;
- 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 and investment properties

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

31.12.2021	Including:	Level 1	Level 2	Level 3
		Quoted prices in active markets	Valuation techniques based on observable market data	Other valuation techniques
RECURRING FAIR VALUE MEASUREMENTS				
Financial assets				
Financial assets held for trading and hedging derivatives	**2 589 076**	**248 906**	**1 859 785**	**480 385**
Loans and advances to customers	40 426	-	-	40 426
Debt securities	596 622	248 906	-	347 716
Derivative financial instruments, including:	1 952 028	-	1 859 785	92 243
Derivative financial instruments held for trading	2 065 733	-	2 065 733	-
Hedging derivative financial instruments	338 598	-	246 355	92 243
Offsetting effect	(452 303)	-	(452 303)	-
Non-trading financial assets mandatorily at fair value through profit or loss	**1 417 191**	**870**	**-**	**1 416 321**
Loans and advances to customers	1 111 674	-	-	1 111 674
Debt securities	81 128	-	-	81 128
Equity securities	224 389	870	-	223 519
Financial assets at fair value through other comprehensive income	**36 206 059**	**26 721 005**	**8 495 243**	**989 811**
Debt securities	36 206 059	26 721 005	8 495 243	989 811
Total financial assets	**40 212 326**	**26 970 781**	**10 355 028**	**2 886 517**
Investment properties	**127 510**	**-**	**-**	**127 510**
Financial liabilities				
Derivative financial instruments, including:	1 926 408	-	1 926 408	-
Derivative financial instruments held for trading	2 238 744	-	2 238 744	-
Hedging derivative financial instruments	1 598 547	-	1 598 547	-
Offsetting effect	(1 910 883)	-	(1 910 883)	-
Liabilities from short sale of securities	84 774	84 774	-	-
Total financial liabilities	**2 011 182**	**84 774**	**1 926 408**	**-**

Assets and liabilities measured at fair value and investment properties based on Level 3 - changes from 1 January to 31 December 2021	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	Investment properties
As at the beginning of the period	**309 949**	**121 029**	**76 068**	**201 344**	**990 351**	**-**
Gains and losses for the period:	**9 802**	**(28 786)**	**5 060**	**10 621**	**(63 745)**	**14 118**
Recognised in profit or loss:	9 802	(6 950)	5 060	10 621	-	-
Net trading income	*9 802*	*(6 950)*	*6 196*	-	-	-
Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss	-	-	*(1 136)*	*11 181*	-	-
Gains or losses on subsidiaries and associates	-	-	-	*(560)*	-	-
Recognised in other comprehensive income:	-	(21 836)	-	-	(63 745)	14 118
Financial assets at fair value through other comprehensive income	-	-	-	-	*(63 745)*	*14 118*
Cash flow hedges	-	*(21 836)*	-	-	-	-
Purchases	2 137 931	-	-	15 904	862 018	-
Redemptions	(203 272)	-	-	-	(350 316)	-
Sales	(6 824 070)	-	-	(4 350)	(2 049 780)	-
Issues	4 917 376	-	-		1 601 283	-
Transfer from other positions of financial statements	-	-	-	-	-	113 392
As at the end of the period	**347 716**	**92 243**	**81 128**	**223 519**	**989 811**	**127 510**

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31.12.2020	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	**2 586 721**	**366 517**	**1 601 324**	**618 880**
Loans and advances to customers	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 customers	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	Trading debt 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**

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

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

Level 1

As at 31 December 2021, 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 248 906 thousand (Note 20) and the fair value of government bonds at fair value through other comprehensive income in the amount of PLN 25 218 009 thousand (31 December 2020 respectively: PLN 366 517 thousand and PLN 33 141 490 thousand). Level 1 includes the fair value of corporate bonds in the amount of PLN 1 502 996 thousand (31 December 2020: PLN 1 181 224 thousand).

In addition, as at 31 December 2021 Level 1 includes the value of the registered preferred shares of Giełda Papierów Wartościowych in the amount of PLN 870 thousand (31 December 2020: PLN 960 thousand).

As at 31 December 2021 Level 1 also includes liabilities from short sale of securities in the amount of PLN 84 774 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 2021 Level 2 of the fair value hierarchy includes the fair values of bills issued by NBP in the amount of PLN 8 495 243 thousand (31 December 2020: PLN 184 996 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).

Level 3

As at 31 December 2021 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 1 384 984 thousand (31 December 2020: PLN 1 340 033 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 2021 Level 3 includes also the fair value of local government bonds in the amount of PLN 33 671 thousand (31 December 2020: PLN 36 335 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 2021 includes the value of loans and advances to customers in the amount of PLN 1 152 100 thousand (31 December 2020: PLN 1 694 221 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 2021 Level 3 covers mainly the fair value of equity securities amounting to PLN 223 519 thousand (31 December 2020: PLN 201 344 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.

As at 31 December 2021 Level 3 also includes fair value of investment property in the amount of PLN 127 510 thousand. The value of the property was estimated by a property appraiser entered in the Central Register of Property Appraisers kept by the Minister of Development and Technology. The property was valued using the income method. The key unobservable parameter used in the model is the capitalization rate of 9.28% used to discount cash flows.

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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 2021, the valuation of these contracts was positive (assets) and amounted to PLN 92 243 thousand (as at 31 December 2020 the valuation was also positive and amounted to PLN 121 029 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 31.12.2021	Sensitivity to change of unobservable parameter		Description
		(-)	(+)	
Corporate debt securities measured at fair value through other comprehensive income	989 811	(22 043)	22 043	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 (+).
Corporate debt securities measured at fair value through profit or loss	347 716	(7 879)	7 879	
Loans and advances to customers held for trading	40 426	(761)	743	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	1 111 674	(15 630)	16 159	

Portfolio	Fair value 31.12.2020	Sensitivity to change of unobservable parameter		Description
		(-)	(+)	
Corporate 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 (+).
Corporate 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	

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.

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

Detailed information on the impact of legal risk related to CHF mortgage and housing loans is provided in Note 34.

Impairment of loans and advances

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 flows attached to the loan portfolio. The methodology and the assumptions, on the basis of which the estimated cash flow amounts and their anticipated timing are determined, are regularly verified. If the current value of estimated cash flows (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 61.6 million or increase by PLN 71.2 million as at 31 December 2021, respectively (as at 31 December 2020: PLN 57.6 million and PLN 64.2 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.

In 2021 the Group introduced a new dedicated model, which is used to determine expected credit risk loss, for specialised lending portfolio for mBank and mLeasing. The Group included the effect of implementation in the amount of PLN 101 million in the income statement for 2021.

COVID-19 pandemic impact on the mBank Group operations

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

In the year 2021, the Group continued to offer its clients assistance tools aimed at supporting them in a difficult situation resulting from the ongoing COVID-19 epidemic. The purpose of these tools was to help maintain the financial liquidity of customers by reducing the financial burden in the short term. However in the year 2021, the scale of submitted support applications was significantly lower than in 2020. This was mainly due to stricter eligibility conditions for customers under non-legislative, sector solutions, as well as adjustment of the clients` business model to a new, pandemic economic environment.

The supporting measures offered by the Group till the end of March 2021, were in line with the banks' position regarding the unification of the rules for offering supporting measures in the banking sector. This position was in substance 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 COVID-19 moratoria in Poland covered supporting instruments granted from 13 March 2020 to 30 September 2020 and afterwards – from 18 January 2021 to 31 March 2021 – supporting instruments dedicated to businesses representing sectors which suffered most due to COVID-19 pandemic.

The COVID-19 moratoria in the Czech Republic covered supporting instruments granted from 1 April 2020 to 31 October 2020 and in Slovakia from 1 April 2020 to 31 March 2021.

<u>The moratoria reopened in Poland in January 2021 and in Retail Banking area</u> were offered by the Group for SME operating in sectors especially hit by pandemic, mentioned in PFR Financial Shield 2.0 program regulations. It enabled changes in the schedule of payments by suspending the payments of principal amounts or full instalments for the limited period up to 9 months, including the moratorium periods granted in 2020, 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. industry registration, no delay in payment of more than one instalment, at least 6-month repayment history, contract date before 13 March 2020).

While deferring the repayment of the principal part of the loan instalment the sum of the principal amount remaining after the grace period is divided according to the algorithm (equal or decreasing instalments - according to the credit agreement) for the residual maturity period. The extension of the loan period translates into lower instalments 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 instalments are spread out proportionally over the outstanding period after the suspension period.

In Poland the Group also offers to retail clients support under so-called Crisis Shield 4.0, effective from 23 June 2020. The customers who lost their job or another major source of income after 13 March 2020, have the right to suspend the loan repayment for up to 3 months without being charged 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 still not significant.

<u>The moratoria offered by the Group in Corporate Banking area</u>, were based on EBA reactivated guidelines on legislative and non-legislative moratoria on loan repayments applied due to another wave of COVID-19 pandemic. This regulation was renewed by EBA on 2 December 2020. In spite of EBA actions, Polish Bank Association (ZBP) decided to resume the non-legislative moratorium and offered supporting instruments from 18 January to 31 March 2021. The renewed moratorium was notified by the EBA through UKNF (the Polish Financial Supervision Authority), but its scale is significantly reduced than that of the first moratoria.

Aid granted in relation to reactivated moratorium was limited only to clients operating in the sectors most affected by the COVID-19 pandemics, that is industries covered by the PFR Financial Shield (according to the PKD classification) or operating in the field of renting space in commercial facilities, including retail parks with the area of more than 2000 square meters. The remaining criteria qualifying clients to assistance were similar to the rules applicable under the first moratorium, that means they only applied to loans granted before 13 March 2020 and only for client who as of 31 December 2020 were not classified as default, were not subject to bankruptcy, restructuring, liquidation or enforcement proceedings and till 31 March 2021 submitted an application on changing terms of financing.

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The supporting measures offered by the Group consisted in suspending principal amounts up to 9 months in total (taking into account the earlier period of support granted under the first moratorium) or extending revolving financing up to 9 months in total. In the case of small and medium-sized enterprises the Group also offered the possibility of suspending full instalments for up to 6 months in total.

The amount of suspended principal part of instalments increases the last loan instalment. Concerning the suspension of both principal and interest part of instalments, the amount of suspended principal increased the last loan instalment, while the amount of suspended interest was added to subsequent interest instalments payable after the deferral period (that correspond to the number of deferred instalments). In the case of commercial real estate financing transactions exceeding PLN 4 million, the repayment terms were negotiated individually. In addition, when granting assistance, the Group requires maintaining collateral at least at the same level and limiting distribution to the owner.

The tables below present information on the total scope of the moratoria and new financing covered by public guarantee programs (BGK) applied in Poland as a result of the outbreak of the COVID-19 pandemic (as of 31 December 2021).

Number of customers subject to assistance tools in Poland period of 13.03.2020 - 31.12.2021	31.12.2021
Moratoria	62 908
Government guarantees (BGK)	118

Value of loans in Poland with assistance tools granted in the period of 13.03.2020 – 31.12.2021	31.12.2021				
	Gross carrying amount	Of which: gross carrying amount of contracts with expired support measures	Of which: gross carrying amount of contracts with active support measures	Accumulated impairment, accumulated negative changes in fair value due to credit risk – active support measures	Net carrying amount risk – active support measures
Moratoria	**11 568 342**	**11 357 478**	**210 864**	**(38 084)**	**172 780**
- Individual customers	5 615 291	5 614 866	425	(109)	316
- Corporate customers	5 953 051	5 742 612	210 439	(37 975)	172 464
Government guarantees (BGK)	**866 618**	**-**	**866 618**	**(7 184)**	**859 434**
- Individual customers	-	-	-	-	-
- Corporate customers	866 618	-	866 618	(7 184)	859 434

The tables below present information on total assistance tools in Poland broken down into active help and expired help at the date of 31 December 2021.

a) active assistance tools as of 31 December 2021

Active assistance tools in Poland as of 31.12.2021, granted in the period 13.03.2020 – 31.12.2021	Performing				
	Gross carrying amount	Of which: exposures with forbearance measures	Of which: grace period of capital and interest	Of which: instruments with significant increase in credit risk since initial recognition but not credit-impaired (Stage 2)	Accumulated impairment
Moratoria	**7 751**	**-**	**-**	**917**	**(120)**
- Individual customers	-	-	-	-	-
- Corporate customers	7 751	-	-	917	(120)
Government guarantees (BGK)	**854 702**	**2 824**	**-**	**298 545**	**(3 743)**
- Individual customers	-	-	-	-	-
- Corporate customers	854 702	2 824	-	298 545	(3 743)

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Active assistance tools in Poland as of 31.12.2021, granted in the period 13.03.2020 – 31.12.2021	Gross carrying amount	Non-performing			Gross carrying amount – Inflows to non-performing exposures
		Of which: exposures with forbearance measures	Of which: unlikely to pay that are not past-due or past-due <= 90 days	Accumulated impairment	
Moratoria	**203 113**	**-**	**-**	**(37 964)**	**425**
- Individual customers	425	-	-	(109)	425
- Corporate customers	202 688	-	-	(37 855)	-
Government guarantees (BGK)	**11 916**	**11 916**	**-**	**(3 441)**	**11 916**
- Individual customers	-	-	-	-	-
- Corporate customers	11 916	11 916	-	(3 441)	11 916

b) expired assistance tools as of 31 December 2021

Expired assistance tools in Poland as of 31.12.2021, granted in the period 13.03.2020-31.12.2021	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	**10 799 153**	**138 957**	**1 717 555**	**(115 060)**	**(88 053)**
- Individual customers	5 403 683	66 636	283 099	(31 236)	(16 313)
- Corporate customers	5 395 470	72 321	1 434 456	(83 824)	(71 740)
Government guarantees (BGK)	**-**	**-**	**-**	**-**	**-**
- Individual customers	-	-	-	-	-
- Corporate customers	-	-	-	-	-

Expired assistance tools in Poland as of 31.12.2021, granted in the period 13.03.2020-31.12.2021	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	**558 325**	**35 910**	**19 977**	**(163 188)**	**56 816**
- Individual customers	211 183	12 822	3 355	(103 781)	47 543
- Corporate customers	347 142	23 088	16 622	(59 407)	9 273
Government guarantees (BGK)	**-**	**-**	**-**	**-**	**-**
- Individual customers	-	-	-	-	-
- Corporate customers	-	-	-	-	-

The tables below present information on total assistance tools, in Czech Republic and Slovakia, broken down into active help and expired help at the date of 31 December 2021.

Number of customers subject to assistance tools in the Czech Republic and Slovakia in the period of 1.04.2021 - 31.12.2021	31.12.2021
Moratoria	5 579

Value of loans in the Czech Republic and Slovakia with assistance tools granted in the period of 01.04.2020-31.12.2021	31.12.2021				
	Gross carrying amount	Of which: gross carrying amount of contracts with expired support measures	Of which: gross carrying amount of contracts with active support measures	Accumulated impairment, accumulated negative changes in fair value due to credit risk – active support measures	Net carrying amount risk – active support measures
Moratoria	**416 902**	**416 902**	**-**	**-**	**-**
- Individual customers	416 902	416 902	-	-	-
- Corporate customers	-	-	-	-	-

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a) active assistance tools as of 31 December 2021

As of 31 December 2021 there were no loans with active support measures in the Czech Republic nor in Slovakia.

b) expired assistance tools as of 31 December 2021

Expired assistance tools in the Czech Republic and Slovakia as of 31.12.2021, granted in the period of 01.04.2020-31.12.2021	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	**403 792**	**45 869**	**28 657**	**(2 364)**	**(1 527)**
- Individual customers	403 792	45 869	28 657	(2 364)	(1 527)
- Corporate customers	-	-	-	-	-

Expired assistance tools in the Czech Republic and Slovakia as of 31.12.2021, granted in the period of 01.04.2020-31.12.2021	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	**13 110**	**1 374**	**2 390**	**(6 694)**	**-**
- Individual customers	13 110	1 374	2 390	(6 694)	-
- Corporate customers	-	-	-	-	-

In Poland, the Czech Republic and Slovakia vast majority of loans subject to COVID-19 repayment moratoria, benefited only from the suspension of the principal repayments (it accounted for about 94% of the total exposure covered by the moratoria, both active and expired). Consequently the customers are still obligated 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.

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 client is placed on the Watch List based on standard criteria defined in internal regulations of the Group.

In the scope of retail customers risk assessment, the borrowers with granted assistance tools in the form of the payment moratoria 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

In year 2021, the Group applied forbearance classification rules to the exposures covered by COVID-19 pandemic support programs compliant with internal regulations. As required by the EBA, the use of support tools in connection with COVID-19 did not result in automatic classification to forbearance.

For corporate clients, the applied approach is based on individual assessment whether classification of such client's exposure as forborne is required, in accordance with the Group's internal regulations.

Additional cost of risk due to COVID-19 pandemic:

- actions taken regarding clients subject to non-legislative moratoria:

In the 2021, the Group withdrew gradually from using additional premises for maintaining loans subject to the moratoria in Stage 2, introduced in the year 2020. In the following months of the year 2021 the Group changed the stage classification for Stage 2 exposures which were repaid on time after moratoria period and for which there were no other Transfer Logic premises. By the end of the year 2021 classification to Stage 2 for all retail exposures previously subject to the moratoria were consistent with qualitative and quantitative criteria of Transfer Logic. The reclassification resulted in the recognition of additional income in the amount of PLN 43.8 million. The total gross carrying amount reclassified to Stage 1 due to cancellation of additional premisses, amounted to PLN 3 161 million.

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- actions taken regarding clients subject to legislative moratoria:

Starting from 31 December 2020 the Group decided to automatically and temporarily reclassify exposures subject to legislative moratoria to Stage 3 or in justified cases to Stage 2. The final allocation of the exposure to Stage 2 was possible after conducting additional analyses taking into account quantitative and qualitative factors, such as: co-borrower in the contract, credit quality of all customer's 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 additional amount of PLN 2.7 million in the 2021. The total gross carrying amount of the temporarily reclassified portfolio in 2021 was PLN 18.4 million.

In addition, in spite of an individual review of the corporate portfolio customers, which resulted in the reclassification of customers to Stage 3 due to the deterioration of their financial situation caused by the consequences of the COVID-19 pandemic, additional cost of credit risk in the amount of PLN 17.5 million was recognised.

Summary of the impact of COVID-19 pandemic on expected cost of credit risk

In the year 2021, as a result of current pandemic developments, the Group recognised PLN 23.6 million of additional income.

Net impairment losses and fair value change on loans and advances	Year ended 31.12.2021		
	Individual customers	Corporate customers	Total
Financial asset measured at amortized cost	**41 154**	**(17 526)**	**23 628**
Stage 1	0	490	**490**
Stage 2	43 790	8 768	**52 558**
Stage 3	(2 636)	(26 784)	**(29 420)**
Financial assets measured at fair value through profit or loss	**0**	**249**	**249**

As of 31 December 2021, the Group did not apply management corrections (overlays).

Impact of the macroeconomic environment forecast on the expected credit loss values

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

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 table below presents forecasts of the main macroeconomic indicators used in the expected credit loss model as of 31 December 2021 and 31 December 2020:

Scenario as of 31.12.2021		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	5.1	4.5	7.1	5.6	3.5	3.5
Unemployment rate	end of the year	3.0%	2.4%	2.5%	2.0%	3.6%	3.3%
Real estate price index	y/y	107.9	106.6	109.6	108.4	104.1	104.7
CHFPLN	end of the year	3.89	3.80	3.76	3.71	4.03	3.99

Scenario as of 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%
Real estate price index	y/y	101.0	105.5	103.0	105.9	91.9	102.8
CHFPLN	end of the year	4.21	4.03	4.11	3.93	4.43	4.43

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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%):

Change of credit loss values	Year ended 31 December	
	2021	2020
Scenario optimistic	39 306	47 136
Scenario base	(6 649)	10 316
Scenario pessimistic	(68 655)	(135 596)

The above results were estimated taking into account the equal allocation to 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 82% of the assets of the portfolio of loans and advances to customers. The reason for changes in key values in the models used for the calculation of expected credit losses was the update of the macroeconomic indicators used.

Prepayments of retail loans

CJEU ruled on 11 September 2019 that in case consumer loans are 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 2021 the provision recorded within other provisions (Note 31) related to potential reimbursements of commissions in relation to early repayments of loans before the date of the verdict amounted to PLN 4.8 million (PLN 13.8 million as of 31 December 2020).

The total negative impact of early repayments of retail loans on the Group's gross profit in 2021 amounted to PLN 91.8 million (in 2020: PLN 56.5 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 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.

Currently the Group recognises upfront 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 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.

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 offers a full range of products and services to individual customers, including Private Banking customers and micro-businesses. The key products and services offered to customers in this segment include lending products (mortgage loans, overdrafts, cash loans, car loans, credit cards), deposit products (current and savings accounts, term deposits), debit cards, insurance products, brokerage services, investment advice, asset management services and leasing services. 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., 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 Corporate and Investment Banking segment, which offers financial services to small, medium and large-sized companies, public sector entities, financial institutions and banks. The key products offered to these customers include transactional banking (cash management, current accounts, term deposits, internet banking, trade finance services, letters of credit and guarantees), working capital and investment loans, project finance, structured and mezzanine finance services as well as custody, leasing and factoring services. The products of this segment include operations in foreign currencies, capital and derivatives markets, both proprietary and on behalf of customers, as well as services for arranging and financing securities issues, financial consulting and brokerage services for financial institutions. The Corporate and Investment Banking segment also generates result of foreign exchange risk management. This segment includes the results of the following subsidiaries: mFaktoring S.A., G-Invest Sp. z o.o., Tele-Tech Investment Sp. z o.o. before its deconsolidation as well as the results of corporate segments of mLeasing Sp. z o. o., Asekum Sp. z o.o. and mBank Hipoteczny S.A.
- The Treasury and Other segment consists primarily of treasury and money markets operations, liquidity and interest rate risks management of the Bank and its investment portfolio. The results of the segment include result of internal settlements of fund transfer pricing, result of items classified as hedge accounting and results not allocated to other segments. This segment also includes the results of mFinance France S.A. and BDH Development Sp. z.o.o. 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 and results of Future Tech Fundusz Inwestycyjny Zamknięty.
- FX Mortgage Loans segment consists primarily of foreign currency mortgage loans with indexation clauses granted to individual customers. These types of loans are no longer offered to customers. Segment assets include only the active loan portfolio.

The principles of segment classification of the Group's activities are described below.

Transactions between the business segments are conducted on regular commercial terms.

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.

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 based on the place of origin of income and expenses. Foreign countries segment includes activity of mBank's foreign branches in the Czech Republic and Slovakia as well as activity of foreign subsidiary mFinance France S.A. until the date of deconsolidation (November 2020). 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".

Due to changes in the division of activities into segments since the beginning of 2021, the comparative data for 2020 by operating segments have been changed accordingly. The changes included mainly the liquidation of the Financial Markets segment and were a consequence of organizational changes that were implemented in the Bank in 2020. The part of the Financial Markets segment related to operations on foreign exchange markets, capital markets and derivative instruments for own account has been moved to the Corporate and Investment Banking segment. The part of Financial Markets segment activity related to treasury operations, liquidity and interest rate risks management after the changes is reported in the Treasury and Other segment.

The presentation of funds kept in central banks in the Czech Republic and Slovakia (reverse repo transactions and funds on Nostro accounts) in the geographical areas on the activities of mBank S.A. Group was changed. The management of these assets is a part of Treasury Department activities; thus these assets and related net interest income are reported as a part of "Poland" segment.

Additionally FX Mortgage Loans segment has been separated from Retail Banking segment. This change was aimed at a separate presentation of the results related to the product, which has already been withdrawn from the offer for individual customers, and at the same time is significant from the point of view of the assigned assets and the impact on the Group's results.

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Business segment reporting on the activities of mBank S.A. Group for the period from 1 January to 31 December 2021 – data regarding consolidated income statement

period from 1 January to 31 December 2021	Retail Banking	Corporate and Investment Banking	Treasury and Other	FX Mortgage Loans	Total figure for the Group
Net interest income	2 719 683	1 114 574	143 963	125 823	4 104 043
- sales to external clients	2 209 325	1 067 040	688 069	139 609	4 104 043
- sales to other segments	510 358	47 534	(544 106)	(13 786)	-
Net fee and commission income	994 451	944 507	(41 918)	(7 019)	1 890 021
Dividend income	-	-	5 046	-	5 046
Trading income	42 628	263 800	(169 733)	(39 805)	96 890
Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss	3 566	(3 928)	4 970	-	4 608
Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss	(2 492)	3 881	92 301	-	93 690
Other operating income	84 515	131 902	15 005	962	232 384
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss	(450 015)	(405 781)	(4 201)	(13 229)	(873 226)
Costs of legal risk related to foreign currency loans	-	-	-	(2 758 079)	(2 758 079)
Overhead costs	(1 228 292)	(729 003)	(42 762)	(20 572)	(2 020 629)
Amortisation	(288 005)	(138 562)	(8 883)	(804)	(436 254)
Other operating expenses	(84 944)	(151 272)	(68 717)	(15 965)	(320 898)
Operating profit	**1 791 095**	**1 030 118**	**(74 929)**	**(2 728 688)**	**17 596**
Taxes on Group balance sheet items	(286 000)	(226 997)	(42 825)	(52 805)	(608 627)
Gross profit of the segment	**1 505 095**	**803 121**	**(117 754)**	**(2 781 493)**	**(591 031)**
Income tax					(587 782)
Net profit / (loss) attributable to Owners of mBank S.A.					(1 178 753)
Net profit / (loss) attributable to non-controlling interests					(60)

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

period from 1 January to 31 December 2020 - restated	Retail Banking	Corporate and Investment Banking	Treasury and Other	FX Mortgage Loans	Total figure for the Group
Net interest income	2 570 626	1 111 108	179 993	147 573	4 009 300
- sales to external clients	2 026 734	1 127 024	690 825	164 717	4 009 300
- sales to other segments	543 892	(15 916)	(510 832)	(17 144)	-
Net fee and commission income	774 438	773 311	(43 230)	3 766	1 508 285
Dividend income	-	-	4 926	-	4 926
Trading income	35 731	228 080	(79 531)	472	184 752
Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss	(10 647)	(1 370)	27 589	-	15 572
Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss	(2 185)	(9 436)	105 148	-	93 527
Other operating income	70 691	132 690	14 671	-	218 052
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss	(564 598)	(608 562)	2 202	(54 684)	(1 225 642)
Costs of legal risk related to foreign currency loans	-	-	-	(1 021 714)	(1 021 714)
Overhead costs	(1 195 162)	(709 331)	(55 937)	(20 070)	(1 980 500)
Amortisation	(288 405)	(132 333)	(9 681)	(209)	(430 628)
Other operating expenses	(104 563)	(108 360)	(21 897)	-	(234 820)
Operating profit	**1 285 926**	**675 797**	**124 253**	**(944 866)**	**1 141 110**
Taxes on Group balance sheet items	(212 642)	(184 105)	(76 073)	(58 559)	(531 379)
Gross profit of the segment	**1 073 284**	**491 692**	**48 180**	**(1 003 425)**	**609 731**
Income tax					(505 974)
Net profit / (loss) attributable to Owners of mBank S.A.					103 831
Net profit / (loss) attributable to non-controlling interests					(74)

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Business segment reporting on the activities of mBank S.A. Group - data regarding consolidated statement of financial position

31.12.2021	Retail Banking	Corporate and Investment Banking	Treasury and Other	FX Mortgage Loans	Total figure for the Group
Assets of the segment	68 388 768	47 369 348	72 477 859	11 302 910	**199 538 885**
Liabilities of the segment	112 159 963	47 507 690	25 726 898	426 418	**185 820 969**

31.12.2020 - restated	Retail Banking	Corporate and Investment Banking	Treasury and Other	FX Mortgage Loans	Total figure for the Group
Assets of the segment	56 047 690	46 377 147	61 710 927	14 735 853	**178 871 617**
Liabilities of the segment	99 118 553	36 991 557	25 896 965	189 475	**162 196 550**

Information about geographical areas on the activities of mBank S.A. Group for the period from 1 January to 31 December 2021 and for the period from 1 January to 31 December 2020

	from 1 January to 31 December 2021			from 1 January to 31 December 2020 - restated		
	Poland	Foreign Countries	Total	Poland	Foreign Countries	Total
Net interest income	3 830 959	273 084	**4 104 043**	3 768 849	240 451	**4 009 300**
Net fee and commission income	1 851 496	38 525	**1 890 021**	1 491 796	16 489	**1 508 285**
Dividend income	5 046	-	**5 046**	4 926	-	**4 926**
Trading income	92 713	4 177	**96 890**	182 633	2 119	**184 752**
Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss	4 608	-	**4 608**	15 572	-	**15 572**
Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss	93 715	(25)	**93 690**	93 544	(17)	**93 527**
Other operating income	228 462	3 922	**232 384**	217 091	961	**218 052**
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss	(869 006)	(4 220)	**(873 226)**	(1 233 391)	7 749	**(1 225 642)**
Costs of legal risk related to foreign currency loans	(2 758 079)	-	**(2 758 079)**	(1 021 714)	-	**(1 021 714)**
Overhead costs	(1 870 907)	(149 722)	**(2 020 629)**	(1 841 642)	(138 858)	**(1 980 500)**
Amortisation	(423 208)	(13 046)	**(436 254)**	(415 327)	(15 301)	**(430 628)**
Other operating expenses	(316 765)	(4 133)	**(320 898)**	(231 971)	(2 849)	**(234 820)**
Operating profit	**(130 966)**	**148 562**	**17 596**	**1 030 366**	**110 744**	**1 141 110**
Taxes on Group balance sheet items	(568 132)	(40 495)	**(608 627)**	(499 357)	(32 022)	**(531 379)**
Gross profit of the segment	**(699 098)**	**108 067**	**(591 031)**	**531 009**	**78 722**	**609 731**
Income tax			(587 782)			(505 974)
Net profit / (loss) attributable to Owners of mBank S.A.			(1 178 753)			103 831
Net profit / (loss) attributable to non-controlling interests			(60)			(74)

Information about geographical areas on the activities of mBank S.A. Group as at 31 December 2021 and as at 31 December 2020

	31.12.2021			31.12.2020 - restated		
	Poland	Foreign Countries	Total	Poland	Foreign Countries	Total
Assets of the segment, including:	188 653 175	10 885 710	**199 538 885**	171 585 621	7 285 996	**178 871 617**
- tangible assets	2 917 533	36 180	**2 953 713**	2 662 301	30 974	**2 693 275**
- deferred income tax assets	1 390 472	1 878	**1 392 350**	851 308	2 572	**853 880**
Liabilities of the segment	169 906 654	15 914 315	**185 820 969**	148 275 155	13 921 395	**162 196 550**

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6. Net interest income

	Year ended 31 December	
	2021	**2020**
Interest income		
Interest income accounted for using the effective interest method	**3 947 950**	**4 207 276**
Interest income of financial assets at amortised cost, including:	3 756 690	3 835 996
- Loans and advances	*3 449 153*	*3 551 480*
- Debt securities	*288 937*	*274 714*
- Cash and short-term placements	*18 997*	*20 511*
- Gains or losses on non-substantial modification (net)	*(11 328)*	*(15 993)*
- Other	*10 931*	*5 284*
Interest income on financial assets at fair value through other comprehensive income, including:	191 260	371 280
- Debt securities	*191 260*	*371 280*
Income similar to interest on financial assets at fair value through profit or loss, including:	**483 787**	**481 077**
Financial assets held for trading	19 962	32 425
- Loans and advances	*2 849*	*5 259*
- Debt securities	*17 113*	*27 166*
Non-trading financial assets mandatorily at fair value through profit or loss, including:	51 598	92 198
- Loans and advances	*51 598*	*92 198*
Interest income on derivatives classified into banking book	94 454	126 104
Interest income on derivatives concluded under the fair value hedge	113 115	85 714
Interest income on derivatives concluded under the cash flow hedge	204 658	144 636
Total interest income	**4 431 737**	**4 688 353**

	Year ended 31 December	
	2021	**2020**
Interest expenses		
Financial liabilities held for trading	(9 371)	-
Financial liabilities measured at amortised cost, including:	(287 340)	(658 619)
- Deposits	*(65 954)*	*(346 468)*
- Loans received	*(4 623)*	*(8 867)*
- Issue of debt securities	*(155 044)*	*(227 640)*
- Subordinated liabilities	*(54 733)*	*(67 888)*
- Other financial liabilities	*(4 418)*	*(5 277)*
- Lease liabilities	*(2 568)*	*(2 479)*
Other	(30 983)	(20 434)
Total interest expense	**(327 694)**	**(679 053)**

Interest income on financial assets at amortized cost includes interest on leasing activities in the amount of PLN 386 274 thousand (for the period ended 31 December 2020: PLN 379 486 thousand).

Interest income in 2021 and in 2020 was affected by recognition of cumulative effect of change in estimates regarding the amounts and timing of the cash flows related to the loans which are expected to be repaid before the contractual term. The issue was described in detail in Note 4.

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Net interest income per client groups is as follows:

	Year ended 31 December	
	2021	**2020**
Interest income		
From banking sector	279 226	290 715
From other customers, including:	4 152 511	4 397 638
- individual clients	*2 242 142*	*2 274 269*
- corporate clients	*1 564 534*	*1 592 518*
- public sector	*345 835*	*530 851*
Total interest income	**4 431 737**	**4 688 353**
Interest expenses		
From banking sector	(11 737)	(16 936)
From other customers, including:	(106 180)	(366 589)
- individual clients	*(74 762)*	*(263 644)*
- corporate clients	*(18 862)*	*(88 698)*
- public sector	*(12 556)*	*(14 247)*
Debt securities issued	(155 044)	(227 640)
Subordinated liabilities	(54 733)	(67 888)
Total interest expense	**(327 694)**	**(679 053)**

7. Net fee and commission income

	Year ended 31 December	
	2021	**2020**
Fee and commission income		
Credit-related fees and commissions	539 335	462 807
Payment cards-related fees	485 768	430 242
Commissions from currency transactions	408 107	339 629
Commissions from bank accounts	361 824	222 312
Fees from brokerage activity and debt securities issue	240 097	222 317
Commissions from money transfers	191 545	147 779
Commissions for agency service regarding sale of insurance products of external financial entities	131 360	109 787
Commissions for agency service regarding sale of other products of external financial entities	103 060	74 455
Commissions due to guarantees granted and trade finance commissions	98 780	94 341
Fees from cash services	45 195	42 586
Commissions on trust and fiduciary activities	33 214	31 454
Fees from portfolio management services and other management-related fees	27 769	23 196
Other	48 842	43 656
Total fee and commission income	**2 714 896**	**2 244 561**

In relation to finance leases, income relating to variable lease payments not included in the measurement of the net investment in the lease in 2021 amounted to PLN 3 592 thousand (2020: PLN 3 180 thousand). For operating leases, lease income relating to variable lease payments that do not depend on an index or a rate, in 2021 amounted to PLN 1 692 thousand (2020: PLN 2 105 thousand). The above-mentioned amounts are included in Credit-related fees and commissions.

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	Year ended 31 December	
	2021	2020
Fee and commission expense		
Payment cards-related fees	(263 552)	(226 851)
Commissions paid to external entities for sale of the Group's products	(169 102)	(174 796)
Commissions of insurance products	(15 763)	(12 067)
Commissions paid for sale of external financial entities' products	(33 286)	(21 242)
Discharged brokerage fees	(39 046)	(39 663)
Cash services	(47 096)	(44 464)
Fees to NBP, KIR and GPW Benchmark	(18 948)	(15 910)
Other discharged fees	(238 082)	(201 283)
Total fee and commission expense	**(824 875)**	**(736 276)**

8. Dividend income

	Year ended 31 December	
	2021	2020
Non-trading financial assets mandatorily at fair value through profit or loss	3 982	4 926
Investments in subsidiaries, joint ventures and associates accounted for using other than the equity method	1 064	-
Total dividend income	**5 046**	**4 926**

9. Net trading income

	Year ended 31 December	
	2021	2020
Foreign exchange result	**191 695**	**72 607**
Net exchange differences on translation	154 554	(91 019)
Net transaction gains/losses	37 141	163 626
Gains or losses on financial assets and liabilities held for trading	**(77 260)**	**123 137**
Derivatives, including:	(78 837)	68 234
- Interest-bearing instruments	*(100 809)*	*55 125*
- Market risk instruments	*21 972*	*13 109*
Debt securities	4 235	59 470
Loans and advances	(2 658)	(4 567)
Gains or losses from hedge accounting	**(17 545)**	**(10 992)**
Net profit on hedged items	1 169 372	(95 323)
Net profit on fair value hedging instruments	(1 172 972)	82 729
Ineffective portion of cash flow hedge	(13 945)	1 602
Total net trading income	**96 890**	**184 752**

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, commodity futures and commodity swaps.

The Group applies fair value hedge accounting and cash flow hedge accounting. Detailed information on hedge accounting is 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	
	2021	2020
Equity instruments	11 091	72 041
Debt securities	(1 136)	10 710
Loans and advances	(5 347)	(67 179)
Total gains or losses on non-trading financial assets mandatorily at fair value through profit or loss	**4 608**	**15 572**

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 3 122 thousand and shares in Polski Standard Płatności sp. z o.o. in the amount of PLN 6 121 thousand. In 2020, under Equity instruments, the Group recognised 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 conversion and sale of VISA Inc. shares in a total amount of PLN 23 249 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	
	2021	2020
Gains less losses from derecognition, including:	93 725	98 495
- Financial assets measured at fair value through other comprehensive income	*93 666*	*95 136*
- Financial assets at amortised cost	*(14)*	*(5 000)*
- Financial liabilities at amortised cost	*73*	*8 359*
Gains less losses related to sale and revaluation of investments in subsidiaries and associates	(35)	(4 968)
Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss	**93 690**	**93 527**

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 2021		Year ended 31 December 2020	
	Gains	Losses	Gains	Losses
Debt securities	98 120	(1 997)	104 167	(4 848)
Loans and advances	12 149	(14 620)	669	(9 852)
Deposits	-	-	4 381	(1 610)
Debt securities issued	7 655	(7 582)	5 588	-
Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss	**117 924**	**(24 199)**	**114 805**	**(16 310)**

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12. Other operating income

	Year ended 31 December	
	2021	2020
Income from sale or liquidation of fixed assets, intangible assets, assets held for sale and inventories	85 023	102 287
Income from services provided	10 395	7 857
Net income from operating lease and right-of-use assets in sublease	5 081	3 374
Rental income from investment properties	5	-
Income due to release of provisions for future commitments	12 215	31 557
Income from recovering receivables designated previously as prescribed, remitted or uncollectible	4 430	3 894
Income from compensations, penalties and fines received	602	866
Gains from the sale of an organised part of the company mFinanse S.A.	37 700	23 800
Other	76 933	44 417
Total other operating income	**232 384**	**218 052**

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.

Net revenues from the sale of an organised part of the company mFinanse S.A. relate to sale transaction in 2018 by mBank S.A. of 100% shares in Latona S.A. to Phoebe IVS based in Denmark, and subsequent sale by mFinanse S.A. of an organized part of the mFinanse S.A. to Latona S.A. 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 2021 the Group recognised a net profit in the amount of PLN 343.6 million. 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 58.2 million in the period of approximately 2 years from the end of 2021.

Income from services provided is earned on non-banking activities.

Net income from operating lease consists of income from operating lease, income from right-of-use assets in sublease and related depreciation cost of fixed asset provided by the Group under operating lease and right-of-use assets in sublease, incurred to obtain revenue.

Net income from operating lease and right-of-use assets in sublease generated for 2021 and for 2020 is presented below.

	Year ended 31 December	
	2021	2020
Net income from operating lease, including:		
- Income from operating lease	28 252	31 534
- Income from right-of-use assets in sublease	9 159	7 936
- Depreciation cost of fixed assets provided under operating lease and right-of-use assets in sublease	(32 330)	(36 096)
Total net income from operating lease	**5 081**	**3 374**

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13. Overhead costs

	Year ended 31 December	
	2021	**2020**
Staff-related expenses	(1 070 850)	(974 670)
Material costs, including:	(676 395)	(671 289)
- costs of administration and real estate services	*(243 749)*	*(259 224)*
- IT costs	*(206 689)*	*(181 763)*
- marketing costs	*(132 744)*	*(127 246)*
- consulting costs	*(77 339)*	*(88 171)*
- other material costs	*(15 874)*	*(14 885)*
Taxes and fees	(33 419)	(27 304)
Contributions and transfers to the Bank Guarantee Fund	(227 432)	(298 061)
Contributions to the Social Benefits Fund	(12 533)	(9 176)
Total overhead costs	**(2 020 629)**	**(1 980 500)**

In 2021, the item Material costs includes costs related to short-term leasing contracts in the amount of PLN 234 thousand (2020: PLN 337 thousand), costs related to leasing contracts of low-value assets that are not short-term contracts in the amount of PLN 722 thousand (2020: PLN 689 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 2 030 thousand (2020: PLN 1 984 thousand).

Staff-related expenses in 2021 and 2020 are presented below.

	Year ended 31 December	
	2021	**2020**
Wages and salaries	(871 419)	(788 234)
Social security expenses	(142 301)	(129 832)
Employee contributions related to post-employment benefits	(21)	(14)
Remuneration concerning share-based payments, including:	(11 076)	(10 321)
- share-based payments settled in mBank S.A. shares	*(10 487)*	*(10 159)*
- cash-settled share-based payments	*(589)*	*(162)*
Other staff expenses	(46 033)	(46 269)
Staff-related expenses, total	**(1 070 850)**	**(974 670)**

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 43.

14. Other operating expenses

	Year ended 31 December	
	2021	**2020**
Costs arising from sale or liquidation of fixed assets, intangible assets, assets held for resale and inventories	(91 516)	(98 468)
Provisions for future commitments	(100 876)	(44 858)
Costs arising from provisions created for other receivables (excluding loans and advances)	(3 416)	(1 119)
Donations made	(4 858)	(3 238)
Compensation, penalties and fines paid	(7 755)	(1 938)
Costs arising from receivables and liabilities recognised as prescribed, remitted and uncollectible	-	(5)
Direct operating expenses (including repairs and maintenance) arising from investment properties that generated rental income during the period	(2 475)	-
Direct operating expenses (including repairs and maintenance) arising from investment properties that did not generate rental income during the period	(51)	-
Impairment provisions created for tangible fixed assets and intangible assets	(7 935)	(991)
Debt collection costs	(36 578)	(39 573)
Other operating costs	(65 438)	(44 630)
Total other operating expenses	**(320 898)**	**(234 820)**

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.

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The item Provisions for future commitments in 2021 includes the costs of court cases, other than cases related to foreign currency loans.

15. Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss

	Year ended 31 December	
	2021	**2020**
Financial assets at amortised cost, including:	**(752 987)**	**(1 172 053)**
Debt securities	(1 911)	(56)
Stage 1	*(1 911)*	*(56)*
Loans and advances	(751 076)	(1 171 997)
Stage 1	*(125 356)*	*19 829*
Stage 2	*125 674*	*(181 102)*
Stage 3	*(738 735)*	*(1 001 083)*
POCI	*(12 659)*	*(9 641)*
Financial assets at fair value through other comprehensive income, including:	**(3 201)**	**(1 289)**
Debt securities	(3 201)	(1 289)
Stage 1	*(4 480)*	*(497)*
Stage 2	*1 279*	*(792)*
Commitments and guarantees given	**(117 038)**	**(52 300)**
Stage 1	*(2 970)*	*(7 726)*
Stage 2	*25 728*	*(14 490)*
Stage 3	*(140 122)*	*(1 984)*
POCI	*326*	*(28 100)*
Net impairment losses on financial assets not measured at fair value through profit or loss	**(873 226)**	**(1 225 642)**

The level of expected credit losses presented in the table above was mainly influenced by changes in the models described in Note 3.3.6.2.2. as well as changes resulting from the measures taken to account for the credit risk resulting from the COVID 19 pandemic, described in Note 4. The level of expected credit losses was also influenced by the debt collection sales processes of the non-performing (default) portfolio, which resulted in the release of approximately PLN 71 million in 2021 (positive impact).

16. Income tax expense

	Year ended 31 December	
	2021	**2020**
Current tax	(683 788)	(536 232)
Deferred income tax (Note 32)	96 006	30 258
Total income tax	**(587 782)**	**(505 974)**
Profit / (loss) before tax	**(591 031)**	**609 731**
Tax calculated at Polish current tax rate (19%)	112 296	(115 849)
Effect of different tax rates in other countries	-	(126)
Income not subject to tax	30 969	10 758
Costs other than tax deductible costs	(732 788)	(394 583)
Other positions affecting income tax	1 777	(4 447)
Inactive tax losses	(36)	(1 727)
Total tax liability	**(587 782)**	**(505 974)**
Effective tax rate calculation		
Profit (loss) before income tax	(591 031)	609 731
Income tax	(587 782)	(505 974)
Effective tax rate (%)	-	**82.98**

The position Costs other than tax deductible costs includes i.a. impact of banking tax introduced by the Act on Tax on Certain Financial Institutions from 15 January 2016 (Journal of Laws 2016, item 68), expenses recognized for legal risk related to the portfolio of mortgage and housing loans in CHF and other 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	
	2021	**2020**
Poland	(656 859)	(508 596)
Czech Republic	(25 089)	(27 636)
Slovakia	(1 840)	-
Total current tax	**(683 788)**	**(536 232)**

Information about deferred income tax is presented under Note 32. 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 / (loss) per share

Earnings per share for 12 months

	Year ended 31 December	
	2021	**2020**
Basic:		
Net profit / (loss) attributable to Owners of mBank S.A.	(1 178 753)	103 831
Weighted average number of ordinary shares	42 369 790	42 355 695
Net basic profit / (loss) per share (in PLN per share)	**(27.82)**	**2.45**
Diluted:		
Net profit / (loss) attributable to Owners of mBank S.A., applied for calculation of diluted earnings per share	(1 178 753)	103 831
Weighted average number of ordinary shares	42 369 790	42 355 695
Adjustments for:		
- share options and subscription warrants	80 719	24 031
Weighted average number of ordinary shares for calculation of diluted earnings per share	42 450 509	42 379 726
Diluted net profit / (loss) per share (in PLN per share)	**(27.77)**	**2.45**

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 43 of these consolidated statements. 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 is 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 is 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 were replaced with shares causing the dilution. 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 2021			Year ended 31 December 2020		
	Before-tax amount	Tax (expense) benefit	Net amount	Before-tax amount	Tax (expense) benefit	Net amount
Items that may be reclassified subsequently to the income statement	**(2 261 911)**	**454 527**	**(1 807 384)**	**519 524**	**(105 481)**	**414 043**
Exchange differences on translation of foreign operations	4 898	-	4 898	3 043	-	3 043
Cash flow hedges	(1 134 978)	215 646	(919 332)	370 356	(70 368)	299 988
Debt instruments at fair value through other comprehensive income	(1 131 831)	238 881	(892 950)	146 125	(35 113)	111 012
Items that will not be reclassified to the income statement	**22 833**	**(4 338)**	**18 495**	**(7 718)**	**1 466**	**(6 252)**
Actuarial gains and losses relating to post-employment benefits	8 715	(1 656)	7 059	(7 718)	1 466	(6 252)
Reclassification to investment properties	14 118	(2 682)	11 436	-	-	-
Total comprehensive income (net)	**(2 239 078)**	**450 189**	**(1 788 889)**	**511 806**	**(104 015)**	**407 791**

The table below presents detailed information concerning net other comprehensive income for the years 2021 and 2020.

	Year ended 31 December	
	2021	2020
ITEMS THAT MAY BE RECLASSIFIED SUBSEQUENTLY TO THE INCOME STATEMENT	**(1 807 384)**	**414 043**
Exchange differences on translating foreign operations	**4 898**	**3 043**
Gains or losses on exchange differences on translation of foreign operations included in other comprehensive income	4 898	3 043
Unrealised gains (positive differences) arising during the year (net)	*4 945*	*29 755*
Unrealised losses (negative differences) arising during the year (net)	*(47)*	*(26 712)*
Cash flows hedges (effective part)	**(919 332)**	**299 988**
Gains or losses included in other comprehensive income	(757 301)	503 724
Unrealized gains arising during the year (net)	*51 861*	*558 394*
Unrealized losses arising during the year (net)	*(809 162)*	*(54 670)*
Reclassification to the income statement (net)	(162 031)	(203 736)
Valuation of debt instruments at fair value through other comprehensive income (net)	**(892 950)**	**111 012**
Gains or losses on valuation of debt instruments included in other comprehensive income	(817 034)	186 497
Unrealised gains on debt instruments arising during the year (net)	*105 699*	*216 554*
Unrealised losses on debt instruments arising during the year (net)	*(922 733)*	*(30 057)*
Reclassification adjustments of gains (losses) on debt instruments to the income statement (net)	(75 916)	(75 485)
ITEMS THAT WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS	**18 495**	**(6 252)**
Actuarial gains and losses relating to post-employment benefits	**7 059**	**(6 252)**
Actuarial gains	*7 059*	*3*
Actuarial losses	-	*(6 255)*
Reclassification to investment properties	**11 436**	-
Gains or losses included in other comprehensive income	11 436	-
Unrealised gains on reclassification to investment properties during the year (net)	*11 436*	-
Total comprehensive income (net)	**(1 788 889)**	**407 791**

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19. Cash and balances with central bank

	31.12.2021	31.12.2020
Cash on hand	1 347 887	1 483 489
Cash balances at central banks	10 854 379	2 485 202
Total cash and cash balances with central banks	**12 202 266**	**3 968 691**

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 2 967 925 thousand for the period from 31 December 2021 to 30 January 2022,
- PLN 631 270 thousand for the period from 31 December 2020 to 31 January 2021,

As at 31 December 2021, the mandatory reserve in Central Bank bore 1.75% interest (31 December 2020: 0.10%).

20. Financial assets and liabilities held for trading and derivatives held for hedges

Financial assets held for trading and hedging derivatives

	31.12.2021	31.12.2020
Derivatives	**1 952 028**	**1 722 353**
- Derivatives held for trading classified into banking book	111 404	145 107
- Derivatives held for trading classified into trading book	1 954 329	1 620 288
- Derivatives designated as fair value hedges	217 809	330 455
- Derivatives designated as cash flow hedges	120 789	748 948
- Offsetting effect	(452 303)	(1 122 445)
Debt securities	**596 622**	**676 466**
- General governments, including:	248 906	366 517
pledged securities	*72 888*	*19 021*
- Credit institutions	27 459	109 109
- Other financial corporations	141 329	72 785
- Non-financial corporations	178 928	128 055
Loans and advances to customers	**40 426**	**187 902**
- Corporate customers	40 426	187 902
Total financial assets held for trading and hedging derivatives	**2 589 076**	**2 586 721**

Trading securities include securities used to secure sell/buy back transactions with customers, the market value of which as at 31 December 2021 amounted to PLN 72 888 thousand (31 December 2020: PLN 19 021 thousand).

Financial liabilities held for trading and hedging derivatives

	31.12.2021	31.12.2020
Derivatives	1 926 408	1 338 564
- Derivatives held for trading classified into banking book	352 464	322 135
- Derivatives held for trading classified into trading book	1 886 280	1 280 170
- Derivatives designated as fair value hedges	1 057 232	7 646
- Derivatives designated as cash flow hedges	541 315	60
- Offsetting effect	(1 910 883)	(271 447)
Liabilities from short sale of securities	84 774	-
Total financial liabilities held for trading and hedging derivatives	**2 011 182**	**1 338 564**

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 interest rate swaps – CIRS). Except from CIRS there is no exchange of principal at the origin and maturity of the transaction. 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.

31.12.2021	Contract amount		Fair value	
	Purchase	Sell	Assets	Liabilities
Derivatives held for trading				
Foreign exchange derivatives				
- Currency forwards	20 995 715	21 102 030	246 761	121 053
- Currency swaps	22 850 622	22 752 959	101 800	199 124
- Cross-currency interest rate swaps	9 208 434	9 340 334	10 994	102 644
- OTC currency options bought and sold	8 750 804	10 037 217	126 824	75 953
Total OTC derivatives	**61 805 575**	**63 232 540**	**486 379**	**498 774**
- Currency futures	1 225 607	1 241 309	3 263	8
Total foreign exchange derivatives	**63 031 182**	**64 473 849**	**489 642**	**498 782**
Interest rate derivatives				
- Interest rate swap, OIS	278 685 256	278 685 256	434 291	677 643
- Forward rate agreements	13 225 000	12 908 000	4 560	4 265
- OTC interest rate options	292 705	709 607	951	3 804
Total interest rate derivatives	**292 202 961**	**292 302 863**	**439 802**	**685 712**
Market risk transactions	3 467 701	3 534 806	1 136 289	1 054 250
Total derivative assets / liabilities held for trading	**358 701 844**	**360 311 518**	**2 065 733**	**2 238 744**
Hedging derivatives				
Derivatives designated as fair value hedges	32 390 716	32 390 716	217 809	1 057 232
- Interest rate swap, OIS	32 390 716	32 390 716	217 809	1 057 232
Derivatives designated as cash flow hedges	18 064 820	17 963 930	120 789	541 315
- Interest rate swaps	16 685 000	16 685 000	28 546	541 315
- Cross-currency interest rate swaps	1 379 820	1 278 930	92 243	-
Total hedging derivatives	**50 455 536**	**50 354 646**	**338 598**	**1 598 547**
Offsetting effect			**(452 303)**	**(1 910 883)**
Total	**409 157 380**	**410 666 164**	**1 952 028**	**1 926 408**
Short-term (up to 1 year)	155 558 976	156 329 203	1 593 679	75 337
Long-term (over 1 year)	253 598 404	254 336 961	358 349	1 851 071

31.12.2020	Contract amount		Fair value	
	Purchase	Sell	Assets	Liabilities
Derivatives held for trading				
Foreign 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

Apart from valuation of derivatives, the offsetting effect includes PLN 1 616 925 thousand of placed collaterals and PLN 107 908 thousand of collaterals received in connection with the derivative transactions subject to compensation (31 December 2020: PLN 2 232 thousand and PLN 762 936 thousand respectively).

In 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 2021 and 31 December 2020, 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	31.12.2021		31.12.2020	
	Derivatives	Loans and advances to customers	Derivatives	Loans and advances to customers
1	745 278	-	1 296 539	-
2	1 166 008	-	402 190	-
3	186 448	3 813	765 232	-
4	85 300	-	186 943	187 902
5	14 995	36 613	55 767	-
6	30	-	577	-
7	3 039	-	10 005	-
8	203 177	-	127 447	-
default	56	-	98	-
offsetting effect	(452 303)		(1 122 445)	
Total	**1 952 028**	**40 426**	**1 722 353**	**187 902**

Rating	31.12.2021	31.12.2020
	Debt securities	Debt securities
1.0 – 1.2	248 906	366 517
1.8 – 2.0	27 626	73 342
2.2 – 2.8	154 751	134 975
3.0 – 3.8	165 339	101 632
Total	**596 622**	**676 466**

Hedge accounting

The Group applies fair value hedge accounting and cash flow hedge accounting. Detailed information on hedge accounting is 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) and the fair value hedge of loan portfolios granted by mBank's Czech Branch, where the nominal value of hedging instruments is determined at an amount lower than the nominal value of the hedged item in order to take into account the risk of prepayment).

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,
- fixed interest rate mortgage bonds issued by mBank Hipoteczny (mBH), a subsidiary of mBank. The hedged risk results from changes in interest rates,
- fixed interest rate 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,
- senior non-preferred bonds issued by mBank – fixed interest rate during five years since the issue date. 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 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 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,
- senior non-preferred bonds issued by mBank S.A., fixed rate during five years since the issue date, with nominal value of EUR 500 000 million,
- 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

Interest Rate Swap and Overnight Index Swap are the hedging instruments swapping the fixed interest rate for a variable interest rate.

Presentation of the result from hedged and hedging transactions

Fair value adjustment of the hedged 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

31.12.2021	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	1 203 178	(110 033)	Financial assets at amortised cost – Loans and advances to customers	(98 871)
Bonds issued by mBank S.A. with a fixed interest rate (including those subject to substitution)	(6 658 576)	13 125	Financial liabilities measured at amortised cost – Debt securities issued	75 063
Fixed interest rate loans received by mBank from European Investment Bank	(1 906 621)	(5 131)	Financial liabilities measured at amortised cost – Amounts due to customers - Loans and advances received	33 782
Deposits modelled by mBank in PLN with economic characteristics of fixed-rate deposits	(12 315 000)	1 055 478	Financial liabilities measured at amortised cost – Amounts due to customers	1 104 116
Fixed interest rate mortgage bonds issued by mBH	(2 599 262)	(66 996)	Financial liabilities measured at amortised cost – Debt securities issued	55 282
TOTAL				**1 169 372**

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 – Amounts due to customers - Loans and advances received	(20 815)
Deposits modelled by mBank in PLN with economic characteristics of fixed-rate deposits	(4 980 000)	(48 638)	Financial liabilities measured at amortised cost – Amounts due to customers	(48 638)
Fixed interest rate mortgage bonds issued by mBH	(2 661 682)	(122 278)	Financial liabilities measured at amortised cost – Debt securities issued	(24 995)
TOTAL				**(95 323)**

The change in value of the hedging instruments used as the basis for recognizing hedge ineffectiveness for the period – fair value hedge

	31.12.2021	31.12.2020
Instruments hedging fixed interest rate mortgage portfolio denominated in CZK	79 233	8 215
Instruments hedging bonds issued by mBank S.A. with a fixed interest rate (including those subject to substitution)	(73 415)	(3 786)
Instruments hedging fixed interest rate loans received by mBank from European Investment Bank	(33 362)	20 667
Instruments hedging deposits modelled by mBank in PLN with economic characteristics of fixed-rate deposits	(1 083 145)	41 477
Instruments hedging fixed interest rate mortgage bonds issued by mBH	(62 283)	16 156
TOTAL	**(1 172 972)**	**82 729**

Nominal values of hedging derivatives - fair value hedge

	Up to 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Total
31.12.2021	1 561 922	5 618 307	4 488 706	20 106 178	615 603	**32 390 716**
31.12.2020	-	-	1 973 219	13 435 736	1 010 045	**16 419 000**

The increase in the nominal value of hedging instruments with maturities of up to 3 months results from the conversion by the LCH clearing house of IRS transactions based on LIBOR indices into a combination of short-term IRS and OIS transactions and a long-term OIS transaction based on the alternative rate for LIBOR.

The total result of fair value hedge accounting recognised in the income statement

	Year ended 31 December	
	2021	2020
Interest income on derivatives concluded under the fair value hedge accounting (Note 6)	113 115	85 714
Net profit on hedged items (Note 9)	1 169 372	(95 323)
Net profit on fair value hedging instruments (Note 9)	(1 172 972)	82 729
The total results of fair value hedge accounting recognised in the income statement	**109 515**	**73 120**

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 Gains or losses from 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 2022 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.

Hedged items – cash flow hedges

	Nominal value of hedged items		The change in value of the hedged item used as the basis for recognising hedge ineffectiveness for the period		The balances in the cash flow hedge reserve for continuing hedges	
	31.12.2021	31.12.2020	31.12.2021	31.12.2020	31.12.2021	31.12.2020
Loans and advances to customers - loans at a variable interest rate indexed to the market rate	16 685 000	14 165 000	613 321	(511 146)	(495 965)	405 680

The change in value of the hedging instruments used as the basis for recognizing hedge ineffectiveness for the period – cash flow hedge

	31.12.2021	31.12.2020
Instruments hedging loans and advances to customers - loans at a variable interest rate indexed to the market rate	(624 867)	501 189

The nominal values of hedging derivatives - cash flow hedge

31.12.2021	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)	530 000	350 000	3 595 000	12 010 000	200 000	**16 685 000**
The average rate of fixed leg	2.074%	1.952%	2.121%	1.595%	1.928%	

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%	

The fair value equal to book value of derivatives hedging was presented above in this Note.

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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
31.12.2021	99 851	423 499	619 887	15 754
31.12.2020	6 865	13 122	92 059	9 974

Cash flow hedge 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 mBank Hipoteczny 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 hedge

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

Hedging instruments – cash flow hedge

	Nominal value of hedging instruments		Change in the fair value due to hedge accounting from the date of designation of the hedging instrument		Other equity items – effective part of CIRS valuation	
	31.12.2021	**31.12.2020**	**31.12.2021**	**31.12.2020**	**31.12.2021**	**31.12.2020**
CIRS variable leg PLN	1 278 930	1 278 930	(87 331)	69 185	(85 861)	68 194
CIRS fixed leg EUR	1 379 820	1 384 440	179 574	53 246	80 630	(51 589)

The nominal values of hedging derivatives - cash flow hedge

31.12.2021	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%	-	
CURRENCY RISK						
Foreign exchange swap (CIRS) hedging cash flows arising from issued mortgage bonds						
Nominal value (PLN '000)	-	-	-	1 379 820	-	**1 379 820**
The average rate of fixed leg	-	-	-	0.242%	-	

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%	-	
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%	-	

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 October 2022 to September 2025.

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

The main sources of hedge ineffectiveness can be:

- taking into account the CVA / DVA correction only on the hedging instrument side,
- 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.

The following note presents other comprehensive income due to cash flow hedge for the period from 1 January to 31 December 2021 and for the period from 1 January to 31 December 2020.

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	Year ended 31 December	
	2021	**2020**
Other gross comprehensive income from cash flow hedge at the beginning of the period	**517 444**	**147 088**
Unrealised gains/losses included in other gross comprehensive income during the reporting period	(934 940)	621 882
The amount transferred in the period from comprehensive income to profit and loss	(200 038)	(251 526)
- net interest income	*(204 658)*	*(144 636)*
- foreign exchange result	*4 620*	*(106 890)*
Accumulated other gross comprehensive income at the end of the reporting period	**(617 534)**	**517 444**
Income tax on accumulated other comprehensive income at the end of the reporting period	117 332	(98 314)
Accumulated other net comprehensive income at the end of the reporting period	**(500 202)**	**419 130**
Impact on other comprehensive income in the reporting period (gross)	(1 134 978)	370 356
Tax on cash flow hedges	215 646	(70 368)
Impact on other comprehensive income in the reporting period (net)	**(919 332)**	**299 988**

	Year ended 31 December	
	2021	**2020**
Gains/losses recognised in comprehensive income (gross) during the reporting period, including:		
Unrealised gains/losses included in other comprehensive income (gross)	(1 134 978)	370 356
Results of cash flow hedge accounting recognised in the income statement	186 093	253 128
- amount included as interest income in income statement during the reporting period (Note 6)	*204 658*	*144 636*
- ineffective portion of hedge recognised included in other net trading income in income statement (Note 9)	*(13 945)*	*1 602*
- foreign exchange result	*(4 620)*	*106 890*
Impact on other comprehensive income in the reporting period (gross)	**(948 885)**	**623 484**

Impact of the IBOR reform

Following the amendments to IFRS 9, IAS 39 and IFRS 7, Interest Rate Benchmark Reform - Phase 2, as described in Note 2.30, and as a result of the reform of interest rate benchmarks and its replacement with risk-free alternative interest rates, the Bank has established a project to manage the change for any of its contracts that may be affected. The specific impact of IBOR reform on the Bank's hedge accounting activity is being managed as part of the overall project to implement IBOR reform at the Bank.

In preparing the 2019 financial statements, the Bank opted for early application of the amendments under Stage 1 of the interest rate benchmark reform: the amendments to IFRS 9/IFRS 39 and IFRS 7. The amendments in question modified certain requirements for hedge accounting, allowing it to continue to be applied to hedging relationships covered by the amendments during the period of uncertainty before the hedged items or hedging instruments change as a result of the interest rate benchmark reform.

In the current year, the Bank has applied for the first time the amendments to IFRS 9 Financial Instruments, IAS 39 Financial Instruments: Recognition and Measurement, IFRS 7 Financial Instruments: Disclosures, IFRS 4 Insurance Contracts and IFRS 16 Leases under Interest Rate Benchmark Reform - Phase 2, published in August 2020.

Application of the abovementioned Phase 1 measures allowed to maintain the hedge relationships despite uncertainty related to the value and timing of the hedged cashflows resulting from interest rate benchmark reform and inability to separate reference rate interest rate component in case of IBOR related fair value hedges.

The Bank was also not required to cease hedge accounting if retrospective assessment of hedge effectiveness of relation impacted by interest rate benchmark reform was outside of 80-125% effectiveness range. In the current reporting period no hedge relations were outside of the abovementioned range.

The Bank retained cumulative gains or losses in the cash flow hedge reserve for designated cash flow hedges related to IBORs subject to the interest rate benchmark reform despite the uncertainty caused by the interest rate benchmark reform related to the timing and amount of cash flows from the hedged items. In cases where the hedged future cash flows are no longer expected for reasons other than the interest rate benchmark reform, the cumulative gain or loss would be immediately reclassified to profit or loss.

Bank will be taking advantage of the measures resulting from changes to IAS 39/IFRS 9 introduced within Phase 1 until uncertainty related to timing and amount of cashflows resulting from the interest benchmark reform ceases to impact the Bank. The abovementioned uncertainty will be impacting the Bank until IBOR related contracts are amended to include clauses regulating replacement of reference benchmark and establishing alternative reference rate including fixed spread as basis for contractual cashflows.

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As a result of the Phase 2 amendments, in cases where the contractual terms of non-derivative financial instruments have been changed as a direct result of the interest rate benchmark reform and the new basis for determining contractual cash flows is economically equivalent to the previous basis (i.e. the basis immediately before the change), the Bank has changed the basis for determining contractual cash flows prospectively by changing the effective interest rate. Where additional changes were made that are not directly related to the reform, the relevant requirements under IFRS 9 were applied to such changes.

In cases were the interest rate benchmark reform resulted in conversion of the hedging instrument, the Bank updated the hedging documentation without terminating the hedge relationship.

Additionally for cashflow hedge relationships, if the hedged item was modified as a result of the interest rate benchmark reform, the cumulated profits or losses recognised in the cashflow hedge reserve related to IBOR hedge relations are treated as if they were calculated based on alternative reference rate.

In December 2021, the LCH clearing house converted the LIBOR CHF based derivative instruments used in hedge relations to equivalent instruments based on SARON (risk free rate). After this conversion the Bank has only such Libor CHF based hedging instruments, for which the last repricing period began before the end of 2021, that is, before cessation of LIBOR CHF publishing. All other derivative instruments designated in hedge relations are based on SARON, WIBOR, PRIBOR or EURIBOR rates.

21. Non-trading financial assets mandatorily at fair value through profit or loss

	31.12.2021	31.12.2020
Equity instruments	**224 389**	**202 304**
- Other financial corporations	164 823	139 718
- Non-financial corporations	59 566	62 586
Debt securities	**81 128**	**76 068**
- Other financial corporations	81 128	76 068
Loans and advances to customers	**1 111 674**	**1 506 319**
- Individual customers	948 636	1 216 809
- Corporate customers	162 898	288 777
- Public sector customers	140	733
Total non-trading financial assets mandatorily at fair value through profit or loss	**1 417 191**	**1 784 691**
Short-term (up to 1 year) gross	940 089	1 083 487
Long-term (over 1 year) gross	477 102	701 204

Credit quality of non-trading financial assets mandatorily at fair value through profit or loss according to internal rating system

Rating	Debt securities	
	31.12.2021	31.12.2020
1.4 – 1.6	81 128	-
1.8 – 2.0	-	76 068
Total	**81 128**	**76 068**

Sub-portfolio	Loans and advances to customers	
	31.12.2021	31.12.2020
1	2 113	59 355
2	100 664	266 839
3	242 807	231 633
4	337 494	459 293
5	292 284	248 674
6	28 681	37 660
7	69 635	59 856
default	37 996	143 009
Total	**1 111 674**	**1 506 319**

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22. Financial assets at fair value through other comprehensive income

31.12.2021	Carrying amount	Gross carrying amount				Accumulated impairment			
		Stage 1	Stage 2	Stage 3	POCI	Stage 1	Stage 2	Stage 3	POCI
Debt securities	**36 206 059**	**36 170 934**	**43 948**	**-**	**-**	**(8 235)**	**(588)**	**-**	**-**
- Central banks	8 495 243	8 496 392	-	-	-	(1 149)	-	-	-
- General governments, including:	25 251 680	25 255 273	-	-	-	(3 593)	-	-	-
pledged securities	*644 292*	*644 292*	-	-	-	-	-	-	-
- Credit institutions	230 663	230 836	-	-	-	(173)	-	-	-
- Other financial institutions	1 642 579	1 600 096	43 948	-	-	(877)	(588)	-	-
pledged securities	*107 957*	*107 957*	-	-	-	-	-	-	-
- Non-financial corporations	585 894	588 337	-	-	-	(2 443)	-	-	-
Total financial assets at fair value through other comprehensive income	**36 206 059**	**36 170 934**	**43 948**	**-**	**-**	**(8 235)**	**(588)**	**-**	**-**

Short-term (up to 1 year) gross	15 609 611
Long-term (over 1 year) gross	20 605 271

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

As at 31 December 2021, the carrying values of debt securities with fixed interest rates amounted to PLN 24 423 596 thousand and debt securities with variable interest rates PLN 11 791 286 thousand (31 December 2020, respectively: PLN 20 560 277 thousand and PLN 14 943 449 thousand).

The above note includes government bonds pledged under the Bank Guarantee Fund (BFG) and 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, Deposit Guarantee Scheme and Resolution, with further amendments, as at 31 December 2021 the Group held government bonds included in the statement of financial position in the amount of PLN 603 504 thousand with a nominal value of PLN 645 000 thousand, which were pledged as collateral for the BFG and were deposited in a separate account at the National Depository of Securities (31 December 2020, respectively: PLN 638 044 thousand and PLN 610 660 thousand).

In addition as at 31 December 2020 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 57 029 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 2021	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	**(5 665)**	**-**	**-**	**-**	**(11 956)**	**9 180**	**(382)**	**(8 823)**
Stage 1	(3 754)	(125)	327	-	(11 956)	6 868	405	(8 235)
Stage 2	(1 911)	125	(327)	-	-	2 312	(787)	(588)
Expected credit losses allowance, total	**(5 665)**	**-**	**-**	**-**	**(11 956)**	**9 180**	**(382)**	**(8 823)**

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)**

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 2021	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	**35 503 726**	**-**	**-**	**-**	**17 565 388**	**(17 062 393)**	**208 161**	**36 214 882**
Stage 1	35 392 158	-	(43 749)	-	17 565 388	(16 950 825)	207 962	36 170 934
Stage 2	111 568	-	43 749	-	-	(111 568)	199	43 948
Gross carrying amount, total	**35 503 726**	**-**	**-**	**-**	**17 565 388**	**(17 062 393)**	**208 161**	**36 214 882**

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
Gross carrying amount, total	**22 778 283**	**-**	**-**	**-**	**26 442 762**	**(13 513 270)**	**(204 049)**	**35 503 726**

Credit quality of financial assets at fair value through other comprehensive income according to internal rating system

31.12.2021	Stage 1	Stage 2	Stage 3	POCI	Total
Debt securities at fair value through other comprehensive income					
1.0 – 1.2	35 202 187	-	-	-	35 202 187
1.8 – 2.0	67 095	-	-	-	67 095
2.2 – 2.8	532 458	-	-	-	532 458
3.0 – 3.8	336 416	-	-	-	336 416
4.0 – 5.0	32 778	43 948	-	-	76 726
Gross carrying amount	**36 170 934**	**43 948**	**-**	**-**	**36 214 882**
Accumulated impairment	(8 235)	(588)	-	-	(8 823)
Total carrying amount	**36 162 699**	**43 360**	**-**	**-**	**36 206 059**

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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**

23. Financial assets at amortised cost

31.12.2021	Carrying amount	Gross carrying amount				Accumulated impairment			
		Stage 1	Stage 2	Stage 3	POCI	Stage 1	Stage 2	Stage 3	POCI
Debt securities	**16 164 103**	**16 166 149**	**-**	**-**	**-**	**(2 046)**	**-**	**-**	**-**
- General governments, including:	11 517 053	11 518 593	-	-	-	(1 540)	-	-	-
pledged securities	*1 361 945*	*1 361 945*	-	-	-	-	-	-	-
- Credit institutions	2 172 167	2 172 454	-	-	-	(287)	-	-	-
- Other financial institutions	2 474 883	2 475 102	-	-	-	(219)	-	-	-
pledged securities	*462 075*	*462 075*	-	-	-	-	-	-	-
Loans and advances to banks	**7 229 681**	**7 230 664**	**-**	**-**	**-**	**(983)**	**-**	**-**	**-**
Loans and advances to customers	**116 902 754**	**109 282 960**	**6 223 882**	**4 339 863**	**234 159**	**(434 872)**	**(346 255)**	**(2 440 501)**	**43 518**
Individual customers	70 391 454	67 884 443	2 038 199	2 231 602	141 139	(249 886)	(203 492)	(1 459 152)	8 601
Corporate customers	46 359 179	41 246 748	4 185 683	2 107 192	93 020	(184 825)	(142 763)	(980 793)	34 917
Public sector customers	152 121	151 769	-	1 069	-	(161)	-	(556)	-
Total financial assets at amortised cost	**140 296 538**	**132 679 773**	**6 223 882**	**4 339 863**	**234 159**	**(437 901)**	**(346 255)**	**(2 440 501)**	**43 518**

Short-term (up to 1 year) gross	43 706 225
Long-term (over 1 year) gross	99 771 452

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	**106 873 133**	**91 214 989**	**14 290 332**	**4 714 440**	**294 198**	**(296 810)**	**(441 217)**	**(2 871 497)**	**(31 302)**
Individual customers	62 929 892	54 300 751	8 176 256	2 147 319	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	**130 179 902**	**114 522 495**	**14 290 332**	**4 714 440**	**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	87 844 516

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The above note includes government bonds pledged under the Bank Guarantee Fund, securities pledged as sell/buy back transactions, 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 305 374 thousand (31 December 2020: PLN 244 046 thousand).

In the item loans and advances granted to individual clients were also included loans granted to microenterprises serviced by mBank S.A. Retail Banking.

Loans and advances to banks

	31.12.2021	31.12.2020
Current accounts	308 332	274 220
Placements with other banks (up to 3 months)	30 001	6 135
Included in cash equivalents (Note 42)	**338 333**	**280 355**
Loans and advances	113 560	111 584
Reverse repo or buy/sell back	5 790 914	6 301 724
Other receivables	987 857	661 207
Total (gross) loans and advances to banks	**7 230 664**	**7 354 870**
Provisions created for loans and advances to banks (negative amount)	**(983)**	**(602)**
Total (net) loans and advances to banks	**7 229 681**	**7 354 268**
Short-term (up to 1 year) gross	7 227 955	7 183 716
Long-term (over 1 year) gross	2 709	171 154

The item Other receivables includes cash collaterals in the amount of PLN 665 320 thousand, placed by the Group under the derivative transactions (Note 36) (31 December 2020: PLN 531 674 thousand).

As at 31 December 2021, the variable rate loans to banks amounted to PLN 43 783 thousand (31 December 2020: PLN 35 952 thousand) and the fixed rate loans to banks amounted to PLN 69 777 thousand (31 December 2020: PLN 75 632 thousand).

As at 31 December 2021 and 31 December 2020 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 0.62% (in 2020: 0.75%).

The following table presents receivables from Polish and foreign banks:

	31.12.2021		31.12.2020	
	Loans and advances to Polish banks	Loans and advances to foreign banks	Loans and advances to Polish banks	Loans and advances to foreign banks
Gross carrying amount	222 197	7 008 467	195 686	7 159 184
Accumulated impairment	(433)	(550)	(132)	(470)
Loans and advances to banks, net	**221 764**	**7 007 917**	**195 554**	**7 158 714**

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Loans and advances to customers

Loans and advances to customers 31.12.2021	Gross carrying amount	including:		
		Individual customers	Corporate customers	Public sector customers
Current accounts	13 231 330	7 922 189	5 307 704	1 437
Term loans, including:	89 597 975	63 986 776	25 459 798	151 401
- housing and mortgage loans to natural persons	*49 819 031*	*49 819 031*		
Reverse repo or buy/sell back	187 630	-	187 630	-
Finance leases	13 002 698	-	13 002 698	-
Other loans and advances	3 661 169	-	3 661 169	-
Other receivables	400 062	386 418	13 644	-
Total gross carrying amount	**120 080 864**	**72 295 383**	**47 632 643**	**152 838**

Loans and advances to customers 31.12.2021	Accumulated impairment	including:		
		Individual customers	Corporate customers	Public sector customers
Current accounts	(841 689)	(669 456)	(172 229)	(4)
Term loans, including:	(1 849 134)	(1 234 473)	(613 948)	(713)
- housing and mortgage loans to natural persons	*(457 412)*	*(457 412)*		
Finance leases	(425 486)	-	(425 486)	-
Other loans and advances	(61 801)	-	(61 801)	-
Total accumulated impairment	**(3 178 110)**	**(1 903 929)**	**(1 273 464)**	**(717)**

Total gross carrying amount	**120 080 864**	**72 295 383**	**47 632 643**	**152 838**
Total accumulated impairment	(3 178 110)	(1 903 929)	(1 273 464)	(717)
Total carrying amount	**116 902 754**	**70 391 454**	**46 359 179**	**152 121**

Short-term (up to 1 year) gross	35 889 157
Long-term (over 1 year) gross	84 191 707

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:	83 563 068	57 053 626	26 280 341	229 101
- housing and mortgage loans to natural persons	*44 714 007*	*44 714 007*		
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	**110 513 959**	**64 734 776**	**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	**110 513 959**	**64 734 776**	**45 548 763**	**230 420**
Total accumulated impairment	(3 640 826)	(1 804 884)	(1 835 091)	(851)
Total carrying amount	**106 873 133**	**62 929 892**	**43 713 672**	**229 569**

Short-term (up to 1 year) gross	35 862 048
Long-term (over 1 year) gross	74 651 911

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As at 31 December 2021, gross amount of variable interest rate loans amounted to PLN 116 922 674 thousand and fixed interest rate loans amounted to PLN 3 158 190 thousand (31 December 2020: PLN 107 950 642 thousand and PLN 2 563 317 thousand). The average interest rate for loans granted to customers (excluding reverse repo) amounted to 2.64% (31 December 2020: 3.01%).

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 2021, the above note includes receivables in the amount of PLN 222 684 thousand from the National Depository of Securities CCP in connection with the Brokerage Office activity (31 December 2020: PLN 182 801 thousand).

In addition, the item Other loans and advances includes cash collaterals in the amount of PLN 303 531 thousand placed by the Group under derivatives transactions (Note 36) (31 December 2020: PLN 220 550 thousand).

Loans and advances include receivables under finance leases.

	31.12.2021	31.12.2020
Gross investment in finance leases, receivable:	**14 052 574**	**12 971 095**
- not later than 1 year	5 148 191	4 514 176
- later than 1 year and not later than 2 years	3 562 109	3 461 500
- later than 2 years and not later than 3 years	2 647 741	2 335 605
- later than 3 years and not later than 4 years	1 342 043	1 374 487
- later than 4 years and not later than 5 years	861 525	625 701
- later than 5 years	490 965	659 626
Unearned future finance income on finance leases (negative amount)	(1 049 876)	(717 274)
Net investment in finance leases	**13 002 698**	**12 253 821**
Net investment in finance leases, receivable:	**13 002 698**	**12 253 821**
- not later than 1 year	4 694 173	4 217 959
- later than 1 year and not later than 2 years	3 279 003	3 259 519
- later than 2 years and not later than 3 years	2 487 093	2 231 660
- later than 3 years and not later than 4 years	1 263 424	1 318 487
- later than 4 years and not later than 5 years	822 506	600 267
- later than 5 years	456 499	625 929
Net investment in finance leases	**13 002 698**	**12 253 821**
Impairment provisions for finance leases receivable	**(425 486)**	**(453 398)**
Net carrying amount of finance leases receivable	**12 577 212**	**11 800 423**
Unguaranteed residual value accruing to the lessor	**1 589 782**	**1 647 526**

The currency structure of housing and mortgage loans granted to individual customers

	31.12.2021	31.12.2020
Net housing and mortgage loans to natural persons (in PLN '000), including:	**49 361 619**	**44 249 186**
- PLN	30 388 783	23 789 950
- CHF	9 063 602	12 295 153
- EUR	4 307 671	3 844 598
- CZK	5 407 924	4 113 213
- USD	174 919	182 238
- Other	18 720	24 034
Net housing and mortgage loans to natural persons in original currencies (main currencies in '000)		
- PLN	30 388 783	23 789 950
- CHF	2 037 497	2 883 411
- EUR	936 572	833 102
- CZK	29 232 022	23 463 851
- USD	43 083	48 488

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

Credit quality of financial assets at amortised cost according to internal rating system

31.12.2021	Stage 1	Stage 2	Stage 3	POCI	Total
Debt securities at amortised cost					
1.0 – 1.2	12 939 555	-	-	-	12 939 555
1.8 – 2.0	2 140 461	-	-	-	2 140 461
2.2 – 2.8	1 086 133	-	-	-	1 086 133
Gross carrying amount	**16 166 149**	**-**	**-**	**-**	**16 166 149**
Accumulated impairment	(2 046)	-	-	-	(2 046)
Total carrying amount	**16 164 103**	**-**	**-**	**-**	**16 164 103**
Loans and advances to banks at amortised cost					
1	6 878 026	-	-	-	6 878 026
2	179 357	-	-	-	179 357
3	101 137	-	-	-	101 137
4	62 083	-	-	-	62 083
5	980	-	-	-	980
7	391	-	-	-	391
8	1 055	-	-	-	1 055
other	7 635	-	-	-	7 635
Gross carrying amount	**7 230 664**	**-**	**-**	**-**	**7 230 664**
Accumulated impairment	(983)	-	-	-	(983)
Total carrying amount	**7 229 681**	**-**	**-**	**-**	**7 229 681**
Loans and advances to customers at amortised cost					
1	28 678 870	43 128	-	11 320	28 733 318
2	30 431 175	268 050	-	15 975	30 715 200
3	14 691 729	537 648	-	6 539	15 235 916
4	19 345 889	905 742	-	12 069	20 263 700
5	11 189 468	2 135 194	-	7 440	13 332 102
6	439 667	377 784	-	1 033	818 484
7	688 172	1 880 289	-	13 109	2 581 570
8	737 020	-	-	-	737 020
other	3 080 970	76 047	-	-	3 157 017
default	-	-	4 339 863	166 674	4 506 537
Gross carrying amount	**109 282 960**	**6 223 882**	**4 339 863**	**234 159**	**120 080 864**
Accumulated impairment	(434 872)	(346 255)	(2 440 501)	43 518	(3 178 110)
Total carrying amount	**108 848 088**	**5 877 627**	**1 899 362**	**277 677**	**116 902 754**

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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	18 744 440	732 742	-	-	19 477 182
2	26 584 335	3 117 655	-	4 054	29 706 044
3	11 496 800	1 166 133	-	3 570	12 666 503
4	24 992 572	3 192 649	-	4 488	28 189 709
5	5 964 172	3 439 933	-	1 461	9 405 566
6	228 806	359 288	-	49	588 143
7	408 299	2 146 967	-	8 585	2 563 851
8	635 709	-	-	-	635 709
other	2 159 856	134 965	-	-	2 294 821
default	-	-	4 714 440	271 991	4 986 431
Gross carrying amount	**91 214 989**	**14 290 332**	**4 714 440**	**294 198**	**110 513 959**
Accumulated impairment	(296 810)	(441 217)	(2 871 497)	(31 302)	(3 640 826)
Total carrying amount	**90 918 179**	**13 849 115**	**1 842 943**	**262 896**	**106 873 133**

Movements in expected credit losses allowance

Change from 1 January to 31 December 2021	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	Changes due to new default definition	Write-offs	Other movements	As at the end of the period
Debt securities	**(135)**	**-**	**-**	**-**	**(342)**	**93**	**(1 662)**	**-**	**-**	**-**	**(2 046)**
Stage 1	(135)	-	-	-	(342)	93	(1 662)	-	-	-	(2 046)
Loans and advances to banks	**(602)**	**-**	**-**	**-**	**(2 351)**	**2 020**	**(48)**	**(2)**	**-**	**-**	**(983)**
Stage 1	(602)	-	-	-	(2 351)	2 020	(48)	(2)	-	-	(983)
Loans and advances to customers	**(3 640 826)**	**-**	**-**	**-**	**(258 833)**	**364 078**	**(777 579)**	**(263)**	**1 060 240**	**75 073**	**(3 178 110)**
Stage 1	(296 810)	(534 962)	137 519	8 015	(135 652)	85 432	310 859	(9 273)	-	-	(434 872)
Stage 2	(441 217)	514 115	(181 520)	208 095	(21 630)	51 146	(456 625)	(18 619)	-	-	(346 255)
Stage 3	(2 871 497)	20 847	44 001	(216 110)	(99 088)	226 540	(684 622)	13 950	1 050 405	75 073	(2 440 501)
POCI	(31 302)	-	-	-	(2 463)	960	52 809	13 679	9 835	-	43 518
Expected credit losses allowance, total	**(3 641 563)**	**-**	**-**	**-**	**(261 526)**	**366 191**	**(779 289)**	**(265)**	**1 060 240**	**75 073**	**(3 181 139)**

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)**

Movements in expected credit losses resulting from changes in models are described in the Note 3.3.6.2.2.

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Explanation of changes in the gross carrying amount impacting the changes on expected credit losses allowance

Change from 1 January to 31 December 2021	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	**15 952 636**	**-**	**-**	**-**	**2 371 836**	**(2 931 185)**	**-**	**772 862**	**16 166 149**
Stage 1	15 952 636	-	-	-	2 371 836	(2 931 185)	-	772 862	16 166 149
Loans and advances to banks	**7 354 870**	**-**	**-**	**-**	**6 079 743**	**(6 512 056)**	**-**	**308 107**	**7 230 664**
Stage 1	7 354 870	-	-	-	6 079 743	(6 512 056)	-	308 107	7 230 664
Loans and advances to customers	**110 513 959**	**-**	**-**	**-**	**35 535 249**	**(18 195 148)**	**(1 060 240)**	**(6 712 956)**	**120 080 864**
Stage 1	91 214 989	7 403 725	(2 041 573)	(453 063)	34 616 543	(15 380 530)	-	(6 077 131)	109 282 960
Stage 2	14 290 332	(7 290 703)	2 202 804	(971 407)	633 176	(2 259 321)	-	(380 999)	6 223 882
Stage 3	4 714 440	(113 022)	(161 231)	1 397 539	206 894	(467 519)	(1 050 405)	(186 833)	4 339 863
POCI	294 198	-	-	26 931	78 636	(87 778)	(9 835)	(67 993)	234 159
Financial assets at amortised cost, gross	**133 821 465**	**-**	**-**	**-**	**43 986 828**	**(27 638 389)**	**(1 060 240)**	**(5 631 987)**	**143 477 677**

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	**106 025 977**	**-**	**-**	**-**	**31 608 750**	**(22 512 717)**	**(749 991)**	**(3 858 060)**	**110 513 959**
Stage 1	93 799 388	2 138 313	(8 600 097)	(1 076 743)	28 782 346	(20 250 185)	-	(3 578 033)	91 214 989
Stage 2	7 887 489	(2 098 705)	8 684 824	(579 870)	2 346 404	(1 752 517)	-	(197 293)	14 290 332
Stage 3	4 101 512	(39 608)	(84 727)	1 552 183	466 903	(497 453)	(746 683)	(37 687)	4 714 440
POCI	237 588	-	-	104 430	13 097	(12 562)	(3 308)	(45 047)	294 198
Financial assets at amortised cost, gross	**121 603 819**	**-**	**-**	**-**	**44 096 027**	**(28 061 737)**	**(749 991)**	**(3 066 653)**	**133 821 465**

The most significant factors affecting the transfers between Stages occurred in 2021 are presented below:

- The Group withdrew gradually from using additional premisses for maintaining loans subject to the moratoria in Stage 2. The total gross carrying amount reclassified to the Stage 1 due to cancellation of additional premisses, amounted to PLN 3 161 million. Classification change in 2021 resulted in the release of expected credit loss allowance in the amount of PLN 43.8 million.
- As part of the model management process, Group has implemented improvements of the sensitivity of the quantitative staging model. This resulted in reclassification of PLN 2 275 million from the Stage 2 to the Stage 1, and PLN 660 million PLN from the Stage 1 to the Stage 2. Changes also included adjustments related to the implementation of Recommendation R (detailed description is provided in section 3.3.6.2.4). The impact of the changes on the expected credit loss is included in Note 3.3.6.2.2.

Financial effect of collaterals

31.12.2021	Gross amount	Accumulated impairment	Accumulated impairment without cash flow from collaterals	Financial effect of collaterals
Balance sheet data				
Loans and advances to banks	7 230 664	(983)	(3 790)	2 807
Loans and advances to customers	120 080 864	(3 178 110)	(4 385 050)	1 206 940
Individual customers	72 295 383	(1 903 929)	(2 053 476)	149 547
- housing and mortgage loans to natural persons	*49 819 031*	*(457 412)*	*(584 905)*	*127 493*
Corporate customers	47 632 643	(1 273 464)	(2 330 835)	1 057 371
Public sector customers	152 838	(717)	(739)	22
Total balance sheet data	**127 311 528**	**(3 179 093)**	**(4 388 840)**	**1 209 747**
Off-balance sheet data				
Loan commitments and other commitments	31 375 288	(89 439)	(109 741)	20 302
Guarantees, banker's acceptances, documentary and commercial letters of credit	6 988 541	(228 939)	(267 657)	38 718
Total off-balance sheet data	**38 363 829**	**(318 378)**	**(377 398)**	**59 020**

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31.12.2020	Gross amount	Accumulated impairment	Accumulated impairment without cash flow from collaterals	Financial effect of collaterals
Balance sheet data				
Loans and advances to banks	7 354 870	(602)	(1 074)	472
Loans and advances to customers	110 513 959	(3 640 826)	(4 909 386)	1 268 560
Individual customers	64 734 776	(1 804 884)	(1 991 293)	186 409
- housing and mortgage loans to natural persons	*44 714 007*	*(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	**117 868 829**	**(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**

As at 31 December 2021 the carrying amount of loans and advances to customers for which the Group has not recognized a loss allowance because of the collateral amounted to PLN 2 500 050 thousand (31 December 2020: PLN 2 662 954 thousand).

24. Non-current assets and disposal groups classified as held for sale and liabilities held for sale

In December 2021 the Bank's Management Board approved the sale of real estate in Katowice at ul. Powstańców 43, owned by mBank. The property consists of an office, service building with equipment and the right of perpetual usufruct of land.

On 5 January 2022, the Bank concluded a preliminary agreement for the sale of this property and therefore, in accordance with the accounting principles described in Note 2.20, the Bank reclassified the value of the building with its equipment and the right of use perpetual usufruct of land to Non-current assets and disposal groups classified as held for sale, and the value of the lease liability related to the right of perpetual usufruct of land to the Liabilities classified as held for sale. The parties to the contract undertook to conclude the promised contract by 31 December 2022.

The financial data regarding assets and liabilities held for sale are presented below.

Non-current assets held for sale	31.12.2021	31.12.2020
Fixed asset	31 247	-
Total non-current assets held for sale	**31 247**	**-**

Liabilities classified as held for sale	31.12.2021	31.12.2020
Financial liabilities measured at amortised cost, including:	7 425	-
Amounts due to customers	*7 425*	-
Total liabilities classified as held for sale	**7 425**	**-**

25. Intangible assets

	31.12.2021	31.12.2020
Goodwill	24 228	27 760
Patents, licences and similar assets, including:	959 664	897 283
- computer software	*791 473*	*722 688*
Other intangible assets	7 457	8 812
Intangible assets under development	292 604	244 843
Total intangible assets	**1 283 953**	**1 178 698**

In 2021 and 2020, the Group performed impairment tests of intangible assets under development and goodwill. As a result of the tests, as of 31 December 2021 the Group wrote off goodwill in the amount of PLN 3 532 thousand.

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Movements in intangible assets

Movements in intangible assets from 1 January to 31 December 2021	Patents, licences and other similar assets		Other intangible assets	Intangible assets under development	Goodwill	Total intangible assets
		Computer software				
Gross value of intangible assets as at the beginning of the period	**1 758 468**	**1 394 470**	**24 139**	**244 843**	**28 956**	**2 056 406**
Increase (due to):	**241 714**	**180 473**	**261**	**316 191**	**-**	**558 166**
- purchase	42 873	4 849	-	237 486	-	280 359
- transfer from intangible assets under development	198 556	175 512	261	-	-	198 817
- development costs	-	-	-	37 913	-	37 913
- other increases	285	112	-	40 792	-	41 077
Decrease (due to):	**(212 605)**	**(129 962)**	**-**	**(268 430)**	**(4 728)**	**(485 763)**
- liquidation	(212 599)	(129 958)	-	(8)	-	(212 607)
- transfer to intangible assets given to use	-	-	-	(198 817)	-	(198 817)
- other decreases	(6)	(4)	-	(69 605)	(4 728)	(74 339)
Gross value of intangible assets as at the end of the period	**1 787 577**	**1 444 981**	**24 400**	**292 604**	**24 228**	**2 128 809**
Accumulated amortization as at the beginning of the period	**(861 185)**	**(671 782)**	**(15 327)**	**-**	**-**	**(876 512)**
Amortization for the period (due to):	**36 936**	**20 107**	**(1 616)**	**-**	**-**	**35 320**
- amortization	(166 100)	(100 355)	(1 610)	-	-	(167 710)
- other increases	(179)	(112)	(6)	-	-	(185)
- liquidation	203 215	120 574	-	-	-	203 215
Accumulated amortization as at the end of the period	**(824 249)**	**(651 675)**	**(16 943)**	**-**	**-**	**(841 192)**
Impairment losses as at the beginning of the period	**-**	**-**	**-**	**-**	**(1 196)**	**(1 196)**
- increase	(3 664)	(1 833)	-	-	(3 532)	(7 196)
- decrease	-	-	-	-	4 728	4 728
Impairment losses as at the end of the period	**(3 664)**	**(1 833)**	**-**	**-**	**-**	**(3 664)**
Net value of intangible assets as at the end of the period	**959 664**	**791 473**	**7 457**	**292 604**	**24 228**	**1 283 953**

Movements in intangible assets from 1 January to 31 December 2020	Patents, licences and other similar assets		Other intangible assets	Intangible assets under development	Goodwill	Total intangible assets
		Computer software				
Gross value of intangible assets as at the beginning of the period	**1 609 991**	**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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26. Tangible assets

	31.12.2021	31.12.2020
Tangible assets, including:	**659 831**	**614 346**
- land	653	653
- buildings and structures	45 649	153 403
- equipment	186 222	166 759
- vehicles	200 557	199 575
- other fixed assets	226 750	93 956
Fixed assets under construction	**66 452**	**183 142**
The right to use, including:	**815 967**	**717 089**
- real estate	811 837	667 387
- the right of perpetual of usufruct of land	2 177	47 670
- cars	1 712	1 547
- other	241	485
Total tangible assets	**1 542 250**	**1 514 577**

Movements in tangible assets

Movements in tangible assets from 1 January to 31 December 2021	Land	Buildings and structures	Equipment	Vehicles	Other tangible assets	Tangible assets under construction	Total
Gross value of tangible assets as at the beginning of the period	**653**	**328 131**	**642 861**	**259 034**	**360 313**	**183 142**	**1 774 134**
Increase (due to):	**-**	**859**	**107 526**	**113 994**	**174 098**	**197 027**	**593 504**
- purchase	-	-	40 199	106 865	1 747	131 560	280 371
- transfer from tangible assets under construction	-	859	66 773	-	171 191	-	238 823
- other increases	-	-	554	7 129	1 160	65 467	74 310
Decrease (due to):	**-**	**(223 860)**	**(83 636)**	**(111 390)**	**(57 358)**	**(313 717)**	**(789 961)**
- sale	-	(11)	(9 503)	(107 595)	(22 082)	(2)	(139 193)
- liquidation	-	(440)	(36 788)	(1 383)	(34 623)	-	(73 234)
- transfer to tangible assets	-	-	-	-	-	(238 823)	(238 823)
- non-current assets held for sale	-	(89 962)	(3 615)	-	(215)	-	(93 792)
- reclassification to investment properties	-	(133 447)	(32 185)	-	(365)	-	(165 997)
- other decreases	-	-	(1 545)	(2 412)	(73)	(74 892)	(78 922)
Gross value of tangible assets as at the end of the period	**653**	**105 130**	**666 751**	**261 638**	**477 053**	**66 452**	**1 577 677**
Accumulated depreciation as at the beginning of the period	**-**	**(125 319)**	**(476 052)**	**(59 459)**	**(265 555)**	**-**	**(926 385)**
Depreciation for the period (due to):	**-**	**86 618**	**(4 477)**	**(1 622)**	**15 424**	**-**	**95 943**
- depreciation charge	-	(6 511)	(86 780)	(31 720)	(37 698)	-	(162 709)
- other increases	-	(1)	(359)	(5 450)	(905)	-	(6 715)
- sale	-	8	9 100	34 537	20 365	-	64 010
- liquidation	-	157	36 387	1 011	33 009	-	70 564
- non-current assets held for sale	-	35 159	3 615	-	215	-	38 989
- reclassification to investment properties	-	57 806	32 181	-	365	-	90 352
- other decreases	-	-	1 379	-	73	-	1 452
Accumulated depreciation as at the end of the period	**-**	**(38 701)**	**(480 529)**	**(61 081)**	**(250 131)**	**-**	**(830 442)**
Impairment losses as at the beginning of the period	**-**	**(49 409)**	**(50)**	**-**	**(802)**	**-**	**(50 261)**
- increase	-	(2 400)	-	-	(172)	-	(2 572)
- decrease	-	31 029	50	-	802	-	31 881
Impairment losses as at the end of the period	**-**	**(20 780)**	**-**	**-**	**(172)**	**-**	**(20 952)**
Net value of tangible assets as at the end of the period	**653**	**45 649**	**186 222**	**200 557**	**226 750**	**66 452**	**726 283**

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Movements in tangible assets from 1 January to 31 December 2020	Land	Buildings and structures	Equipment	Vehicles	Other tangible assets	Tangible assets under construction	Total
Gross value of tangible assets as at the beginning of the period	**1 033**	**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**

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.

	31.12.2021	31.12.2020
Minimum lease payments under non-cancellable operating lease		
Up to 1 year	27 033	28 114
Over 1 year up to 2 years	15 666	16 259
Over 2 years up to 3 years	6 292	8 170
Over 3 years up to 4 years	2 201	1 491
Over 4 years up to 5 years	655	38
Total	**51 847**	**54 072**

The Group presents depreciation of tangible assets leased under operating lease and sublease agreements as net income from operating lease (Note 12).

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Movements in right to use

Movements in rights of use from 1 January to 31 December 2021	Real estate	Right-of-use of land	Vehicles	Other	Total
Gross value of rights of use as at the beginning of the period	**884 001**	**49 046**	**2 816**	**2 015**	**937 878**
Increase (due to):	**428 664**	**-**	**22 418**	**455**	**451 537**
- new contract	343 753	-	2 473	205	346 431
- modification of contract	59 092	-	309	233	59 634
- other increases	25 819	-	19 636	17	45 472
Decrease (due to):	**(171 899)**	**(46 775)**	**(4 774)**	**(1 463)**	**(224 911)**
- termination of contract	(41 080)	-	(2 149)	(1 313)	(44 542)
- modification of contract	(123 231)	-	(13)	-	(123 244)
- other decreases	(7 588)	(46 775)	(2 612)	(150)	(57 125)
Gross value of rights of use as at the end of the period	**1 140 766**	**2 271**	**20 460**	**1 007**	**1 164 504**
Accumulated depreciation as at the beginning of the period	**(216 614)**	**(1 376)**	**(1 269)**	**(1 530)**	**(220 789)**
Depreciation for the period (due to):	**(112 315)**	**1 282**	**(17 479)**	**764**	**(127 748)**
- depreciation charge	(128 520)	(412)	(8 879)	(354)	(138 165)
- other increases	(6 774)	-	(11 937)	(7)	(18 718)
- modification of contract	823	-	7	-	830
- termination of contract	20 527	-	1 383	975	22 885
- other decreases	1 629	1 694	1 947	150	5 420
Accumulated depreciation as at the end of the period	**(328 929)**	**(94)**	**(18 748)**	**(766)**	**(348 537)**
Net value of rights of use as at the end of the period	**811 837**	**2 177**	**1 712**	**241**	**815 967**

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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27. Investment properties

Due to the change of the Bank's head office, in 2021 the Bank reclassified its building at ul. Królewska 14 in Warsaw, previously recognised as a fixed asset with a total carrying amount of PLN 75 645 thousand and the right of perpetual usufruct of land recognised as the right of use in the amount of PLN 37 747 thousand to the item Investment property. The difference in the revaluation of these components to fair value amounting to PLN 14 118 thousand was recognised in other comprehensive income (Note 18). The building is intended for rent.

	31.12.2021	31.12.2020
Gross value as at the beginning of the period	**-**	**-**
Increase (due to):	**127 510**	**-**
- reclassification to investment properties	113 392	-
- revaluation gains from fair value adjustments	14 118	-
As at the end of the period	**127 510**	**-**

28. Other assets

	31.12.2021	31.12.2020
Other assets		
- debtors, including:	710 350	569 977
- settlements of payment cards	*47 398*	*139 396*
- receivables from KDPW under the compensation scheme	*16 024*	*13 880*
- interbank balances	22 867	15 033
- settlements of securities transactions	26 093	35 014
- other accruals	155 933	151 112
- accrued income	89 021	110 581
- inventories	306 585	363 310
- other	55 971	37 412
Total other assets	**1 366 820**	**1 282 439**
Short-term (up to 1 year)	1 283 304	1 268 752
Long-term (over 1 year)	83 516	13 687

In 2021 and in 2020, the item Settlements of securities transactions is connected in its entirety with the Brokerage Office activity.

As at 31 December 2021 and as at 31 December 2020, the value of inventories primarily results from the business of the company mLeasing.

Throughout the year 2021 and 2020, the Group did not capitalize borrowing costs.

As at 31 December 2021, the above note includes financial assets in amount of PLN 759 310 thousand (31 December 2020: PLN 620 024 thousand).

Financial assets included in other assets

	31.12.2021	31.12.2020
Gross financial assets, including:	**776 391**	**636 575**
- Not past due	754 416	613 983
- Past due from 1 to 90 days	12 427	8 695
- Past due over 90 days	9 548	13 897
Provisions for impaired assets (negative amount)	(17 081)	(16 551)
Net financial assets	**759 310**	**620 024**

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Movements of impairment allowance for financial assets

	31.12.2021	31.12.2020
As at the beginning of the period	**(16 551)**	**(16 212)**
Change in the period (due to)	(530)	**(339)**
- increase of provisions	(3 138)	(1 097)
- release of provisions	479	466
- write-offs	2 233	403
- foreign exchange differences	-	(53)
- other	(104)	(58)
As at the end of the period	**(17 081)**	**(16 551)**

29. Financial liabilities measured at amortised cost

Amounts due to banks and customers

31.12.2021	Amount due to banks	Amount due to customers	including:		
			Individual customers	Corporate customers	Public sector customers
Deposits	**2 111 811**	**155 904 661**	**112 225 674**	**43 071 577**	**607 410**
Current accounts	653 061	147 022 632	103 992 478	42 436 923	593 231
Term deposits	770 328	8 794 207	8 233 196	546 832	14 179
Repo or sell/buy back transactions	688 422	87 822	-	87 822	-
Loans and advances received	**502**	**1 906 621**	**-**	**1 906 621**	**-**
Other financial liabilities	**1 247 245**	**2 123 847**	**220 450**	**1 870 485**	**32 912**
Liabilities in respect of cash collaterals	1 077 483	706 268	75 263	631 005	-
Lease liabilities	-	956 838	-	923 959	32 879
Other	169 762	460 741	145 187	315 521	33
Total financial liabilities measured at amortised cost	**3 359 558**	**159 935 129**	**112 446 124**	**46 848 683**	**640 322**

Short-term (up to 1 year)	3 356 268	157 149 931
Long-term (over 1 year)	3 290	2 785 198

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 or sell/buy back 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	-
Lease liabilities	-	771 935	-	731 349	40 586
Other	246 289	366 206	76 463	289 691	52
Total financial liabilities measured at amortised cost	**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

The Group presents amounts due to microenterprises provided by Retail Banking of mBank S.A. in the item Amounts due to individual customers.

The average interest rate for loans and deposits received from other banks in 2021 amounted to 0.10% (31 December 2020: 0.23%).

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The Group did not note any violations of contractual terms related to liabilities in respect of loans received.

As at 31 December 2021, 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 0.04% (31 December 2020: 0.29%).

As at 31 December 2021, the balance of loans and advances received includes the loan received from European Investment Bank in the amount of PLN 1 906 621 thousand (31 December 2020: PLN 3 254 591 thousand). The loan was collateralized with treasury bonds, which have been presented as pledged assets under Note 23 and Note 36.

Lease liabilities

Leasing liabilities by maturity dates are presented below.

	31.12.2021	31.12.2020
Lease liabilities breakdown by maturity dates		
Up to 3 months	25 852	31 005
From 3 months to 1 year	90 374	82 067
From 1 year to 5 years	482 468	362 631
Over 5 years	393 843	359 410
Total	**992 537**	**835 113**

Debt securities issued

31.12.2021 Debt securities issued by type	Nominal value (currency of issue)	Carrying value of the liability according to the maturity date					Total carrying value of the liability
		Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	
Bonds, including:		**162 208**	**199 679**	**2 913 146**	**1 455 918**	**2 299 700**	**7 030 651**
- PLN	367 000	162 208	199 679	-	5 008	-	366 895
- EUR	954 442	-	-	2 103 666	-	2 299 700	4 403 366
- CHF	505 000	-	-	809 480	1 450 910	-	2 260 390
Mortgage bonds (public), including:		**-**	**92 998**	**1 252 059**	**4 751 180**	**302 894**	**6 399 131**
- PLN	2 555 143	-	-	928 136	1 557 104	74 815	2 560 055
- EUR	816 900	-	92 998	323 923	3 194 076	228 079	3 839 076
Total		**162 208**	**292 677**	**4 165 205**	**6 207 098**	**2 602 594**	**13 429 782**

31.12.2020 Debt securities issued by type	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**

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.

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Movements in debt securities issued

Movements from 1 January to 31 December	2021	2020
As at the beginning of the period	**13 996 317**	**17 435 143**
Additions (issue)	3 497 354	1 460 000
Disposals (redemption)	(3 959 595)	(5 834 295)
Exchange differences	98 075	925 313
Other changes	(202 369)	10 156
Debt securities issued as at the end of the period	**13 429 782**	**13 996 317**

Issues in 2021

- On 20 September 2021, the Bank issued senior non-preferred notes under the EMTN Programme in the total nominal value of EUR 500 000 thousand, which is the equivalent of PLN 2 299 950 thousand at the average NBP exchange rate as of 20 September 2021, maturing on 21 September 2027 (with an option of early redemption at the issuer's request on 21 September 2026). The bonds bear interest at a fixed rate of 0.966% per annum for five years from the issue date and a variable rate of EURIBOR 3M plus a margin of 1.25% throughout the sixth year. The bonds were admitted to trading on the regulated market of the Luxembourg Stock Exchange.
- mBank Hipoteczny S.A. issued mortgage bonds with a nominal value of PLN 100 000 thousand.
- mLeasing Sp. z o.o. issued 11 series of short-term discount bonds with a nominal value of PLN 1 100 000 thousand.

Redemption in 2021

- On 26 November 2021, the Bank redeemed bonds, issued on 26 November 2014, with a total nominal value of EUR 427 583 thousand, obtained by the Bank in the substitution process.
- mBank Hipoteczny S.A. redeemed mortgage bonds with a nominal value of PLN 782 210 thousand and bonds with a nominal value of PLN 100 000 thousand.
- mLeasing Sp. z o.o. redeemed short-term discount bonds with a nominal value of PLN 1 100 000 thousand.

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 face value of these outstanding bonds at the date of substitution amounted to 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. issued of long-term bonds with a nominal value of PLN 60 000 thousand.
- mLeasing Sp. z o.o. 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.
- In 2020 the company mLeasing Sp. z o.o. redeemed short-term bonds in the amount of PLN 1 795 989 thousand.

In according to the act on covered bonds and mortgage banks, from the funds raised through the issue of covered bonds mBank Hipoteczny 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.

mBank Hipoteczny maintains 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 mBH'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 mBank Hipoteczny 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.

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The tables below show data related to the issuance of mortgage bonds.

		Mortgage bond register	
		31.12.2021	31.12.2020
1.	Nominal value of covered bonds listed on the market	7 355 232	7 554 014
2.	The nominal value of receivables entered in the collateral register of covered bonds underlying the issue of covered bonds (value on not matured capital)	9 737 408	9 329 195
3.	Cash in mBank Hipoteczny, as a treasury bonds, entered in the collateral register of covered bonds additionally underlying the issue of covered bonds (Substitute collateral)	98 732	104 889
4.	Financial collaterals	100 890	105 510
5.	Level of collateral the covered bonds by receivables (2/1)	132.39%	123.50%
6.	Total covered bonds collateral level (2+3+4) / 1	135.10%	126.29%
7.	The value of receivables as collateral issue of mortgage covered bonds to the part which not exceeding 60% of the mortgage lending value of real estate for commercial real estate	1 507 424	2 117 009
8.	The value of receivables as collateral issue of mortgage covered bonds to the part which not exceeding 80% of the mortgage lending value of real estate for residential property	7 719 429	6 580 040

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

Transactions regarding Bank's bonds included in subordinated liabilities have been described under this Note below.

Subordinated liabilities

31.12.2021	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%	1.97	21.03.2028	1 112 709
- Investors not associated with mBank S.A.	550 000	PLN	6M WIBOR + 1.8%	2.14	10.10.2028 [1)]	552 643
- Investors not associated with mBank S.A.	200 000	PLN	6M WIBOR + 1.95%	2.29	10.10.2030 [1)]	201 028
- Investors not associated with mBank S.A.	750 000	PLN	6M WIBOR + 2.1%	2.35	17.01.2025	758 076
						2 624 456

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

[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.

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Movements in subordinated liabilities

Change from 1 January to 31 December	2021	2020
As at the beginning of the period	**2 578 327**	**2 500 217**
Exchange differences	46 075	85 700
Other changes	54	(7 590)
Subordinated liabilities as at the end of the period	**2 624 456**	**2 578 327**
Short-term (up to 1 year)	12 356	12 302
Long-term (over 1 year)	2 612 100	2 566 025

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 received on 21 March 2018 as instruments 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 PFSA to include in Tier 2 capital the amount of PLN 750 000 thousand constituting subordinated liability from the bonds issue dated 17 December 2014 on total nominal value of PLN 750 000 thousand with redemption date on 17 January 2025 on terms that meet the requirements arising from the CRR Regulation.

In 2021 and 2020, 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.

30. Other liabilities

	31.12.2021	31.12.2020
Other liabilities, including		
Tax liabilities	294 611	216 257
Interbank settlements	1 042 600	935 581
Creditors, including:	1 213 238	1 437 658
- settlements of payment cards	*47 543*	*219 201*
- liabilities to pay to BFG	*251 044*	*249 181*
Accrued expenses	298 934	217 080
Deferred income	396 532	415 275
Provisions for post-employment employee benefits	25 445	33 488
Provisions for holiday equivalents	26 335	20 983
Provisions for other liabilities to employees	157 961	110 480
Other	14 294	10 331
Total other liabilities	**3 469 950**	**3 397 133**

As at 31 December 2021, the presented note includes financial liabilities of PLN 2 554 772 thousand (as at 31 December 2020: PLN 2 590 319 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.

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Movements in provisions for post-employment employee benefits

Period from 1 January to 31 December 2021	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	**15 052**	**6 143**	**12 293**	**33 488**
Change in the period, due to:	(1 011)	(3 078)	(3 954)	(8 043)
Provision created	876	166	1 111	2 153
Interest expense	183	83	164	430
Actuarial gains and losses recognised in other comprehensive income (Note 18), due to:	(1 300)	(3 327)	(4 086)	(8 713)
- Change in financing assumptions	*(2 838)*	*(674)*	*(5 359)*	*(8 871)*
- Change in demographic assumptions	*418*	*(2 686)*	*516*	*(1 752)*
- Other changes	*1 120*	*33*	*757*	*1 910*
Benefits paid	(770)	-	(1 143)	(1 913)
Provisions as at the end of the period	**14 041**	**3 065**	**8 339**	**25 445**
Short-term (up to 1 year)	1 868	215	253	2 336
Long-term (over 1 year)	12 173	2 850	8 086	23 109

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

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 2021 was decreased by 0.5 p.p., the value of the provisions would increase by PLN 1 682 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 1 498 thousand (as at 31 December 2020 accordingly: PLN 1 031 thousand and PLN 950 thousand).

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31. Provisions

	31.12.2021	31.12.2020
Provisions for legal proceedings, including:	395 889	200 536
- provisions for individual cases concerning indexation clauses in repaid mortgage and housing loans in CHF and for legal costs	*261 851*	*161 886*
- provisions for other legal proceedings relating to loans in foreign currencies	*96 956*	*26 581*
- provisions for remaining legal proceedings	*37 082*	*12 069*
Provisions for commitments and guarantees given	318 378	205 661
Other provisions	97 188	95 494
Provisions, total	**811 455**	**501 691**

Estimated dates of granted contingent liabilities realisation are presented in Note 35.

The estimated cash flow due to created provisions for legal proceedings and other provisions is expected to crystalise over 1 year.

The description regarding legal risk provisions related to mortgage and housing loans granted to individual customers in CHF is presented in Note 34.

The item Other provisions includes provisions recognized related to the judgment of the CJEU of 11 September 2019 regarding reimbursement of commissions in case of earlier loan repayments of consumer loans and mortgage loans. Detailed information on the impact of this judgement is described in Note 4.

Movements in the provisions

Change from 1 January to 31 December	2021			
	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	**161 886**	**26 581**	**12 069**	**95 494**
Change in the period, due to:	99 965	70 375	25 013	1 694
- increase of provisions	196 012	73 370	53 745	46 736
- release of provisions	-	(334)	(2 148)	(3 489)
- utilization	(87 560)	(2 661)	(26 608)	(40 956)
- reclassification to non-current assets held for sale	(8 487)	-	-	-
- foreign exchange differences	-	-	24	(597)
Provisions as at the end of the period	**261 851**	**96 956**	**37 082**	**97 188**

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	**50 098**	**61 103**	**6 004**	**101 104**
Change in the period, due to:	**111 788**	**(34 522)**	**6 065**	**(5 610)**
- increase of provisions	136 515	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	**161 886**	**26 581**	**12 069**	**95 494**

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Movements in provisions for loan commitments, guarantees and other financial facilities

Change from 1 January to 31 December 2021	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	Decreased results of derecognised from balance sheet	Changes in credit risk (net)	Changes due to new default definition	As at the end of the period
Loan commitments	**88 991**	**-**	**-**	**-**	**42 439**	**(33 434)**	**(14 079)**	**5 522**	**89 439**
Stage 1	44 157	50 411	(7 237)	(107)	31 314	(16 753)	(49 410)	(3 233)	49 142
Stage 2	36 829	(48 420)	7 708	(2 628)	7 216	(11 027)	21 543	3 355	14 576
Stage 3	5 510	(1 991)	(471)	2 735	3 184	(6 416)	16 600	5 404	24 555
POCI	2 495	-	-	-	725	762	(2 812)	(4)	1 166
Guarantees and other financial facilities	**116 670**	**-**	**-**	**-**	**89 559**	**(116 573)**	**139 259**	**24**	**228 939**
Stage 1	4 541	1 444	(271)	-	20 076	(23 186)	794	35	3 433
Stage 2	6 134	(1 444)	271	(1 145)	1 016	(4 124)	456	(11)	1 153
Stage 3	80 055	-	-	1 145	68 333	(58 419)	134 746	-	225 860
POCI	25 940	-	-	-	134	(30 844)	3 263	-	(1 507)
Total provisions on off-balance sheet items	**205 661**	**-**	**-**	**-**	**131 998**	**(150 007)**	**125 180**	**5 546**	**318 378**

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	Decreased results of derecognised from balance sheet	Changes in credit risk (net)	As at the end of the period
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
Total provisions on off-balance sheet items	**153 432**	-	-	-	**130 534**	**(132 736)**	**54 431**	**205 661**

32. Assets and liabilities for deferred income tax

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 (2021 and 2020: 19%).

Assets and liabilities for deferred income tax are not recognised as short term assets and liabilities.

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Changes in assets and liabilities for deferred income tax are presented below.

Deferred income tax assets	As at 01.01.2021	Recognised in the income statement	Recognised in other comprehensive income	Other changes	As at 31.12.2021
Interest accrued	133 787	(18 439)	-	-	115 348
Valuation of derivative financial instruments	10 361	(18 415)	122 850	-	114 796
Valuation of securities	110 868	20 658	168 142	-	299 668
Provisions for impairment of loans and advances	610 500	(26 788)	-	-	583 712
Provisions for employee benefits	29 072	11 643	(1 654)	-	39 061
Other provisions	51 630	19 363	-	-	70 993
Prepayments/accruals	34 059	2 533	-	-	36 592
Tax losses carried forward	2 523	(616)	-	-	1 907
Differences between book and tax value of lease	416 198	(13 749)	-	-	402 449
Difference between book and tax value of tangible and intangible assets	155 784	51 649	-	-	207 433
Other negative temporary differences	81 033	(12 875)	-	(7 054)	61 104
Total deferred income tax assets	**1 635 815**	**14 964**	**289 338**	**(7 054)**	**1 933 063**

Deferred income tax liabilities	As at 01.01.2021	Recognised in the income statement	Recognised in other comprehensive income	Other changes	As at 31.12.2021
Interest accrued	(84 150)	18 759	-	-	(65 391)
Valuation of derivative financial instruments	(209 994)	89 907	92 796	-	(27 291)
Valuation of investment securities	(197 997)	28 436	70 739	-	(98 822)
Interest and fees received in advance	(26 022)	(22 239)	-	-	(48 261)
Difference between book and tax value of tangible and intangible assets	(188 137)	(50 826)	-	-	(238 963)
Prepayments regarding amortization of applied investment relief	(18 657)	9 494	-	-	(9 163)
Other positive temporary differences	(57 668)	7 511	(2 682)	(72)	(52 911)
Total deferred income tax liabilities	**(782 625)**	**81 042**	**160 853**	**(72)**	**(540 802)**

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 accrued	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 book and tax value of lease	458 076	(41 878)	-		416 198
Difference between book and tax 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 accrued	(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 book and tax 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)**

The item Difference between book and tax value of tangible and intangible assets includes the impact of IFRS 16 on deferred tax.

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	Year ended 31 December	
	2021	**2020**
Interest accrued	320	(7 907)
Valuation of derivative financial instruments	71 492	(43 571)
Valuation of securities	49 094	31 152
Provisions for impairment of loans and advances	(26 788)	123 054
Provisions for employee benefits	11 643	(17 958)
Other provisions	19 363	(21 762)
Prepayments/accruals	2 533	186
Interest and fees received in advance	(22 239)	(9 604)
Prepayments regarding amortization of applied investment relief	9 494	-
Difference between book and tax value of tangible and intangible assets	823	(2 030)
Differences between book and tax value of lease	(13 749)	(41 878)
Deferred tax losses carried forward	(616)	(1 908)
Other temporary differences	(5 364)	22 484
Total deferred income tax included in the profit and loss account (Note 16)	**96 006**	**30 258**

The item Other positive temporary differences includes the impact of the creation of deferred tax provision in the amount of PLN 11 265 thousand at the end of 2021 (PLN 15 019 thousand at the end of 2020) resulting from the implementation of IFRS 9 in respect of tax-deductible costs recognized in previous years 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 1 January 2018, after the entry into force of the amendment the Bank is obliged to recognize income up to the amount previously recognized as tax cost. The Bank recognizes revenues on this account pro rata for a period of 7 consecutive tax years.

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 2021 and 2020 does not include tax losses of the foreign branch in Slovakia in the amount of, respectively: EUR 933 thousand (equivalent of PLN 4 290 thousand according to the average exchange rate of the National Bank as of Poland of 31 December 2021) and EUR 1 997 thousand (equivalent of PLN 9 216 thousand according to the average exchange rate of the National Bank of Poland as of 31 December 2020). Potential inclusion of the tax losses into deferred tax asset in years to come will depend upon an assessment of the corporate income tax base level in a future (including the periods scheduled for settlement of tax losses). Right to tax losses' settlement expires between 2022 and 2023 year.

Due to the improbability of occurrence of taxable income enabling to use tax losses incurred in G-Invest 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 37 517 thousand as of 31 December 2021 and PLN 53 843 thousand as of 31 December 2020. Right to tax losses' settlement expires between 2022 and 2026 year.

The Group recognizes deferred tax liabilities or assets related to temporary differences arising from investments in subsidiaries and affiliated 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 2021 the Group did not include settlements on temporary differences in the total amount of PLN 1 607 289 thousand incurred due to investments in subsidiaries and affiliated companies in deferred tax calculation and PLN 1 490 835 thousand at the end of 2020.

33. 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 2021 amounted to PLN 395 889 thousand (PLN 200 536 thousand as at 31 December 2020). 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 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 Interbrok’s in illegal activities, which caused damage to them. With regard to seven of the aforementioned cases, legal proceedings against the Bank were dismissed and the cases were finally concluded. In the eighth case, a plaintiff withdrew the 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. The plaintiff appealed against the sentence in the Supreme Court.

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 S.A.) with its registered office in Płock seeking damages amounting to PLN 635 681 thousand on account of interchange fee. In the lawsuit, Orlen S.A. 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 and moved for a dismissal of a claim. The Court allowed for the motions of Defendants to summon 16 banks to participate in the case and preordained the service of a summoning motion to the banks. Two banks have notified of their intention to intervene in the case as an indirect intervener.

4. Class action against mBank S.A. concerning indexation clauses

   Detailed information on the class action against the Bank is provided in Note 34.

5. Individual court proceedings concerning indexation clauses

   Detailed information on individual court cases against the Bank regarding CHF indexed loans is provided in Note 34.

Tax inspections

On 11 May 2021, the Head of the Customs and Tax Office in Opole (Urząd Celno-Skarbowy w Opolu) has initiated tax audits regarding the correctness and reliability of withholding tax (WHT) settlements on payments listed in Art. 21 sec. 1 of the Act of 15 February 1992 on corporate income tax for years 2018 and 2019. The tax audit is under way.

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. On 23 April 2021 the Bank received a decision of the PFSA dated 16 April 2021 regarding this proceeding, imposing a fine on the Bank in the total amount of PLN 4 300 thousand. The Bank created provision for the abovementioned fine in the amount of PLN 4 300 thousand.

On 7 May 2021, the Bank applied to the Financial Supervision Authority for reconsideration of the case. On 17 December 2021, PFSA Office upheld its decision of 16 April 2021. On 21 January 2022, the Bank filed a complaint with the Voivodship Administrative Court against the decision of PFSA. As at the date of approval of these financial statements, the case is pending before the administrative court.

Proceedings initiated by the Office of Competition and Consumer Protection (UOKiK)

- Proceedings for considering provisions of a master agreement as abusive instituted ex officio on 12 April 2019. The proceedings concern amendment clauses stipulating circumstances under which 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 mBank define the rights and obligations of consumers contrary to good morals and grossly violate their interest and, thus, are abusive. The Bank 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 of 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. The proceeding has been extended until 31 March 2022.
- By a judgment of 2 February 2021, the Court of Appeal in Warsaw dismissed the Bank's appeal in the case concerning UOKiK proceedings initiated in 2015 regarding the application by mBank S.A. practices violating collective consumer interests, due to the fact that mBank did not apply a negative interest rate due to the negative base rate of LIBOR and changed the judgment of SOKiK in the part revoking the decision to impose a fine. The Bank complied with the judgment and paid a fine of PLN 6 585 thousand. On 14 June 2021, the Bank filed a cassation complaint with the Supreme Court.
- On 21 July 2017 the UOKiK instigated proceedings against mBank with regard to violation of consumers' collective interests. The UOKiK charged the Bank with failing to adequately inform clients about FX risk and about shifting FX risk onto consumers, and with incorrectly determining (inflating) credit instalments. In the letter dated 18 August 2017 the bank responded to the charges. In the letter dated 18 February 2019 the UOKiK President requested detailed information on the handling of mortgages indexed to foreign currencies, to which the Bank replied. In the letter dated 14 October 2021 the UOKiK President informed the Bank that the evidentiary proceedings had ended and appointed a time limit for the Bank to peruse the case file and to comment on the evidence collected in the case. The Bank commented on the evidence collected within the prescribed period. The President of UOKiK extended the termination of the proceedings until 30 April 2022.

34. Legal risk related to mortgage and housing loans granted to individual customers in CHF

Introduction

In recent years, a significant number of individual customers who took out mortgage and housing loans in CHF, challenged in court some of the provisions or entire agreements on the basis of which the Bank granted these loans. So far, there is no uniform line of judgments issued by courts in such cases.

The carrying amount of mortgage and housing loans granted to individual customers in CHF as of 31 December 2021 amounted to PLN 9.1 billion (i.e. CHF 2.0 billion) compared to PLN 12.3 billion (i.e. CHF 2.9 billion) as at the end of 2020. Additionally the volume of the portfolio of loans granted in CHF that were already fully repaid as of 31 December 2021 amounted to PLN 7.3 billion (31 December 2020: PLN 6.8 billion).

Due to the significance of the legal issues related to the CHF loan portfolio for the financial position of mBank Group as at 31 December 2021, detailed information is presented below regarding these lawsuits, significant judgments, which, in the Bank's opinion, may affect the future ruling on loans indexed to CHF, proposed potential settlements with customers, accounting principles for the recognition of legal risk related to these court cases and the voluntary settlement program, as well as information on the impact of legal risk related to these court cases on the balance sheet and profit and loss account of mBank Group and the methodology used to determine this impact.

Individual court cases against the Bank concerning loans indexed to CHF

As of 31 December 2021, 13 373 individual court proceedings (31 December 2020: 7 508 proceedings) were initiated against the Bank by its customers in connection with CHF loan agreements with the total value of claims amounting to PLN 3 506.5 million (31 December 2020: PLN 1 454.2 million).

Out of the individual proceedings 13 036 proceedings (31 December 2020: 6 870 proceedings) with the total value of claims amounting to PLN 3 499.9 million (31 December 2020: PLN 1 442.2 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 in whole of the loan agreements.

As of 31 December 2021 mBank received 473 final rulings in individual lawsuits (31 December 2020: 173 final rulings), out of which 82 rulings were favourable to the Bank and 391 rulings were unfavourable (31 December 2020: 70 rulings favourable and 103 unfavourable).

At the same time 227 proceedings (as of 31 December 2021) at the second instance courts have remained suspended due to the legal issues referred to the Supreme Court and the Court of Justice of the European Union (CJEU). The Bank submits cassation appeals to the Supreme Court against legally binding judgments unfavourable for the Bank. Unfavourable judgments were based on the same patterns of facts which in the past had resulted in different verdicts. Approximately 70% of unfavourable verdicts led to the invalidation of the loan agreement, others led to the conversion of the agreement into PLN + LIBOR / WIBOR.

In the fourth quarter of 2021, in some cases where final judgments were issued stating the invalidity of the loan agreement, as well as in some pending cases where the client filed for invalidity of loan agreement, the Bank filed 2 471 counterclaims against borrowers. The counterclaims includes a claim of the Bank against the consumer for payment of the principal and the remuneration for using it, and as the measure of the value of the bank's benefit, the interest rate on PLN housing loans secured with a mortgage published by the National Bank of Poland was used. Counterclaims concern cases in which borrowers filed lawsuits with the court till the end of 2018.

Class action against mBank S.A. concerning indexation clauses

The Bank was also sued by the Municipal Consumer Ombudsman representing a group of 390 individuals - retail banking customers who entered into mortgage loan agreements indexed to CHF. This class action concerning indexation clauses was filed in the District Court in Łódź on 4 April 2016.

The lawsuit contains alternative claims for declaring the loan agreements partially invalid, i.e. with respect to the indexation provisions or for declaring the agreements invalid in their entirety or for declaring the indexation provisions of the agreements invalid due to the fact that they allow the loan to be valorised above 20% and below 20% of the CHF exchange rate from mBank S.A. table of exchange rates in effect on the date each of the loan agreements was concluded.

By Order dated 13 March 2018 the Court set the Class at 1 731 persons. On 19 October 2018 the Court issued judgment dismissing all of Plaintiff's claims. In its oral reasoning, the Court argued that the Claimant failed to prove that it has a legal interest in bringing the claim in question and also addressed the issue of the validity of the CHF valorised loan agreements, emphasizing that both the agreements themselves and the indexation clause are in compliance with both applicable laws and the principles of social interaction. On 11 January 2019 the Plaintiff's appeal was delivered to the Bank, to which the Bank filed a response. On 27 February 2020 a hearing was held in the Court of Appeal in Łódź. On 9 March 2020 a judgment was rendered in the case, in which the Court of Appeal returned the case to the District Court for reconsideration. On 9 June 2020 the Court of Appeal, on the motion of the Plaintiff, issued a decision by which it granted security to the Plaintiff's claims by suspending the obligation to pay principal and interest instalments and prohibiting the Bank from making statements calling for payment and terminating the loan agreement.

On 12 January 2022, a hearing was held before the Regional Court in Łódź, and on 9 February 2022 the court issued a verdict dismissing the claim in its entirety. The plaintiff may appeal against this verdict. As of the date of approval of these consolidated financial statements the Bank did not change its risk assessment related to this proceeding as described below in the section concerning methodology of calculation the impact of the legal risk related to the class action case. As of 31 December 2021 the value of claims in this class action was equal to PLN 377 million.

Information on the most important court proceedings regarding loans indexed to CHF

Rulings of the Court of Justice of the European Union regarding CHF mortgages

On 3 October 2019 the CJEU issued the ruling in the prejudicial mode regarding the mortgage loan 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 in 2022.

On 29 April 2021, the CJEU issued a judgment in case C-19/20. According to this judgment, if the unfair (abusive) nature of the contractual provision leads to annulment of the contract, the Court should not annul the contract until the Court informs the consumer in an objective and comprehensive manner about the legal consequences the annulment of such a contract may cause (whether or not the consumer is represented by a legal advisor) and until the Court allows the consumer to express a free and informed consent to the questioned provision and the continuation of the contract.

By the decision of 12 August 2021, another question was addressed to the CJEU, the subject of which is to determine whether in the event of cancellation of the loan agreement, the parties, in addition to the reimbursement of money paid in the performance of this agreement and statutory interest for delay from the moment of the call for payment, may also claim any other benefits, in particular remuneration, unjust enrichment, compensation, reimbursement or valorisation of the benefit. The case has not yet been dealt with in the CJEU.

On 18 November 2021, the Court of Justice of the EU delivered its judgment in Case C-212/20, in which it assessed that in accordance with the provisions of Directive 93/13, the content of a so-called spreads clause must (on the basis of clear and comprehensible criteria) enable a reasonably well-informed, reasonably observant and rational consumer to understand how the exchange rate is to be determined, in such a way that the consumer is able to determine the rate applied by the trader himself at any time. Moreover CJEU made an assessment that the provisions of Directive 93/13 preclude the interpretation of an illicit contract term in order to mitigate its unfairness.

Supreme Court resolutions 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 full bench of the Civil Chamber of the Supreme Court was to answer to the questions if abusive provisions can be replaced with provisions of civil law or common practice, whether it is possible to maintain indexed/denominated 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 in 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 for the use of their funds by the other party. The lack of a jurisprudence line, both domestic and of the CJEU, concerning remuneration for the use of capital is also significant for the shape of the provision. The position presented by banks has been strengthened by the opinions of the Polish Financial Supervision Authority (PFSA) and the Polish Bank Association (ZBP) submitted to case no. III CZP 11/21, which support granting banks the right to such remuneration. Thus, the banks' claims in this respect should be regarded as at least plausible.

There was one non-public sitting in this case, during which the Supreme Court decided to request the Ombudsman, Financial Ombudsman, Children's Ombudsman, NBP and the Polish Financial Supervision Authority to take a position. The positions of these bodies have been submitted.

At a closed session on 2 September 2021, the Supreme Court, pursuant to Article 267 of the Treaty on the Functioning of the European Union, decided to refer to the Court of Justice of the European Union with three questions for a preliminary ruling on the issue of appointing judges in the Republic of Poland. The verdict on the questions asked by the First President of the Supreme Court was not issued.

The resolution of the Supreme Court of 16 February 2021 in case III CZP 11/20 endorsed the theory of two conditionalities if a credit agreement is declared to be invalid. The Supreme Court in written justification found that the risk of insolvency of either of the unduly enriched parties is largely mitigated by the right of retention of received benefits until the other party offers to repay received benefits or secures the claims for repayment.

On 7 May 2021 (III CZP 6/21), a resolution of 7 of the Supreme Court's judges which have the force of a legal principle was issued, in which it was decided that:

- the prohibited contractual provision (Civil Code Art.3851 §1) is from the very beginning, by virtue of law ineffective for the benefit of the consumer, who may subsequently grant informed and free consent to this provision and thus restore its effectiveness retroactively,
- if the loan agreement cannot be binding after removal of an ineffective provision, the consumer and the bank are entitled to separate claims for the reimbursement of cash benefits provided in the performance of this agreement (Article 410 § 1 in conjunction with Article 405 of the Civil

- Code). The bank may request the return of the benefit from the moment the loan agreement becomes permanently ineffective.

In the written justification, the Supreme Court confirmed its earlier positions as to the application of the theory of two conditionalities and the issue of calculating the limitation period for the bank's claims in the event that the contract cannot be upheld after the abusive provisions have been eliminated. The Supreme Court explained that due to the possibility granted to the consumer to make a binding decision regarding the sanctioning of the prohibited clause and to accept the consequences of the total invalidity of the contract, it should be recognized that, as a rule, the limitation period for these claims may start running only after the consumer has made a binding decision in this regard. Only then, in the opinion of the Supreme Court, can it be concluded that the lack of a legal basis for the benefit has become definitive (as in the case of condictio causa finita), and the parties could effectively demand the return of the undue benefit. This means, in particular, that the consumer cannot assume that the bank's claim has expired within the time limit calculated as if the call to return the loan was possible already on the day it was made available. In justifying the resolution, the Supreme Court also confirmed that in order to avoid risks related to the borrower's insolvency, the bank may use the right of retention provided in Art. 497 in connection with Art. 496 of the Civil Code, thus protecting its claim for the return of used principal, since the obligation to return it is - in relation to the obligation to put the funds at the disposal of the borrower - something more than a consideration obligation.

On 6 July 2021, the Civil Chamber of the Supreme Court refused to pass a resolution on Swiss franc indexed loans. The Supreme Court indicated that the question of whether the balance theory or the two conditionalities theory should be applied has already been resolved in the jurisprudence of the Supreme Court, including the resolution of 7 judges of 7 May 2021 (III CZP 6/21), and earlier in the resolution of 16 February 2021 (III CZP 11/20).

On 29 July 2021 the Supreme Court composed of 3 judges presented the legal issue to be resolved by a panel of 7 judges of the Supreme Court, which came down to the answer to the question whether, in the event of a loan agreement being declared invalid, a loan granted in Polish currency, indexed to a foreign currency, repaid by borrowers, the amount of possible enrichment of the lender should be calculated taking into account only the nominal amount of loan instalments, or the interest rate on instalments according to the reference rate appropriate for loans indexed to a foreign currency or appropriate for loans in PLN should be taken into account. The deadline for examining the issue was initially set for 8 November 2021, was removed from the case list, and the judge-rapporteur was also changed.

PFSA’s Chairman proposal

The general assumptions of the PFSA’s Chairman proposal to convert FX loans to PLN have been announced in December 2020. The PFSA’s Chairman proposal assumes that foreign currency indexed/denominated 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 analysed the costs it would have to incur in the indicated scenario, as the sum of the differences between the current balances of foreign currency indexed/denominated loan (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 foreign currency indexed/denominated loan (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, calculated as of 31 December 2021, would amount to PLN 5.6 billion if only active portfolio was converted (unaudited data). Detailed assumptions for the estimation of this impact were adopted on the basis of the Polish Financial Supervision Authority's survey dated 27 January 2021. The PFSA’s Chairman proposal assumes that only active portfolio would be converted.

As at the date of approval of these consolidated 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.

Pilot settlement program

On 6 December 2021, the Bank began a pilot settlement program for borrowers who have an active CHF indexed loan. The pilot is expected to be completed by the end of the first quarter of 2022. The settlement offer presented in the program consists in conversion of the CHF indexed loan into a PLN loan with simultaneous write-off of a portion of the loan balance. Similar to the PFSA’s Chairman proposal this portion constitutes the difference between the current balance of the indexed loan expressed in PLN at the average exchange rate of the National Bank of Poland and the hypothetical balance that would exist if the loan had been originally contracted in PLN. In the Bank's pilot this difference is divided equally between the parties to the contract, and the Bank offers to cancel the loan balance in the amount equal to the part of this difference attributable to the Bank. This method of loan conversion guarantees equal distribution of materialized foreign exchange risk costs, which scale could not be foreseen by any of the parties to the loan agreement at the time of its conclusion. This will represent half of the benefits arising for the clients from the PFSA Chairman's proposal.

The offer was addressed to the owners of 1 278 active contracts, which in Bank's opinion is a representative sample of the whole portfolio of active loans indexed to CHF.

The purpose of the pilot is to verify the attractiveness of the offer and the process proposed by the Bank as well as to gather feedback in this respect from the clients included in the pilot.

The maximum, hypothetical cost of the program would amount to PLN 2.97 billion, assuming that the settlements would be offered to all clients with active loans and all those clients would accept the conditions described above.

Accounting policies for recognizing the effect of legal risk related to court cases concerning CHF mortgage and housing loans to individual customers and the voluntary settlement program

The Group recognizes the impact of the legal risk related to court cases concerning indexation clauses in mortgage and housing loans in CHF and voluntary settlements offered to CHF borrowers as reflected under:

- IFRS 9 "Financial Instruments" paragraph B5.4.6 in relation to active loans, including active loans covered by the class action case and voluntary settlements, and
- IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" in relation to repaid loans.

Mortgage and housing loans to customers that are subject to court proceedings are within the scope of IFRS 9. Under IFRS 9, these loans are measured at amortized cost using the effective interest rate.

Legal claims filed by borrowers, including invalidity claims, impact the Bank's estimate of the expected life of the loan and the expected cash flows. In particular, the Bank takes into account the risk that the remaining life of the loan may be shorter than the contractual term, or the Bank may not receive some of the contractual cash flows, and in case of invalidity verdict, the Bank may have to reimburse the borrowers for undue benefits received. In addition, any voluntary settlements offered by the Bank to borrowers (including those who have not previously made legal claims), may also affect the amount and timing of expected cash flows from these loans.

Therefore the Bank believes that the appropriate way to recognize the impact of legal risk with respect to active loans and the expected impact of the voluntary settlement program offered to borrowers is to revise the cash flow estimates associated with the loans and reduce the gross carrying amount of the loans in accordance with IFRS 9 paragraph B5.4.6.

In relation to repaid loans and loans for which the estimated adjustment in cash flows is higher than the carrying amount, the Bank recognises provisions for legal proceedings in accordance with IAS 37 "Provisions, Contingent Liabilities and Contingent Assets".

According to IAS 37 the amount recognised as a provision is the best estimate of the expenditure required to settle the present obligation at the end of reporting period. The best estimate of the expenditure required to settle the present obligation is the amount that the Bank would rationally pay to settle the obligation at the end of the reporting period or to transfer it to a third party at that time. This amount is discounted at the balance sheet date.

For repaid loans, there is no asset that could be adjusted, therefore any potential liability arising from the legal risks has to be accounted for under IAS 37. As the provisions being measured in case of repaid loans involves a large population of items, the Bank applies "expected value" method in which the obligation is estimated by weighting all possible outcomes by their associated probabilities.

The above estimates are determined by the judgement of the Bank, supplemented by experience of similar events and opinions of independent experts. The evidence considered includes any additional evidence provided by events after the end of the reporting period.

The details of the methodology and calculation are described further in this note.

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The impact of the legal risk related to court cases concerning indexation clauses in mortgage and housing loans in CHF and the voluntary settlement program

The method used to calculate the impact of the legal risk related to court cases concerning indexation clauses in mortgage and housing loans in CHF and the voluntary settlement program is based on parameters that are highly judgmental and with a high range of possible values. It is possible that the impact of the legal risk will have to be adjusted significantly in the future, particularly that important parameters used in calculations are interdependent.

The cumulative impact of legal risk associated with litigation (individual lawsuits and class actions) related to indexation clauses in CHF mortgages and housing loans and the voluntary settlement program included in the Group's statement of financial position is shown in the table below.

	31.12.2021	31.12.2020
Impact of legal risk concerning individual lawsuits related to active loans recognized as a reduction of gross carrying amount of loans	2 484 852	1 264 677
Impact of legal risk concerning class action case related to active loans recognized as a reduction of gross carrying amount of loans	290 445	-
Impact of legal risk concerning individual lawsuits and class actions case related to repaid loans and low value active loans recorded as provisions for legal proceedings	348 476	175 911
Potential costs of voluntary settlement program recognized as a reduction of gross carrying amount of loans	1 009 800	-
The cumulative impact of legal risk associated with litigation related to indexation clauses mortgages and housing loans in CHF	**4 133 573**	**1 440 588**

Total costs of legal risk related to foreign currency loans recognised in the income statement for 2021 amounted to PLN 2 758.1 million (in 2020: PLN 1 021.7 million). The most important element of these costs in 2021 was the increase of the impact of the legal risk related to individual court cases in the amount of PLN 1 298.7 million, which mainly resulted from (i) higher than expected inflow of cases in 2021, (ii) changes in level of loss on loan exposure in case of losing the case by the Bank including an increase in the probability of the occurrence of a negative scenario for the bank of cancellation of loan agreements without the possibility of an effective claim for payment of the cost of using the capital made available to the borrower.

In addition, significant components of the amount recognized in the income statement in 2021 are costs of the potential settlement program in the amount of PLN 1 009.8 million, costs of the class action case concerning indexation clauses contained in CHF mortgage and housing loan agreements in the amount of PLN 363.0 million as well as cost of counterclaims related to securing the Bank's claims in indexation cases in the amount of PLN 86.1 million.

Methodology of calculating the impact of the legal risk related to individual court cases

The methodology of calculating the impact of the legal risk related to individual court cases concerning both active and repaid loans 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.

Expected population of borrowers

The population of borrowers who will file a lawsuit against the Bank has been projected over the remaining life of the portfolio based on the Bank's history of legal cases in the past and assumes a further inflow of new cases. The Bank assumes that inflow of plaintiffs will be significant until the end of 2025. The Bank assumes that vast majority of the projected cases will be filed until the end of 2023, and then their number will decrease following the expected clarification of the legal environment.

For the purpose of calculating the impact of legal risk mBank assumes that approximately 27% of FX borrowers (i.e. 23 thousand borrowers with both, active: 41% and repaid loans: 9.4%) filed or will file a lawsuit against the Bank (as of 31 December 2020: 18%, i.e. 15.4 thousand). The Bank observes that clients with higher loan amounts were the first ones to file the claims (27% of customers represent 35% 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 2021 the Bank increased the assumed number of court cases by 47%, in comparison to the assumptions for the end of 2020. This was due to an increase in the forecast of lawsuits that the Bank estimates will be filed with the Bank in the future, and greater than expected number of lawsuits that were filed with the Bank. 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 impact of the legal risk would increase by approximately PLN 68.4 million (while other relevant assumptions remain constant) as compared to 31 December 2021, of which PLN 51.9 million would reduce gross carrying amount of the loans, and PLN 16.5 million would increase the "Provisions for legal proceedings".

The bank estimates that part of borrowers with CHF indexed loans will not decide to sue the Bank or sign a settlement with the Bank in the future. In the Bank's opinion this will be influenced by the following factors: clients' expectations regarding future changes in the CHF/PLN exchange rate, clients' expectations regarding future costs of PLN loans, changes in jurisprudence in CHF loan cases, tax solutions regarding settlements, costs and duration of court proceedings, individual factors (in particular the loan repayment period and the current amount of debt).

Probability of losing the case

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 the abusive clauses may be replaced by another way of determining the foreign exchange rate pursuant to provisions of law, or whether, in the absence of the possibility of replacing the abusive clause by a provision of law, the contract may be binding on the parties in its remaining scope and whether banks may receive a compensation for usage of the principal granted).

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 an external legal opinions about the future trends in the court verdicts as well as upcoming verdicts of the Supreme Court and CJEU. As of 31 December 2021 the Bank assumes probability of losing in court at the level of 50% (as of 31 December 2020: 50%), basing on its own judgement supported by the external legal opinion. If the assumed probability of losing in court changed by +/- 1 percentage point and all other relevant assumptions remained constant, the impact of the legal risk would change by +/- PLN 54.7 million, of which PLN 50.3 million would change gross carrying amount of the loans, and PLN 4.4 million would change the "Provisions for legal proceedings".

The projected loss rate

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 accounts in a formula similar to the settlement on a net basis. 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. The Bank assumed the probability of each of these scenarios at the same level.

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. As of 31 December 2021 the average loss rate was equal to 76.5% of gross carrying amount of active loans and 33.7% of total value of the loan granted for repaid loans (as at 31 December 2020: 62.8% and 21.8%, respectively).

If the assumed weighted average loss changed by +/- 1 percentage point and all other relevant assumptions remained constant the impact of the legal risk would change by +/- PLN 37.1 million, of which PLN 32.9 million would change gross carrying amount of the loans, and PLN 4.2 million would change the "Provisions for legal proceedings".

Methodology of calculating the impact of the legal risk related to the class action case

In the second half of 2021, the Bank recognised the impact of the legal risk related to the class action case in the total amount of PLN 363.0 million. The recognition of additional costs for class action case was preceded by an analysis of the chances of litigation in the light of the current case law and guidelines of the Court of Appeal for the District Court re-examining the case, supported by an opinion of the law firm handling the case. The increased likelihood of an unfavourable verdict, particularly one invalidating the loan agreements covered by the proceedings, justified the creation of a provision up to the amount of the claim.

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Methodology of calculating settlement program costs

As at 31 December 2021, the Bank recognised the impact of legal risk in the amount of PLN 1 009.8 million to cover the costs of future settlements. The amount corresponds to 34% of the maximum cost of settlements under the formula adopted in the currently running pilot described above. This represents the management's estimate that reflects the intention towards future voluntary settlements or, in case it is not fully used for that purpose, to cover currently unforeseen cost related to legal risks of CHF portfolio.

In the bank's opinion, the future level of acceptance of settlements depends on a number of factors, the most important of which are:

- financial terms of the offer,
- further development of the court judicature in the CHF cases, in particular the resolution of the issue of application of dispositive provisions in place of clauses deemed abusive, the bank's right to reimbursement of the costs of using the capital made available to the client in case the agreement is deemed invalid, admissibility of declaring the loan agreement invalid,
- duration of court proceedings in CHF cases,
- changes in interest rates for PLN loans,
- changes in the CHF/PLN exchange rate,
- tax solutions as regards settlements.

In the absence of historical market data on settlement programs, the ongoing pilot program and a significant level of uncertainty as to the final shape of the jurisprudence in CHF credit cases the exact impact of the above mentioned factors, as of 31 December 2021 is difficult to estimate.

For the purpose of determining the value of the provision as of 31 December 2021, the bank assumed that the maximum level of the offer acceptance will not exceed 34% of active contracts. If the assumed level of the offer acceptance changed by +/- 1 percentage point and all other relevant assumptions remained constant the impact of the legal risk would change by +/- PLN 29.7 million which would change gross carrying amount of the loans.

35. Off-balance sheet liabilities

Off-balance sheet liabilities of the Group comprise loan commitments, guarantees and other financial facilities and other 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.

Loan commitments, guarantees and other financial facilities and other commitments

31.12.2021	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	30 887 817	425 000	51 020	8 910	49 142	14 576	24 555	1 166
Guarantees and other financial facilities	6 430 572	245 546	309 900	2 523	3 433	1 153	225 860	(1 507)
Other commitments	2 541	-	-	-	-	-	-	-

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 commitments	22 789	-	-	-	-	-	-	-

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 2021 and as at 31 December 2020.

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Guarantees are presented in the table below based on the earliest contractual maturity date.

31.12.2021	Up to 1 year	1-5 years	More than 5 years	Total
Contingent liabilities granted and received	**29 540 987**	**12 135 369**	**4 815 055**	**46 491 411**
Commitments granted	**25 116 860**	**8 817 534**	**4 429 435**	**38 363 829**
Financing	21 861 902	6 149 614	3 361 231	31 372 747
- Loan commitments	*21 861 902*	*6 149 614*	*3 361 231*	*31 372 747*
Guarantees and other financial facilities	3 252 417	2 667 920	1 068 204	6 988 541
- Guarantees and standby letters of credit	*3 252 417*	*2 667 920*	*1 068 204*	*6 988 541*
Other liabilities	2 541	-	-	2 541
Commitments received	**4 424 127**	**3 317 835**	**385 620**	**8 127 582**
Financial commitments received	464 840	-	-	464 840
Guarantees received	3 959 287	3 317 835	385 620	7 662 742
Derivative financial instruments (nominal value of contracts)	**311 888 179**	**457 913 190**	**50 022 175**	**819 823 544**
Interest rate derivatives	200 350 190	433 237 256	49 069 810	682 657 256
Currency derivatives	104 653 117	24 593 479	917 185	130 163 781
Market risk derivatives	6 884 872	82 455	35 180	7 002 507
Total off-balance sheet items	**341 429 166**	**470 048 559**	**54 837 230**	**866 314 955**

31.12.2020	Up to 1 year	1-5 years	More than 5 years	Total
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**
Financing	23 224 024	6 035 337	2 726 865	31 986 226
- Loan commitments	*23 224 024*	*6 035 337*	*2 726 865*	*31 986 226*
Guarantees and other financial facilities	3 119 236	2 449 954	1 891 701	7 460 891
- Guarantees and standby letters of credit	*3 119 236*	*2 449 954*	*1 891 701*	*7 460 891*
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
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**

The nominal values of derivatives are presented in Note 20.

As at 31 December 2021, apart from financial commitments granted by the Bank, the largest impact on the total amount of financial commitments granted was attributed to commitments granted by mFaktoring and mBank Hipoteczny in the amount of PLN 2 113 571 thousand and PLN 9 700 thousand respectively (31 December 2020: PLN 2 685 651 thousand and PLN 35 174 thousand).

36. Pledged assets

Assets may be pledged as collateral for repo/sell/buy back transactions or derivatives contracts with other banks. Collateral may be also required in relation 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.

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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.

31.12.2021	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:	53 047 912	2 649 157	48 733 544	5 941 696	128 964	5 812 732	54 546 276
- NBP bills	*8 495 243*	-	*8 495 243*	-	-	-	*8 495 243*
- Government bonds	*36 768 733*	*2 079 126*	*34 689 607*	*5 941 696*	*128 964*	*5 812 732*	*40 502 339*
- Mortgage bonds	*43 266*	-	-	-	-	-	-
- Other non-treasury securities	*7 740 670*	*570 031*	*5 548 694*	-	-	-	*5 548 694*
Cash collaterals (due to derivatives transactions) (Note 23)	968 851	968 851	-	-	-	-	-
Loans and advances to customers	118 054 854	9 877 444	-	-	-	-	-
Other assets	27 467 268	-	-	-	-	-	-
Total	**199 538 885**	**13 495 452**	**48 733 544**	**5 941 696**	**128 964**	**5 812 732**	**54 546 276**

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	108 567 354	9 415 079	-	-	-	-	-
Other assets	17 348 943	-	-	-	-	-	-
Total	**178 871 617**	**14 135 133**	**46 895 683**	**6 357 913**	**474 210**	**5 883 703**	**52 779 386**

mBank Hipoteczny S.A. secures issued covered and public bonds with receivables obtained from loans and advances. As at 31 December 2021, the net carrying value of loans registered in the mortgage and public bonds register, presented above as pledged assets amounted to PLN 9 877 444 thousand (31 December 2020: PLN 9 415 079 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.

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37. Registered share capital

The total number of ordinary shares as at 31 December 2021 was 42 384 884 shares (31 December 2020: 42 367 040) at PLN 4 nominal value each. All issued shares were fully paid up.

REGISTERED SHARE CAPITAL (THE STRUCTURE) AS AT 31 DECEMBER 2021						
Share type	**Type of preference**	**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
ordinary bearer	-	-	17 844	71 376	fully paid in cash	2021
Total number of shares			**42 384 884**			
Total registered share capital				**169 539 536**		
Nominal value per share (PLN)		**4**				

* As at the end of the reporting period

In 2021, the National Depository of Securities (KDPW) has registered 17 844 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 2021 mBank's share capital increased by PLN 71 376.

Commerzbank AG is a shareholder holding over 5% of the share capital and votes at the General Meeting and as at 31 December 2021 it held 69.25% 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 25 November 2021, the Bank received from Nationale-Nederlanden Powszechne Towarzystwo Emerytalne S.A. (Nationale-Nederlanden PTE) notification of a reduction in the share of funds managed by Nationale-Nederlanden PTE in the number of votes at the General Meeting of mBank S.A. below 5% as a result of the sale of mBank S.A. shares in transactions on the Warsaw Stock Exchange (WSE), settled on 23 November 2021. As a result of this transaction, the funds managed by Nationale-Nederlanden PTE held a total of 2 110 771 shares of mBank S.A., which constituted 4.981% of the share capital of mBank S.A. and entitled to 2 110 771 votes at the general meeting of mBank S.A.

Before the transaction, the funds managed by Nationale-Nederlanden PTE held a total of 2 138 948 shares of mBank S.A., which constituted 5.047% of the share capital of mBank S.A. and entitled to 2 138 948 votes at the general meeting of mBank S.A.

38. Share premium

Share premium is formed from the issue of shares above its nominal value and is 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 2021 and 2020 results from the issue of shares under incentive programmes described under Note 43.

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39. Retained earnings

Retained earnings include: other supplementary capital, other reserve capital, general banking risk reserve, profit from 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.

	31.12.2021	31.12.2020
Other supplementary capital	9 916 912	9 911 964
Other reserve capital	104 975	101 325
General banking risk reserve	1 153 753	1 153 753
Profit from previous years	1 329 607	1 230 724
Profit for the current year	(1 178 753)	103 831
Total retained earnings	**11 326 494**	**12 501 597**

According to the Polish legislation, each Bank is required to allocate 8% of its net profit to a statutory undistributable other supplementary capital until it 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.

40. Other components of equity

	31.12.2021	31.12.2020
Exchange differences on translating foreign operations	**2 506**	**(2 392)**
Unrealized gains (foreign exchange gains)	34 267	30 888
Unrealized losses (foreign exchange losses)	(31 761)	(33 280)
Cash flow hedges	**(500 202)**	**419 130**
Unrealized gains	80 630	569 033
Unrealized losses	(698 164)	(51 589)
Deferred income tax	117 332	(98 314)
Valuation of debt securities at fair value through other comprehensive income	**(707 617)**	**185 333**
Unrealized gains on debt instruments	12 191	258 069
Unrealized losses on debt instruments	(887 737)	(1 784)
Deferred income tax	167 929	(70 952)
Actuarial gains and losses relating to post-employment benefits	**(10 511)**	**(17 570)**
Actuarial gains	1 157	32
Actuarial (losses)	(14 134)	(21 724)
Deferred income tax	2 466	4 122
Reclassification to investment properties	**11 436**	**-**
Unrealized gains on reclassification to investment properties	14 118	-
Deferred income tax	(2 682)	-
Total other components of equity	**(1 204 388)**	**584 501**

41. Dividend per share

On 24 March 2021, the 34th Annual General Meeting of mBank S.A. adopted a resolution regarding the distribution of the net profit for 2020. The net profit of mBank S.A. in the amount of PLN 93 047 thousand was left undivided.

42. 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.

	31.12.2021	31.12.2020
Cash and balances with the Central Bank (Note 19)	12 202 266	3 968 691
Loans and advances to banks (Note 23)	338 333	280 355
Total cash and cash equivalents	**12 540 599**	**4 249 046**

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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	
	2021	**2020**
Loans and advances to banks - change in the balances of the statement of financial position	**124 587**	**(3 012 510)**
The difference between the interest accrued and paid in cash in the period	(86 142)	(42 716)
Exclusion of a change in the balance of cash and cash equivalents	57 978	(102 023)
Total change in loans and advances to banks	**96 423**	**(3 157 249)**
Financial assets held for trading and hedging derivatives - change in the balance of the statement of financial position	**(334 806)**	**728 601**
The difference between the interest accrued and paid in cash in the period	17 653	67 535
Valuation included in other comprehensive income (gross)	(1 134 978)	370 356
Total change in financial assets held for trading and hedging derivatives	**(1 452 131)**	**1 166 492**
Loans and advances to customers - change in the balance of the statement of financial position	**(9 634 976)**	**(4 469 343)**
The difference between the interest accrued and paid in cash in the period	105 860	(201 524)
Total change in loans and advances to customers	**(9 529 116)**	**(4 670 867)**
Financial assets at fair value through other comprehensive income - change in the balance of the statement of financial position	**(707 998)**	**(3 773 745)**
Valuation included in other comprehensive income	(1 131 831)	146 125
The difference between the interest accrued and paid in cash in the period	(214 184)	(589 114)
Total change in financial assets at fair value through other comprehensive income	**(2 054 013)**	**(13 167 129)**
Debt securities measured at amortised cost - change in the balance of the statement of financial position	**(211 602)**	**(4 717 628)**
The difference between the interest accrued and paid in cash in the period	(72 445)	1 042
Total change in debt securities measured at amortised cost	**(284 047)**	**(4 716 586)**
Non-trading financial assets mandatorily at fair value through profit or loss - change in the balance of the statement of financial position	**(27 145)**	**18 018**
Acquisition of shares in subsidiaries not included in the consolidation	14 597	-
Disposals of shares in subsidiaries not included in the consolidation	(5 147)	(7 807)
Valuation change	78	-
Change non-trading financial assets mandatorily at fair value through profit or loss	**(17 617)**	**10 211**
Other assets (including non-current assets held for sale) - change in the balance of the statement of financial position	**(115 628)**	**(314 839)**
Balances unrealised in cash recognised in income statement	-	3 826
Exclusion of assets classified as held for sale	31 247	-
Exclusion of change in cash flows from investment activity	23 323	(85 241)
Total change in other assets	**(61 058)**	**(396 254)**
Amounts due to other banks - change in the balance of the statement of financial position	**959 818**	**1 232 869**
The difference between the interest accrued and paid in cash in the reporting period	31 482	16 826
Exclusion of change in cash flows from financing activity	-	198 636
Total change in amounts due to other banks	**991 300**	**1 448 331**
Amounts due to customers - change in the balance of the statement of financial position	**22 236 461**	**21 037 530**
The difference between the interest accrued and paid in cash in the reporting period	2 102	(377 940)
Exclusion of change in cash flows from financing activity	1 453 307	125 092
Exchange differences	(52 517)	-
Exclusion of increase in lease liabilities	(317 030)	-
Total change in amounts due to customers	**23 322 323**	**20 784 682**
Debt securities issued - change in the balance of the statement of financial position	**(566 535)**	**(3 438 826)**
The difference between the interest accrued and paid in cash in the reporting period	(74 855)	(118 543)
Exchange differences	(114 185)	(633 002)
Exclusion of change in cash flows from financing activity	509 056	4 545 077
Total change in debt securities issued	**(246 519)**	**354 706**
Changes in other liabilities (including liabilities held for sale) and provisions - change in the balance of the statement of financial position	**390 006**	**572 986**
Valuation of incentive programmes recognised in income statement (Note 13)	10 487	10 159
Exclusion of tax liabilities of certain financial institutions	-	(18 641)
Actuarial gains and losses relating to post-employment benefits recognised in other comprehensive income (Note 18)	8 715	(7 718)
Exclusion of change in cash flows from investing activity	44 116	-
Exclusion of liabilities classified as held for sale	(7 425)	-
Total change in other liabilities (including liabilities classified as held for sale) and provisions	**445 899**	**556 786**

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Interest received and paid reported in operating activities

	Year ended 31 December	
	2021	**2020**
Interest income, including:		
Loans and advances to banks	105 139	63 227
Loans and advances to customers	3 389 528	3 838 069
Debt securities	783 725	1 255 748
Interest income on derivatives classified into banking book	94 498	63 602
Interest income on derivatives under hedge accounting	302 925	224 203
Other interest income	214	1 683
Total interest income	**4 676 029**	**5 446 532**
Interest expense, including:		
Settlements with banks due to deposits received	(31 482)	(17 489)
Settlements with customers due to deposits received	(83 653)	(536 585)
Security deposit received in relation with the guarantee granted to secure underwriting of securities	(88 709)	(109 098)
Other interest expense	(30 567)	(31 653)
Total interest expense	**(234 411)**	**(694 825)**

Cash flows from investing activities

In 2021 and in 2020, 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 29) and the European Investment Bank (Note 29). Moreover, cash flows from financing activities includes the settlements relates to subordinated liabilities.

The table below presents the changes in liabilities from financing activities.

	As at 01.01.2021	Cash flows	Change not connected with cash flows	As at 31.12.2021
Loans and advances to banks (Note 29)	500	-	2	502
Loans and advances to other customers (Note 29)	3 254 591	(1 363 406)	15 436	1 906 621
Leasing liabilities (Note 29)	771 935	(93 616)	278 519	956 838
Liabilities due to security deposits received in relation to granted guarantees (Note 29)	13 996 317	(483 241)	(83 294)	13 429 782
Subordinated liabilities (Note 29)	2 578 327	(54 535)	100 664	2 624 456
Total liabilities from financing activities	**20 601 670**	**(1 994 798)**	**311 327**	**18 918 199**

	As at 01.01.2020	Cash flows	Change not connected with cash flows	As at 31.12.2020
Loans and advances to banks (Note 29)	189 901	(198 636)	9 235	500
Loans and advances to other customers (Note 29)	2 980 294	(5 592)	279 889	3 254 591
Leasing liabilities (Note 29)	496 912	(119 501)	394 524	771 935
Liabilities due to security deposits received in relation to granted guarantees (Note 29)	17 435 143	(4 545 077)	1 106 251	13 996 317
Subordinated liabilities (Note 29)	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**

Exchange differences and accrued interest were included in the change not related to cash flows. 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 96 602 thousand (PLN 122 511 thousand in 2020).

43. 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 the 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 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, which according to its own judgement and decision confirm MBO achievement taking into account the situation on financial markets in the last/previous financial periods.

The sum of the first and the second part of bonus is the base bonus of the member of the Board for a given financial period. 40% of the base bonus constitutes non-deferred bonus and is paid in the year of determination of base bonus as follows: 50% in form of cash payment and 50% in Bank's shares or bonds with pre-emptive rights to acquire shares. 60% of the base bonus is deferred bonus and is paid in three equal tranches in the next three consecutive years after the year of determining the base bonus as follows: 50% of each of the deferred tranches in form of cash payment and 50% of each of the deferred tranches in form of non-cash payment in Bank's shares or bonds with pre-emptive rights to acquire shares.

The Supervisory Board on the basis of recommendation of Remuneration Committee can make a decision to suspend in whole or reduce the amount of deferred tranche due to the later assessment of the performance of the Member of the Management Board over a period of time longer than one financial year (i.e. for the period of at least 3 years), which takes into account the business cycle of the Bank as well as the risk related to the bank's operations, but only when the 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 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.

The last time bonus was awarded under the program described above, was for 2017. The final settlements fall on 2021.

Cash Part of the Bonus

50% of the base amount constitutes bonus cash payment. It is recognised in the income statement in correspondence with 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.

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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.

	31.12.2021		31.12.2020	
	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	**1 602**	**-**	**6 210**	**-**
Granted during the period	-	-	-	-
Forfeited during the period	-	-	-	-
Exercised during the period*	1 602	4	4 608	4
Expired during the period	-	-	-	-
Outstanding at the end of the period	**-**	**-**	**1 602**	**-**
Exercisable at the end of the period	**-**	**-**	**-**	**-**

* In 2021, the weighted average price of the shares was PLN 345.14 (in 2020 PLN 190.77).

Employee programme for key management staff of mBank Group of 2014

On 31 March 2014, the Supervisory Board of mBank adopted a resolution on the basis of recommendation of Remuneration Committee 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 the Bank's shares by linking the interest of the key staff of mBank Group with the interest of the Bank 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 eligible 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 were made in 2021.

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 correspondence with liability to employees.

Share-Based Payments settled in mBank shares

The bonus in the amount of 50% of the base amount constitutes a payment settled in mBank 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.

	31.12.2021		31.12.2020	
	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	**1 518**	**-**	**5 585**	**-**
Granted during the period	-	-	-	-
Forfeited during the period	107	-	-	-
Exercised during the period*	1 411	4	4 067	4
Expired during the period	-	-	-	-
Outstanding at the end of the period	**-**	**-**	**1 518**	**-**
Exercisable at the end of the period	**-**	**-**	**-**	**-**

* In 2021, the weighted average price of the shares was PLN 345.14 (in 2020 PLN 190.77).

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 last 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 as 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 on which the consolidated financial statements of mBank Group S.A. for a given calendar year are approved.

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 of mBank Group S.A. are approved.

Bonus for Risk Takers II

The bonus amount for a given calendar year is determined by the Bank's Management Board for a Risk Taker II, who is the Bank's employee, or by a subsidiary's Supervisory Board for Risk Taker II, who is a Member of the Management Board of mBank's 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 on which the consolidated financial statements of mBank S.A. Group for a given calendar year are approved.

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 of mBank S.A. Group for a given calendar year are approved.

In 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 the employees of the Bank or by the Supervisory Board of a subsidiary with regard to 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 the Management Board of mBank, the Management Board of mBank with respect to the Bank's employees or the Supervisory Board of mBank Group subsidiary with respect to 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 the 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 unappealable decision.

The decision determining the occurrence of the said events may be taken by the end of the calendar year when the last tranche of the deferred part of the bonus granted for the year in which the event occurred is paid.

In the case of a resolution of the General Meeting of mBank S.A. on payment of dividend for a given year, a Risk Taker I and a Risk Taker II to whom the bonus has been granted within the deferred or non-deferred part is entitled to a cash equivalent, regardless of the bonus, pursuant to the rules specified in the Risk Takers Remuneration Policy, in connection with the deferral of the portion paid in subscription warrants.

The bonus under the aforesaid programme was granted to Risk Takers I and Risk Takers II for 2018 and 2019.

On 17 December 2020 the Supervisory Board, in accordance with a recommendation of the Remuneration Committee of the Supervisory Board, decided to amend the Risk Takers Remuneration Policy, bearing in mind the need to align the Policy with new Directive (EU) 2019/878 of the European Parliament and of the Council of 20 May 2019 amending Directive 2013/36/EU as well as the recommendation of the Polish Financial Supervision Authority on variable remuneration components at banks communicated in the letter dated 17 April 2020 regarding measures expected to be taken by banks in response to the COVID-19 pandemic outbreak. In particularly justified cases when there is a need to mitigate the risk connected with maintaining a sound capital base of the bank, enabling it to effectively respond to the economic situation in Poland arising from, for example, the COVID-19 pandemic, the Supervisory Board with regard to Risk Takers I and mBank's Management Board with regard to Risk Takers II may adopt a resolution to pay the cash tranche in whole or in part (both the non-deferred and deferred tranche) in the form of subscription warrants, starting from the bonus for 2020. In 2021, bonus for 2020 for Risk Takers II was awarded entirely in subscription warrants. In addition, pursuant to the resolution of the Supervisory Board, a variable remuneration was awarded to Risk Takers I in the form of subscription warrants. Payments will be made in accordance with the provisions of the Risk Takers Remuneration Policy. The execution of the first tranche is scheduled for 2022.

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, the bonus may be paid in whole in cash in a non-deferred form based on a decision of mBank's Management Board.

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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.

	31.12.2021		31.12.2020	
	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	**33 264**	**-**	**17 067**	**-**
Granted during the period	79 297	-	24 195	-
Forfeited during the period	220	-	-	-
Exercised during the period*	14 831	4	7 998	4
Expired during the period	-	-	-	-
Outstanding at the end of the period	**97 510**	**-**	**33 264**	**-**
Exercisable at the end of the period	**-**	**-**	**-**	**-**

* In 2021, the weighted average price of the shares was PLN 345.14 (in 2020 PLN 190.77).

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.

	31.12.2021	31.12.2020
Incentive programs		
As at the beginning of the period	**30 329**	**27 320**
- value of services provided by the employees	10 487	10 159
- settlement of exercised options	(6 837)	(7 150)
As at the end of the period	**33 979**	**30 329**

Cash Payments

The cost of the cash part of the programmes is presented in Note 13.

44. 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.

IFRS Consolidated Financial Statements 2021 (PLN thousand)

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 2021 and as at 31 December 2020.

	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	**31.12.2021**	**31.12.2020**	**31.12.2021**	**31.12.2020**	**31.12.2021**	**31.12.2020**	**31.12.2021**	**31.12.2020**	**31.12.2021**	**31.12.2020**
Statement of Financial Position										
Assets	3 669	2 104	1 833	748	23 877	109 256	1 255 004	863 952	37	2 806
Liabilities	18 585	10 214	4 156	5 829	28 048	14 144	3 151 867	3 091 380	73 658	69 810
Income Statement										
Interest income	52	42	41	32	345	1 531	33 504	49 832	138	400
Interest expense	(2)	(89)	-	(1)	-	(83)	(23 658)	(41 712)	(20)	(197)
Fee and commission income	56	38	9	10	178	765	6 101	6 025	258	49
Fee and commission expense	-	-	-	-	(11 968)	(661)	-	-	-	-
Other operating income	-	-	15	-	1 078	155	3 522	1 578	-	-
Overhead costs, amortisation and other operating expenses	-	-	-	-	-	(1)	(5 192)	(6 488)	-	-
Contingent liabilities granted and received										
Liabilities granted	669	743	145	234	380 145	372 741	1 564 733	1 721 547	3 514	7 409
Liabilities received	-	-	-	-	-	-	1 895 575	1 911 651	-	-

** 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.*

Management Board of mBank S.A.

At the end of 2021, 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 Officer,
3. Krzysztof Dąbrowski – Vice-President of the Management Board, Head of Operations and IT,
4. Cezary Kocik – Vice-President of the Management Board, Head of Retail Banking,
5. Marek Lusztyn – Vice-President of the Management Board, Head of Risk,
6. Adam Pers – Vice-President of the Management Board, Head of Corporate and Investment Banking.

In 2021, there were no changes regarding the composition of the Management Board of mBank S.A.

Changes in the composition of the Supervisory Board of mBank S.A.

At the end of 2021 the composition of the Supervisory Board of mBank S.A. is as follows:

1. Agnieszka Słomka-Gołębiowska – Chairwoman
2. Bettina Orlopp – Vice-Chairwoman
3. Armin Barthel
4. Tomasz Bieske
5. Marcus Chromik
6. Mirosław Godlewski
7. Aleksandra Gren
8. Arno Walter

In 2021 the following changes in the composition of the Supervisory Board of mBank S.A. took place:

On 15 March 2021 Ms. Sabine Schmittroth resigned from membership in the Bank's Supervisory Board with the effective date of 25 March 2021.

On 25 March 2021 Mr. Fred Arno Walter was appointed as a member of the Bank's Supervisory Board.

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On 27 August 2021 Mr. Jörg Hessenmüller resigned from membership in the Bank's Supervisory Board with the effective date of 30 September 2021.

On 24 September 2021 Ms. Bettina Orlopp was appointed as a Vice-Chairwoman of the Bank's Supervisory Board with the effective date of 1 October 2021.

On 25 October 2021 Mr. Armin Barthel was appointed as a member of the Supervisory Board of mBank S.A.

Remuneration of the Management Board and Supervisory Board Members

The table below presents the 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 2021 and at the end of 2020, remuneration of the former Management Board Members and remuneration of Supervisory Board Members.

Remuneration paid out in PLN	2021	2020
mBank Management Board		
Basic salary	11 892 665	12 291 821
Other benefits	1 423 271	1 561 942
Bonus for previous year	-	1 560 000
Deferred bonus	1 278 316	1 380 230
Remuneration of the former Management Board Members		
Basic salary	-	1 359 355
Other benefits	3 210	185 897
Bonus for previous year	-	200 000
Deferred bonus	491 000	774 834
Compensation (no competition)	2 228 000	309 951
mBank Supervisory Board		
Basic salary	1 466 378	1 381 624

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 2021 by Bank's Management Board members was PLN 14 594 thousand (2020: PLN 19 101 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 2021, which would be paid out in 2022. Therefore, a provision was created for the payment of a cash bonus for 2021 for the members of the Management Board, which amounted to PLN 2 313 thousand as of 31 December 2021 (31 December 2020: PLN 1 714 thousand). The final decision concerning the level of the bonus will be taken by the Remuneration Committee of the Supervisory Board by 3 March 2022.

In 2021 and 2020, 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 performed their duties in 2021 amounted to PLN 21 796 thousand (2020: PLN 26 888 thousand).

Detailed information on the remuneration of individual Members of the Management Board and the Supervisory Board, as well as the other information about the former Members of Management Board is presented in the Management Board Report on the Performance of mBank S.A. Group in item 13.7. "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 2021, four Members of the Management Board held the Bank's shares: Mr. Cezary Stypułkowski – 25 230 shares, Mr. Andreas Böger – 1 646 shares, Mr. Krzysztof Dąbrowski – 892 shares and Mr. Cezary Kocik – 256 shares.

As at 31 December 2020, six Members of the Management Board held the Bank's shares: Mr. Cezary Stypułkowski – 23 250 shares, Mr. Andreas Böger – 819 shares, Mr. Frank Bock – 766 shares, Mr. Krzysztof Dąbrowski – 1 682 shares, Mr. Cezary Kocik – 2 161 shares and Mr. Adam Pers – 158 shares.

45. Acquisitions and disposals

Sale of Tele-Tech Investment sp. z o.o.

On 15 July 2021, mBank S.A. signed a conditional agreement for the sale of shares in the subsidiary Tele Tech Investment Sp. z o.o. and bonds issued by this company. After fulfilling the conditions precedent, on 19 July 2021, the Bank sold 100% of shares in the subsidiary and all bonds held by the Bank issued by that subsidiary.

Liquidation of mFinance France S.A.

Due to the substitution of obligations of mFinance France S.A. (mFF), described in detail in Note 29, the consolidation of this company was discontinued as of December 2020. The substitution process was formally completed in October 2020. In November 2020, the liquidation of the company began. On 22 April 2021, the Ordinary General Shareholders' Meeting of the subsidiary decided to end the liquidation of the subsidiary on 22 April 2021 and thus to submit an application for the removal of the subsidiary from the French register of enterprises. On 4 June 2021 the subsidiary was removed from the register of enterprises.

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.

46. 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 large subsidiary of EU parent institution, responsible for the preparation of the prudentially consolidated 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 2021 and for the 12-month period ended 31 December 2020.

The consolidated profit presented in the prudentially consolidated financial data may be included in consolidated Common Equity Tier I for the purpose of the calculation of consolidated Common Equity Tier I capital ratio, consolidated Tier I capital ratio and consolidated total capital ratio with the prior permission of the PFSA or after approval by the General Meeting of shareholders.

The accounting policies applied for the preparation of the Group prudentially consolidated financial data are identical to those, which have been applied to the mBank S.A. Group consolidated financial data for year 2021, prepared in compliance with IFRS, except for the consolidation standards presented below.

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The prudentially consolidated financial data includes the Bank and the following entities:

Company	31.12.2021		31.12.2020	
	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
Asekum Sp. z o.o.	100%	full	100%	full
LeaseLink Sp. z o.o.	100%	full	100%	full
mElements S.A.	100%	full	100%	full
Tele-Tech Investment Sp. z o.o.	-	-	100%	full

Starting from July 2021 mBank S.A. Group ceased to consolidate Tele-Tech Investment 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:

- EUR 10 million;
- 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 2021 (PLN thousand)

Prudentially consolidated income statement

	Year ended 31 December	
	2021	**2020**
Interest income, including:	4 431 504	4 689 089
Interest income accounted for using the effective interest method	*3 947 717*	*4 208 012*
Income similar to interest on financial assets at fair value through profit or loss	*483 787*	*481 077*
Interest expenses	(327 694)	(679 053)
Net interest income	**4 103 810**	**4 010 036**
Fee and commission income	2 714 896	2 244 561
Fee and commission expenses	(824 871)	(736 272)
Net fee and commission income	**1 890 025**	**1 508 289**
Dividend income	5 046	4 926
Net trading income	96 890	184 752
Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss	4 608	15 572
Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss	93 728	92 425
Other operating income	232 384	217 563
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss	(873 234)	(1 225 604)
Result on provisions for legal risk related to foreign currency loans	(2 758 079)	(1 021 714)
Overhead costs	(2 020 477)	(1 979 708)
Depreciation	(436 254)	(430 628)
Other operating expenses	(320 898)	(234 788)
Operating profit	**17 549**	**1 141 121**
Taxes on the Group balance sheet items	(608 627)	(531 379)
Profit / (loss) before income tax	**(591 078)**	**609 742**
Income tax expense	(587 735)	(505 985)
Net profit / (loss)	**(1 178 813)**	**103 757**
Net profit / (loss) attributable to:		
- Owners of mBank S.A.	(1 178 753)	103 831
- Non-controlling interests	(60)	(74)

IFRS Consolidated Financial Statements 2021 (PLN thousand)

Prudentially consolidated statement of financial position

ASSETS	31.12.2021	31.12.2020 - restated
Cash and balances with the Central Bank	12 202 266	3 968 691
Financial assets held for trading and hedging derivatives	2 589 076	2 586 721
Non-trading financial assets mandatorily at fair value through profit or loss, including:	1 423 822	1 791 292
Equity instruments	*231 020*	*208 905*
Debt securities	*81 128*	*76 068*
Loans and advances to customers	*1 111 674*	*1 506 319*
Financial assets at fair value through other comprehensive income	36 200 110	35 492 108
Financial assets at amortised cost, including:	140 296 498	130 179 652
Debt securities	*16 164 103*	*15 952 501*
Loans and advances to banks	*7 229 681*	*7 354 268*
Loans and advances to customers	*116 902 714*	*106 872 883*
Fair value changes of the hedged items in portfolio hedge of interest rate risk	1 055 478	-
Non-current assets and disposal groups classified as held for sale	31 247	-
Intangible assets	1 283 953	1 178 698
Tangible assets	1 542 250	1 514 578
Investment properties	127 510	-
Current income tax assets	28 147	23 957
Deferred income tax assets	1 392 344	853 869
Other assets	1 366 804	1 282 424
TOTAL ASSETS	**199 539 505**	**178 871 990**
LIABILITIES AND EQUITY		
LIABILITIES		
Financial liabilities held for trading and hedging derivatives	2 011 182	1 338 564
Financial liabilities measured at amortised cost, including:	179 349 604	156 673 479
Amounts due to banks	3 359 558	2 399 740
Amounts due to customers	159 935 808	137 699 095
Debt securities issued	13 429 782	13 996 317
Subordinated liabilities	2 624 456	2 578 327
Fair value changes of the hedged items in portfolio hedge of interest rate risk	110 033	59 624
Liabilities held for sale	7 425	-
Provisions	811 455	501 691
Current income tax liabilities	61 901	225 796
Deferred income tax liabilities	89	690
Other liabilities	3 469 900	3 397 079
TOTAL LIABILITIES	**185 821 589**	**162 196 923**
EQUITY		
Equity attributable to Owners of mBank S.A.	**13 716 050**	**16 673 133**
Share capital:	**3 593 944**	**3 587 035**
Registered share capital	169 540	169 468
Share premium	3 424 404	3 417 567
Retained earnings:	**11 326 494**	**12 501 597**
- Profit from the previous years	12 505 247	12 397 766
- Profit for the current year	(1 178 753)	103 831
Other components of equity	**(1 204 388)**	**584 501**
Non-controlling interests	**1 866**	**1 934**
TOTAL EQUITY	**13 717 916**	**16 675 067**
TOTAL LIABILITIES AND EQUITY	**199 539 505**	**178 871 990**

47. 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, assuring capital adequacy above the established minimum requirement (including risk appetite at approved level) as well as ensuring coverage against all material risks identified in mBank Group's activity,
- effective use of the capital base, guaranteeing achievement of expected returns, including return on regulatory capital and IFRS equity.

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 I capital ratio (calculated as a relation of Common Equity Tier I capital to the total risk exposure amount), Tier I capital ratio (calculated as a relation of Tier I capital to the total risk exposure amount), total capital ratio (calculated as a relation of own funds to the total risk exposure amount) as well as leverage ratio (calculated as a relation of Tier I capital to the institution's total exposure measure) at the level higher than required by the supervision authority.

The strategic targets of mBank Group are aimed at maintaining the total capital ratio, Tier I capital ratio, Common Equity Tier I capital ratio as well as the leverage ratio above the level required by the supervision authority. This allows to maintain business development while meeting the supervisory requirements in the long perspective.

Capital ratios

The adequacy assessment of the capital base, including among others: the calculation of capital ratios and the leverage ratio, the own funds and the total capital requirement in 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 amendments (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 2021 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 (31 December 2020: 2.5%).

As of the end of 2021 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 5 bps as of 31 December 2021 (4 bps as of 31 December 2020). 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 2021 were: 0.5% and 1.0% (at the of 2020 0.5% and 1.0% respectively).

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In 2016 the Bank received an administrative decision of the PFSA that identified mBank as other systemically important institutions (O-SII) and imposed a capital buffer of the total risk exposure amount. Pursuant to the PFSA decision of 29 October 2020 the Bank was obliged to maintain the capital buffer of 0.50% of the total risk exposure, calculated in accordance with article 92(3) of the Regulation, to be maintained on individual and consolidated levels. The value of the buffer specified in the administrative decision applies as of 31 December 2021.

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 and was applied as at 31 December 2021.

Consequently, the all-in-one combined buffer requirement set for the mBank Group as of the end of 2021 amounted to 3.05% of the total risk exposure amount (2020: 3.04%).

Additionally, as a result of risk assessment carried out in 2021 by the PFSA 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 2.12% for total capital ratio and 1.59% for Tier I capital ratio (in 2020: 2.82% and 2.11% respectively). Additional capital requirement in Pillar II set by the PFSA in 2021 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.

During 2021 and 2020 capital ratios both on the individual and consolidated level were above the required values taking into account the components described above.

mBank Group	31.12.2021		31.12.2020	
Capital ratio	**Required level**	**Reported level**	**Required level**	**Reported level**
Total capital ratio	13.17%	16.58%	13.86%	19.86%
Tier I ratio	10.64%	14.16%	11.15%	16.99%

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 I capital, amounted to 6.32% at the end of 2021 (7.85% at the end of 2020).

Own Funds

In accordance with the CRR Regulation, the consolidated own funds consist of consolidated Common Equity Tier I capital, consolidated Additional Tier I capital and consolidated Tier II capital, however, items that could be treated as Additional Tier I capital are not identified in the Group.

<u>Common Equity Tier I capital of mBank Group contains:</u>

- paid up capital instruments and the related share premium accounts,
- previous years retained earnings,
- independently reviewed interim profits,
- accumulated other comprehensive income,
- other reserves,
- funds for general banking risk,
- items deducted from a Common Equity Tier I 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 I instruments, regulatory adjustments relating to accumulated other comprehensive income and intangible assets, the amount from the deferred tax assets exceeding the 10% threshold of Common Equity Tier I capital and net impairment losses).

Tier II capital of mBank Group contains capital instruments and the related share premium accounts (subordinated liabilities with specified maturity and excess of provisions over the expected AIRB recognized losses in case of its occurrence).

The consolidated own funds of mBank Group as of 31 December 2021 amounted to PLN 15 871 711 thousand. Additionally the consolidated Common Equity Tier I capital of mBank Group amounted to PLN 13 552 027 thousand (as of 31 December 2020 it was PLN 17 588 012 thousand and PLN 15 046 912 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 2021 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.

In the process of calculating the total capital ratio in 2021, mBank Group implemented PFSA supervisory restrictions (multipliers) related to the recommendation following the implementation of the New Default Definition and the new LGD model for the retail loan portfolio. These limitations were taken into account in the process of calculating the total risk exposure amount at the end of 2021. In addition, in accordance with the update of the CRR requirements, mBank implemented in 2021 the standard method of calculating exposures for counterparty credit risk.

The total risk exposure amount of mBank Group as at 31 December 2021 amounted to PLN 95 738 983 thousand, including PLN 84 639 266 thousands of risk exposure amount for credit risk, counterparty credit risk and supervisory floor (31 December 2020: PLN 88 539 932 thousand and PLN 78 412 013 thousand respectively).

ICAAP process and 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 own funds or risk coverage potential are significantly higher than the value of internal capital estimated for the Group pursuant to the Regulation of the Minister of Finance, Funds and Regional Policy of 27 July 2021 on the detailed manner of estimation of internal capital and the bank's review of the strategy and procedures for the estimation and ongoing maintenance of internal capital.

The internal capital of mBank Group as at 31 December 2021 amounted to PLN 7 363 168 thousand (at 31 December 2020: PLN 7 579 222 thousand).

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CAPITAL ADEQUACY	31.12.2021	31.12.2020
Common Equity Tier I Capital	**13 552 027**	**15 046 912**
Total Own Funds	**15 871 711**	**17 588 012**
Risk weighted exposure amounts for credit, counterparty credit, dilution risk and free deliveries:	84 639 266	78 376 480
- including under standardised approach	24 649 286	21 385 766
- including under AIRB approach	59 985 177	56 982 598
- including risk exposure amount for contributions to the default fund of a CCP	4 803	8 116
Total risk exposure amount for position, foreign exchange and commodities risks	1 116 585	886 913
Total risk exposure amount for operational risks	9 502 228	8 834 765
Total risk exposure amount for credit valuation adjustments	480 904	406 241
Other risk exposure amounts	-	35 533
Total risk exposure amount	**95 738 983**	**88 539 932**
Common Equity Tier I capital ratio	**14.16%**	**16.99%**
Total capital ratio	**16.58%**	**19.86%**
Internal capital	**7 363 168**	**7 579 222**

OWN FUNDS	31.12.2021	31.12.2020
Own funds	**15 871 711**	**17 588 012**
TIER I CAPITAL	**13 552 027**	**15 046 912**
Common Equity Tier I Capital	**13 552 027**	**15 046 912**
Capital instruments eligible as CET1 Capital	3 593 879	3 586 897
Paid up capital instruments	169 475	169 330
Share premium	3 424 404	3 417 567
Retained earnings	150 854	1 282 602
Previous years retained earnings	1 329 607	1 230 724
Profit or loss eligible	(1 178 753)	51 878
Accumulated other comprehensive income	(1 204 388)	584 501
Other reserves	10 021 887	10 013 289
Funds for general banking risk	1 153 753	1 153 753
Adjustments to CET1 due to prudential filters	(51 225)	(45 137)
Fair value gains and losses arising from the institution's own credit risk related to derivative liabilities	(5 472)	(2 497)
(-) Value adjustments due to the requirements for prudent valuation	(45 753)	(42 640)
(-) Intangible assets	(798 007)	(578 518)
(-) Other intangible assets gross amount	(835 646)	(601 443)
Deferred tax liabilities associated to other intangible assets	37 639	22 925
(-) IRB shortfall of credit risk adjustments to expected losses	(214 366)	-
Cash flow hedging instruments adjustments	500 202	(419 130)
CET1 capital elements or deductions - other	399 438	(531 345)
Additional Tier I capital	**-**	**-**
TIER II CAPITAL	**2 319 684**	**2 541 100**
Capital instruments and subordinated loans eligible as T2 capital	2 319 684	2 422 757
AIRB Excess of provisions over expected losses eligible	-	118 343

CREDIT RISK	31.12.2021	31.12.2020
Risk weighted exposure amounts for credit risk, counterparty credit risk, dilution risk and free deliveries	**84 639 266**	**78 376 480**
Standardised approach	**24 649 286**	**21 385 766**
SA exposure classes excluding securitisation positions	24 649 286	21 385 766
Central governments or central banks	2 953 465	2 178 526
Regional governments or local authorities	34 318	55 311
Public sector entities	6 320	9 280
Institutions	393 107	307 216
Corporates	10 659 671	9 201 651
Retail	3 661 176	4 015 341
Secured by mortgages on immovable property	5 770 766	4 238 767
Exposures in default	700 957	860 014
Items associated with particular high risk	176 785	142 081
Equity	273 440	307 735
Other items	19 281	69 844
AIRB approach	**59 985 177**	**56 982 598**
AIRB approaches when own estimates of LGD and/or Conversion Factors are used	56 031 979	53 277 762
Institutions	1 218 320	887 040
Corporates - SME	5 837 217	6 965 356
Corporates - Specialised Lending	5 805 521	8 154 414
Corporates - Other	14 942 276	17 840 218
Retail - Secured by real estate SME	1 415 787	1 104 980
Retail - Secured by real estate non-SME	6 821 449	5 203 587
Retail - Other SME	7 204 924	4 578 595
Retail - Other non-SME	12 786 485	8 543 572
Other non-credit obligation assets	3 953 198	3 704 836
Risk exposure amount for contributions to the default fund of a CCP	**4 803**	**8 116**

As of 31 December 2021 mBank Group included transitional provisions regarding the temporary treatment of unrealized gains and losses measured at fair value through other comprehensive income in connection with the COVID-19 pandemic, contained in the regulation of the European Parliament and of the Council (EU) 2020/873 of 24 June 2020 amending Regulations (EU) No 575/2013 and (EU) 2019/876 as regards certain adjustments in response to the COVID-19 pandemic ("transitional provisions") in the calculation of own funds, capital ratios and leverage ratio for the first time.

The measures reported as of 31 December 2021 calculated taking into account the transitional provisions as well as measures as of 31 December 2021 calculated without taking into account the transitional provisions are presented below.

31 December 2021	Measures reported	Measures calculated without taking into account transitional provisions
Common Equity Tier I capital (PLN thousand)	13 552 027	13 037 746
Tier I capital (PLN thousand)	13 552 027	13 037 746
Own funds (PLN thousand)	15 871 711	15 357 430
Common Equity Tier I ratio (%)	14.16	13.59
Tier I capital ratio (%)	14.16	13.59
Total capital ratio (%)	16.58	16.01
Leverage ratio (%)	6.32	6.10

48. Events after the balance sheet date

On 24 February 2022 Russia invaded Ukraine, therewith starting large scale war activities in Ukraine. The international community reacted with implementation of sanctions against Russia. As of the date of approving of these consolidated financial statements it cannot be predicted how the armed conflict as well as the international reaction to it will further develop.

The mBank Group does not have direct operations in Ukraine nor in Russia. The Group's credit exposure towards Ukrainian and Russian institutions, companies and natural persons is not material and as of 31 December 2021 represented 0.031% of the total credit exposure of mBank Group.

These consolidated financial statements of mBank Group for the year 2021 do not require any adjustments due to the above events.

The Group is closely monitoring the development of the situation related to the armed conflict in Ukraine as well as analyzing its potential negative consequences to the overall client portfolio of the Group. A reliable assessment of the impact on the Group future operations and an estimate of the impact on the future consolidated financial statements of mBank Group are at this stage not yet possible, as these are highly dependent on the further development of the war in Ukraine, the reaction of international community as well as the impact of those on the Polish economy and the clients of mBank Group.