2020

Disclosures regarding capital adequacy of mBank S.A. Group as at 31 December 2020

Warsaw, 5 March 2021
(update – 14 December 2021)

Contents

1. Introduction

On the basis of Regulation (UE) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 as amended (hereinafter referred to as CRR Regulation) and on the basis of other regulations laying down implementing technical standards with regard to information disclosure, Commission delegated regulations (EU) supplementing the CRR Regulation with regard to regulatory technical standards regarding disclosure of information, Guidelines of the European Banking Authority regarding disclosure of information, also in accordance with the Disclosure Policy of mBank SA (hereinafter referred to as mBank) available on website www.mbank.pl, information based on the data for mBank SA Group prudentially consolidated (hereinafter referred to as mBank Group) according to the requirements of the CRR Regulation are contained in the presented document.

Entities included in prudential consolidation according to the rules of the CRR Regulation were taken into account in the process of calculation of consolidated own funds and consolidated own funds requirements as at 31 December 2020. The scope of entities included in prudential consolidation is different from the scope of entities included in accounting consolidation based on International Financial Reporting Standards (hereinafter referred to as the IFRS).

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

2. Scope of prudential consolidation

According to the CRR Regulation, mBank as a significant subsidiary of an EU parent institution prepares the consolidated prudentially financial data based on the rules of prudential consolidation described in the CRR Regulation.

The consolidated prudentially financial data of mBank Group as at 31 December 2020 prepared in accordance with the CRR Regulation (hereinafter referred to as Prudentially consolidated financial data for the year 2020) is presented in the Explanatory Note 44 of mBank Group International Financial Reporting Standards Consolidated Financial Statements for 2020 (hereinafter referred to as the Consolidated Financial Statements for the year 2020).

The accounting policies applied for the preparation of the Prudentially consolidated financial data for 2020 are the same as those, which have been applied to the Consolidated Financial Statements for the year 2020, except for the consolidation standards presented below. The consolidated profit presented in the Prudentially consolidated financial data for the year 2020 may be included in consolidated Common Equity Tier 1 for the purpose of calculation of consolidated Common Equity Tier 1 capital ratio, consolidated Tier 1 capital ratio and consolidated total capital ratio with the prior permission of the Polish Financial Supervisory Authority (hereinafter referred to as PFSA) or the General Meeting decision on profit division.

Entities included in prudential consolidation are defined in the CRR Regulation as 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 Prudentially consolidated financial data for the year 2020 include the following entities:

1. mBank S.A.
2. mBank Hipoteczny S.A.
3. mFaktoring S.A.
4. mFinanse S.A.
5. mLeasing Sp. z o.o.
6. Tele-Tech Investment Sp. z o.o.
7. Future Tech Fundusz Inwestycyny Zamknięty
8. mElements S.A.
9. Asekum Sp. z o.o.
10. LeaseLink Sp. z o.o.

Detailed information on consolidated entities included in accounting consolidation is presented in Explanatory Note 1 of the Consolidated Financial Statements for the year 2020.

Reconciliation between the Consolidated Financial Statements for the year 2020 and the Prudentially consolidated financial data for the year 2020 is presented below.

Reconciliation	Consolidated Financial Statements for the year 2020	Deconsolidation of entities not included in prudential consolidation	Prudentially consolidated financial data for the year 2020
ASSETS	**31.12.2020**	**31.12.2020**	**31.12.2020**
Cash and balances with the Central Bank	3 968 691	0	3 968 691
Financial assets held for trading and hedging derivatives	2 586 721	0	2 586 721
Non-trading financial assets mandatorily at fair value through profit or loss	1 784 691	6 601	1 791 292
Financial assets at fair value through other comprehensive income	35 498 061	(5 953)	35 492 108
Financial assets at amortised cost	131 444 579	(250)	131 444 329
Intangible assets	1 178 698	0	1 178 698
Tangible assets	1 514 577	0	1 514 578
Current income tax assets	23 957	0	23 957
Deferred income tax assets	853 880	(11)	853 869
Other assets	1 282 439	(14)	1 282 424
TOTAL ASSETS	**180 136 294**	373	**180 136 667**
LIABILITIES AND EQUITY			
LIABILITIES			
Financial liabilities held for trading and hedging derivatives	1 338 564	0	1 338 564
Financial liabilities measured at amortised cost	156 673 052	427	156 673 479
Fair value changes of the hedged items in portfolio hedge of interest rate risk	59 624	0	59 624
Provisions	1 766 368	0	1 766 368
Current income tax liabilities	225 796	0	225 796
Deferred income tax liabilities	690	0	690
Other liabilities	3 397 133	(54)	3 397 079
TOTAL LIABILITIES	**163 461 227**	373	**163 461 600**
EQUITY			
Equity attributable to Owners of mBank S.A.	**16 673 133**	**0**	**16 673 133**
Share capital:	**3 587 035**	**0**	**3 587 035**
- Registered share capital	169 468	**0**	169 468
- Share premium	3 417 567	**0**	3 417 567
Retained earnings:	**12 501 597**	**0**	**12 501 597**
- Profit from the previous years	12 397 766	**0**	12 397 766
- Profit for the current year	103 831	**0**	103 831
Other components of equity	**584 501**	**0**	**584 501**
Non-controlling interests	**1 934**	**0**	**1 934**
TOTAL EQUITY	**16 675 067**	**0**	**16 675 067**
TOTAL LIABILITIES AND EQUITY	**180 136 294**	**373**	**180 136 667**

Below the reconciliation of equity is presented, from the items included in the Consolidated Financial Statements for the year 2020 via the Prudentially consolidated financial data for the year 2020, to the items included in Common Equity Tier 1 capital of mBank Group as at 31 December 2020.

Reconciliation	Consolidated Financial Statements for the year 2020	Deconsolidation of entities not included in prudential consolidation	Prudentially consolidated financial data for the year 2020	Items not included in own funds and regulatory adjustments	Own funds (Tier 1 capital1)
Equity	**31.12.2020**	**31.12.2020**	**31.12.2020**	**31.12.2020**	**31.12.2020**
Share capital:	**3 587 035**	**0**	**3 587 035**	**(138)**	**3 586 897**
- Registered share capital	169 468	0	169 468	(138)	169 330
- Share premium	3 417 567	0	3 417 567	0	3 417 567
Retained earnings:	**12 501 597**	**0**	**12 501 597**	**(51 953)**	**12 449 644**
- Other supplementary capital	9 911 964	0	9 911 964	0	9 911 964
- Other reserve capital	101 325	0	101 325	0	101 325
- General banking risk reserve	1 153 753	0	1 153 753	0	1 153 753
- Undistributed profit from the previous years	1 230 724	**0**	1 230 724	0	1 230 724
- Profit from the current year	103 831	**0**	103 831	(51 953)	51 878
Other components of equity	**584 501**	**0**	**584 501**	**0**	**584 501**
- Exchange differences on translation of foreign operations	(2 392)	0	(2 392)	0	(2 392)
- Cash flow hedges	419 130	0	419 130	0	419 130
- Valuation of financial assets at fair value through other comprehensive income	185 333	0	185 333	0	185 333
- Actuarial gains and losses related to post-employment benefits	(17 570)	0	(17 570)	0	(17 570)
Non-controlling interests	**1 934**	**0**	**1 934**	**(1 934)**	**0**
Regulatory adjustments:	**0**	**0**	**0**	**(1 574 130)**	**(1 574 130)**
- Intangible assets	0	0	0	(578 518)	(578 518)
- LLP's	0	0	0	(531 345)	(531 345)
- Fair value gains and losses arising from the institution's own credit risk related to derivative liabilities	0	0	0	(2 497)	(2 497)
- Provision for cash flow hedging instruments	0	0	0	(419 130)	(419 130)
- Additional value adjustments	0	0	0	(42 640)	(42 640)
Total equity	**16 675 067**	**0**	**16 675 067**	**(1 628 155)**	**15 046 912**

The prudentially consolidated profit & loss account for mBank Group as at 31 December 2020 presents the net profit amounting to PLN 103 757 thousand and the net profit for shareholders of mBank S.A. amounting to PLN 103 831 thousand.

3. Capital adequacy

One of the main tasks of the balance sheet management is to ensure an appropriate level of capital. Within the framework of the capital management policy of mBank Group, mBank prepares the guidelines for the most effective planning and use of capital basis which:

- are compliant with external and internal regulations in force,
- guarantee a continuity of financial targets 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 basic pillars:

- maintenance of an optimal level and structure of own funds with the application of available methods and means, like among others retention of net profit, subordinated loan or issue of shares,
- effective use of existing capital, among others through application of a set of measures of effective use of the capital, limitation of activities that do not provide an expected rate of return and development of products with lower capital absorption.

Effective use of capital is an integral part of the capital management policy oriented at reaching an optimal rate of return on capital and as a result forming a stable fundament of reinforcement of the capital basis in future periods. This enables to maintain the Common Equity Tier 1 capital ratio (calculated as a quotient of Common Equity Tier 1 capital to the total risk exposure amount), Tier 1 ratio (calculated as a quotient of Tier 1 capital to the total risk exposure amount) and the total capital ratio (calculated as a quotient of own funds to the total risk exposure amount) at least on the level required by the supervision authority.

The capital strategic goals of mBank Group are aimed at maintaining the total capital ratio, as well as the Tier 1 capital ratio and the Common Equity Tier 1 capital ratio above the level required by the supervision authority. It allows business development while meeting the supervisory requirements in the long perspective.

4. Own funds

The consolidated own funds consist of Common Equity Tier 1 capital, Additional Tier 1 capital and Tier 2 capital. Detailed information on particular elements of consolidated own funds of mBank Group as at 31 December 2020 is presented in point 4.1. In point 4.2 the structure of consolidated own funds of mBank Group as at 31 December 2020 is presented.

4.1. Main information

COMMON EQUITY TIER 1 CAPITAL

<u>Capital instruments and the related share premium accounts</u>

In the item Capital instruments and the related share premium accounts, the share capital and share premium capital from sales of shares over the nominal value of mBank Group prudentially consolidated were included as at 31 December 2020.

Capital instruments and the related share premium accounts	
Registered share capital	169 330
Share premium	3 417 567
Total	**3 586 897**

Detailed information on share and supplementary capital from sales of shares over the nominal value is described in Explanatory Notes 35 and 36 of the Consolidated Financial Statements for 2020.

<u>Retained earnings</u>

In Retained earnings item the profit from the previous years of mBank Group prudentially consolidated as at 31 December 2020 in the amount of PLN 1 230 724 thousand were included. Detailed information regarding retained earnings is described in Explanatory Notes 37 of the Consolidated Financial Statements for 2020.

<u>Accumulated other comprehensive income (and other reserve capital)</u>

Accumulated other comprehensive income as at 31 December 2020 amounted to PLN 584 501 thousand. The structure of accumulated other comprehensive income of mBank is presented below.

Accumulated other comprehensive income	
Exchange differences on translation of foreign operations	(2 392)
Cash flow hedges	419 130
Valuation of financial assets at fair value through other comprehensive income	185 333
Actuarial gains and losses related to post-employment benefits	(17 570)
Total	**584 501**

Other reserve capital mBank Group prudentially consolidated as at 31 December 2020 amounted to PLN 10 013 289 thousand. The structure of accumulated other comprehensive income of mBank Group prudentially consolidated as at 31 December 2020 is presented below.

Other reserve capital	
Other supplementary capital	9 911 964
Other reserve capital	101 325
Total	**10 013 289**

Accumulated other comprehensive income and other reserve capital of mBank Group prudentially consolidated as at 31 December 2020 amounted to PLN 10 597 790 thousand.

Funds for general banking risk

mBank Group transfers some of its net profit to the funds for general banking risk to cover unexpected risk and future losses. The funds for general banking risk can be distributed only on consent of shareholders at the General Meeting. As at 31 December 2020 the funds for general banking risk of mBank Group prudentially consolidated amounted to PLN 1 153 753 thousand.

Independently reviewed interim profits

Verified net profit of mBank Group prudentially consolidated for the first half of 2020, reduced by every foreseeable charges, was included in the calculation of consolidated Common Equity Tier 1 capital as at 31 December 2020 in accordance with the permission of PFSA obtained on 25 September of 2020 to include the net profit of mBank Group prudentially consolidated in Common Equity Tier 1 capital.

The net profit of mBank Group prudentially consolidated for the first half of 2020 reduced by every foreseeable charges amounted to PLN 51 878 thousand.

REGULATORY ADJUSTMENTS / DEDUCTIONS FROM THE COMMON EQUITY TIER 1 CAPITAL

Additional value adjustments

In accordance with Article 34 of the CRR Regulation, additional value adjustments have been calculated to all assets measured at fair value in accordance with the requirements of Article 105 of the CRR Regulation and included in Common Equity Tier 1 capital of mBank Group prudentially consolidated as at 31 December 2020 in the amount of PLN 42 640 thousand.

Intangible assets

In accordance with Article 36 and 37 of the CRR Regulation and in accordance with Commission Delegated Regulation (EU) 2020/2176 of 12 November 2020 amending Delegated Regulation (EU) No 241/2014 as regards the deduction of software assets from Common Equity Tier 1 items, intangible assets, with the exception of prudently valued software assets the value of which is not negatively affected by resolution, insolvency or liquidation of the institution, reduced by the amount of associated deferred tax liabilities are included in Common Equity Tier 1 capital. The value included in Common Equity Tier 1 capital of mBank Group prudentially consolidated as at 31 December 2020 amounted to PLN 578 518 thousand.

Reserve capital reflecting the fair value associated with gains or losses on cash flow hedging instruments

In accordance with Article 33 of the CRR Regulation, regulatory adjustments in the amount of PLN 419 130 thousand regarding accumulated other comprehensive income as at 31 December 2020 constituting the Reserve capital reflecting the fair value associated with gains or losses on cash flow hedging instruments item, correct the Accumulated other comprehensive income item, mentioned above.

Fair value gains and losses arising from the institution's own credit risk related to derivative liabilities

In accordance with Article 33(2) of the CRR Regulation, the fair value gains and losses arising from the mBank Group's own credit risk related to derivative liabilities are not offset profit and losses measured at fair value resulting from the mBank Group's own credit risk with similar profit and losses arising from its counterparty credit risk. As at 31 December 2020 the amount of PLN 2 497 thousand from fair value gains and losses measured at fair value was included in Common Equity Tier 1 capital of mBank Group.

Net impairment losses

In Net impairment losses item as at 31 December 2020 the impairment (or reversal) of impairment on financial assets not measured at fair value through profit or loss for the second half of the year 2020 were included in the amount of PLN 531 345 thousand. Applied approach is compliant with the provisions of the Commission delegated Regulation (EU) No 183/2014 of 20 December 2013 supplementing the CRR Regulation with regard to regulatory technical standards for specifying the calculation of specific and general credit risk adjustments.

ADDITIONAL TIER 1 CAPITAL

Items that could be treated as Additional Tier 1 capital are not identified in mBank Group.

TIER 2 CAPITAL

Capital instruments and the related share premium accounts

Pursuant to the PFSA decision dated 8 January 2015, mBank obtained a written permission to include in Tier 2 capital the amount of PLN 750 000 thousand constituting subordinated liabilities from the bonds issue dated 17 December 2014 on total nominal value of PLN 750 000 thousand with the redemption date on 17 January 2025. The issue meets all the requirements of the CRR Regulation. This instrument qualifies as an item in Tier 2 capital to the extent compliant with the depreciation principles referred to in Article 64 of the CRR Regulation.

Pursuant to the PFSA decision of 29 March 2018, mBank obtained a permission to classify cash in the amount of CHF 250 000 thousand as instruments in Tier 2 capital, in accordance with the terms of the loan agreement concluded between mBank S.A. and Commerzbank AG.

Pursuant to the PFSA decision of 28 November 2018, mBank obtained a permission to classify subordinated bonds with a nominal value of PLN 550 000 thousand, issued by the Bank on 9 October 2018 with the redemption date on 10 October 2028, as instruments in Tier 2 capital.

Pursuant to the PFSA decision of 28 November 2018, mBank obtained a permission to classify subordinated bonds with a nominal value of PLN 200 000 thousand, issued by the Bank on 9 October 2018 with the redemption date on 10 October 2030, as instruments in Tier 2 capital.

As at 31 December 2020 in the consolidated Tier 2 capital in the item Equity instruments and related share premium accounts the amount of PLN 2 422 757 thousand was included from the above-mentioned tranches of capital instruments

In accordance with the provisions of Commission implementing Regulation (EU) No 1423/2013 of 20 December 2013 laying down implementing technical standards with regard to disclosure of own funds requirements for institutions according to the CRR Regulation (hereinafter referred to as Regulation No 1423/2013), the description of capital instruments' main features included in Tier 1 and Tier 2 capital of mBank Group prudentially consolidated as at 31 December 2020 is presented on subsequent pages of the current document, prepared based on Appendix No 2 to the Regulation No 1423/2013.

Credit risk adjustments

mBank Group, when calculating the risk-weighted exposure amounts using the AIRB method, includes in the calculation of own funds positive amounts, resulting from the calculations specified in Articles 158 and 159 of the CRR Regulation, up to a maximum of 0.6% of the risk-weighted exposure amounts.

Pursuant to Art. 62 (1d), positive amounts, included in the Tier 2 capital of mBank Group prudentially consolidated as at 31 December 2020, were presented in Credit risk adjustments item in the amount of PLN 118 343 thousand.

TOTAL CAPITAL

The amount of consolidated own funds of mBank Group prudentially consolidated as at 31 December 2020 was presented in Total capital item constituting the sum of consolidated Common Equity Tier 1 capital and consolidated Tier 2 capital.

The consolidated own funds of mBank Group as at 31 December 2020 amounted to PLN 17 588 012 thousand.

Capital instruments' main features of Tier 1 capital

No	Items	Common Equity Tier 1 capital	
1	Issuer	mBank S.A.	
2	Unique identifier (eg. CUSIP or Bloomberg identifier for private placement)	PLBRE000012	
3	Governing law(s) of the instrument	Polish	
	Regulatory treatment		
4	Transitional CRR rules	CET1 capital	
5	Post-transitional CRR rules	CET1 capital	
6	Eligible at solo/(sub-)consolidated / solo & (sub-)consolidated	Solo and (sub-) consolidated	
7	Instrument type (types to be specified by each jurisdiction)	Common shares, meeting the conditions specified in art. 28 of the CRR Regulation	
8	Amount recognised in regulatory capital (currency in m, as of most recent reporting date)	mPLN 169	
9	Nominal amount of instrument	PLN 4	
9a	Issue price	PLN 4	
9b	Redemption price	N/A	
10	Accounting classification	Equity capital	
11	Original issue date (Registration year, Number of shares issued)	Registration year	Number of shares
		1986	9.989.000
		1986	11.000
		1994	2.500.000
		1995	2.000.000
		1997	4.500.000
		1998	3.800.000
		2000	170.500
		2004	5.742.625
		2005	270.847
		2006	532.063
		2007	144.633
		2008	30.214
		2010	12.395.792
		2011	16.072
		2012	36.230
		2013	35.037
		2014	36.044
		2015	28.867
		2016	41.203
		2017	31.995
		2018	20.344
12	Perpetual or dated	Perpetual	
13	Original maturity date	No maturity	
14	Issuer call subject to prior supervisory approval	N/A	
15	Optional call date, contingent call dates and redemption amount	N/A	
16	Subsequent call dates, if applicable	N/A	

	Coupons / dividends	
17	Fixed or floating dividend/coupon	Floating
18	Coupon rate and any related index	N/A
19	Existence of a dividend stopper	No
20a	Fully discretionary or mandatory (in terms of timing)	Fully discretionary
20b	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Fully discretionary
21	Fully discretionary, partially discretionary or mandatory (in terms of amount)	No
22	Nonculmulative or cumulative	N/A
23	Convertible or non-convertible	Non-convertible
24	If convertible or non-convertible, conversion trigger(s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts info	N/A
30	Write-down features	No
31	If write-down, write-down trigger(s)	N/A
32	If write-down, full or partial	N/A
33	If write-down, permanent or temporary	N/A
34	If write-down, description of write-up mechanism	N/A
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	N/A
36	Non-compliant transitional features	No
37	If yes, specify non-compliant features	N/A

Capital instruments' main features of Tier 2 capital

No	Tranche	750 mln PLN	250 mln CHF	550 mln PLN	200 mln PLN
1	Issuer	mBank S.A.	mBank S.A.	mBank S.A.	mBank S.A.
2	Unique identifier (eg. CUSIP or Bloomberg identifier for private placement)	ISIN: PLBRE0005185 Series: MBKO170125	N/A	Series: MBKO101028	Series: MBKO101030
3	Governing law(s) of the instrument	Polish	German and Polish in relations to subordination	Polish	Polish
	Regulatory treatment				
4	Transitional CRR rules	Tier 2; Art. 63 and Art. 64	Tier 2; Art. 63	Tier 2; Art. 63	Tier 2; Art. 63
5	Post-transitional CRR rules	Tier 2	Tier 2	Tier 2	Tier 2
6	Eligible at solo/(sub-)consolidated / solo & (sub-)consolidated	Solo and (Sub-) consolidated	Solo and (Sub-) consolidated	Solo and (Sub-) consolidated	Solo and (Sub-) consolidated
7	Instrument type (types to be specified by each jurisdiction)	Bond „instrumenty kapitałowe"- Polish Banking Act Art.127.2.2 - meeting the conditions set out in Art. 63 of the CRR Regulation	Loan „pożyczki podporządkowane"- Polish Banking Act Art.127.2.2 - meeting the conditions set out in Art. 63 of the CRR Regulation	Bond „instrumenty kapitałowe"- Polish Banking Act Art.127.2.2 - meeting the conditions set out in Art. 63 of the CRR Regulation	Bond „instrumenty kapitałowe"- Polish Banking Act Art.127.2.2 - meeting the conditions set out in Art. 63 of the CRR Regulation
8	Amount recognised in regulatory capital (currency in million, as of most recent reporting date)	mPLN 607	mCHF 250	mPLN 550	mPLN 200
9	Nominal amount of instrument	In issuance currency: PLN 750 million; in reporting currency: PLN 750 million	In issuance currency: CHf 250 million; in reporting currency: PLN 1 066 million	In issuance currency: PLN 550 million; in reporting currency: PLN 550 million	In issuance currency: PLN 200 million; in reporting currency: PLN 200 million
9a	Issue price	100.00%	Not applicable	100.00%	100.00%
9b	Redemption price	100.00%	Not applicable	100.00%	100.00%
10	Accounting classification	Liability – amortised cost	Liability – amortised cost	Liability – amortised cost	Liability – amortised cost
11	Original date of issue	17-12-2014	21-03-2018	09-10-2018	09-10-2018
12	Perpetual or dated	Dated	Dated	Dated	Dated
13	Original maturity date	17-01-2025	21-03-2028	10-10-2028	10-10-2030
14	Issuer call subject to prior supervisory approval	Yes	Yes	Yes	Yes
15	Optional call date, contingent call dates and redemption amount	1) 17-01-2020 No minimum amount; at price 100%; 2) Redemption due to a regulatory event (PFSA consent required, notification of investors) at a price of 100%, at any Interest Payment Date	1) 21-03-2023; integral multiples of CHF 10 m; notification of the lender, PFSA consent required; 2) Redemption due to a tax or regulatory event (PFSA consent required); at the end of Interest Period; notification of the lender	1) 10-10-2023 No minimum amount; at price 100%; 2) Redemption due to a regulatory event (PFSA consent required, notification of investors) at a price of 100%, at any Interest Payment Date	1) 10-10-2025 No minimum amount; at price 100%; 2) Redemption due to a regulatory event (PFSA consent required, notification of investors) at a price of 100%, at any Interest Payment Date
16	Subsequent call dates, if applicable	Redemption due to a regulatory event (PFSA consent required, notification of investors) at a price of 100%, at any Interest Payment Date	1) integral multiples of CHF 10 m; notification of the lender, PFSA consent required; at the end of any Interest Period falling not earlier than the 5th anniversary of the Drawdown Date 2) Redemption due to a tax or regulatory event (PFSA consent required); at the end of Interest Period; notification of the lender	Redemption due to a regulatory event (PFSA consent required, notification of investors) at a price of 100%, at any Interest Payment Date	Redemption due to a regulatory event (PFSA consent required, notification of investors) at a price of 100%, at any Interest Payment Date

No	Tranche	750 mln PLN	250 mln CHF	550 mln PLN	200 mln PLN
	Coupons / dividends				
17	Fixed or floating dividend/coupon	Floating	Floating	Floating	Floating
18	Coupon rate and any related index	WIBOR 6M + 2.10%	CHF LIBOR 3M + 2.75%	WIBOR 6M + 1.80%	WIBOR 6M + 1.95%
19	Existence of a dividend stopper	No	No	No	No
20a	Fully discretionary or mandatory (in terms of timing)	Mandatory	Mandatory	Mandatory	Mandatory
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Mandatory	Mandatory	Mandatory	Mandatory
21	Existence of step up or other incentive to redeem	No	No	No	No
22	Nonculmulative or cumulative	Nonculmulative	Nonculmulative	Nonculmulative	Nonculmulative
23	Convertible or non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible
24	If convertible or non-convertible, conversion trigger(s)	Not applicable	Not applicable	Not applicable	Not applicable
25	If convertible, fully or partially	Not applicable	Not applicable	Not applicable	Not applicable
26	If convertible, conversion rate	Not applicable	Not applicable	Not applicable	Not applicable
27	If convertible, mandatory or optional conversion	Not applicable	Not applicable	Not applicable	Not applicable
28	If convertible, specify instrument type convertible into	Not applicable	Not applicable	Not applicable	Not applicable
29	If convertible, specify issuer of instrument it converts info	Not applicable	Not applicable	Not applicable	Not applicable
30	Write-down features	No	No	No	No
31	If write-down, write-down trigger(s)	Not applicable	Not applicable	Not applicable	Not applicable
32	If write-down, full or partial	Not applicable	Not applicable	Not applicable	Not applicable
33	If write-down, permanent or temporary	Not applicable	Not applicable	Not applicable	Not applicable
34	If write-down, description of write-up mechanism	Not applicable	Not applicable	Not applicable	Not applicable
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Receivables from subordinated liabilities not included in the Bank's own funds, including interest and costs of enforce-ment	Receivables from subordinated liabilities not included in the Bank's own funds, including interest and costs of enforce-ment	Receivables from subordinated liabilities not included in the Bank's own funds, including interest and costs of enforcement	Receivables from subordinated liabili-ties not included in the Bank's own funds, including interest and costs of enforcement
36	Non-compliant transitioned features	No	No	No	No
37	If yes, specify non-compliant features	Not applicable	Not applicable	Not applicable	Not applicable

4.2 Structure of consolidated own funds

In accordance with the provisions of Regulation No 1423/2013, the structure of own funds is presented below based on Appendix No 4 to the Regulation No 1423/2013.

	Common Equity Tier 1 capital: instruments and reserves	Amount at disclosure date
1	Capital instruments and the related share premium accounts	3 586 897
2	Retained earnings	1 230 724
3	Accumulated other comprehensive income (and other reserve capital)	10 597 790
3a	Funds for general banking risk	1 153 753
5a	Independently reviewed interim profits net of any foreseeable charge or dividend	51 878
6	**Common Equity Tier 1 (CET1) capital before regulatory adjustments**	**16 621 042**
Common Equity Tier 1 capital: regulatory adjustments		
7	Additional value adjustments	(42 640)
8	Intangible assets (net related tax liability)	(578 518)
11	Reserve capital reflecting the fair value associated with gains or losses on cash flow hedging instruments	(419 130)
12	Negative amount resulting from the calculation of expected loss amounts	0
14a	Fair value gains and losses arising from the institution's own credit risk related to derivative liabilities	(2 497)
14b	Net impairment losses	(531 345)
28	**Total regulatory adjustments to Common Equity Tier 1**	**(1 574 130)**
29	**Common Equity Tier 1 capital**	**15 046 912**
Additional Tier 1 capital: instruments		
36	Additional Tier 1 capital before regulatory adjustments	0
Additional Tier 1 capital: regulatory adjustments		
43	Total regulatory adjustments to Additional Tier 1 capital	**0**
44	Additional Tier 1 capital	**0**
45	Tier 1 capital (CET1 + AT1)	**15 046 912**
Tier 2 capital: instruments and provisions		
46	Capital instruments and the related share premium accounts	2 422 757
50	Credit risk adjustments	118 343
51	**Tier 2 capital before regulatory adjustments**	**2 541 100**
Tier 2 capital: regulatory adjustments		
57	**Total regulatory adjustments to Tier 2 capital**	**0**
58	**Tier 2 capital**	**2 541 100**
59	**Total capital (T1 + T2)**	**17 588 012**
60	**Total risk weighted assets**	**88 539 932**
Capital ratios and buffers		
61	**Common Equity Tier 1 (as a percentage of risk exposure amount)**	**16.99%**
62	**Tier 1 (as a percentage of risk exposure amount)**	**16.99%**
63	**Total capital (as a percentage of risk exposure amount)**	**19.86%**
63a	Additional own funds requirement related to Pillar II adjustments to cover FX lending risk to unhedged borrowers*	**2.82%**
64	Institution specific buffer requirement (CET1 requirement in accordance with article 92 (1) (a) plus capital conservation and countercyclical buffer requirements, plus systematic risk buffer, plus the systemically important institution buffer (G-SLL or O-SII buffer), expressed as a percentage of risk exposure amount)	**3.04%**
65	of which: capital conservation buffer requirement	**2.50%**
66	of which: countercyclical buffer requirement	**0.04%**
67	of which: systemic risk buffer requirement	**0.00%**
67a	of which: Global Systemically Important Institution (G-SII) or Other System Important Institution (O-SII) buffer	**0.50%**
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)), after covering additional own funds requirement related to Pillar II adjustments	**8.88%**

Amounts below the deduction thresholds (before risk weighting)		
72	Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	0
73	Direct and indirect holdings by an institution of the CET1 instruments of financial sector entities where the institution have a significant investment in these entities (amount below 10% threshold and net of eligible short positions)	92 390
75	Deferred tax assets arising for temporary differences (amount below 10% threshold, net related tax liability where the conditions in Article 38 (3) are met)	877 484
Applicable caps on the inclusion of provisions in Tier 2		
76	Credit risk adjustments included in T2 in respect of exposures subject to standardized approach (prior to the application of the cap)	0
77	Cap on inclusion of credit risk adjustment in T2 under standardised approach	0
78	Credit risk adjustments included in T2 in respect of exposures subject to internal ratings-based approach (prior to the application of the cap)	0
79	Cap on inclusion of credit risk adjustment in T2 under internal ratings-based approach	0

** Additional own funds requirement related to Pillar II adjustments updated in 2018 based on an administrative decision of PFSA of October 15th , 2018 and subsequent correspondence of November 29th, 2020 . Detailed information on additional own funds requirement related to Pillar II are available in section 5.4 Supervisory requirements regarding capital ratios.*

5. Capital requirement

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

On 4 July 2012 PFSA and Bundesanstalt fur Finanzdienstleistungsaufsicht (BaFin) granted consent to the application of the advanced internal rating based approach (AIRB approach) by mBank to the calculation of the capital requirement for credit risk for the corporate portfolio and the retail mortgage loan portfolio.

Additionally, on 27 August 2012 BaFin in cooperation with PFSA granted consent to the application of internal rating based approach concerning the risk weighting for specialized lending exposures (IRB slotting approach) by mBank Hipoteczny SA (hereinafter referred to as the mBH) to the calculation of the capital requirement for credit risk.

On 6 May 2015 mBank SA received conditional consent of PFSA to use AIRB approach for retail mortgage loan portfolio (micro companies) and for the portfolio of commercial banks.

On 25 July 2016 mLeasing S.A. (hereinafter referred to as the mLeasing) obtained approval from ECB and PFSA to the application of the AIRB approach to the calculation of capital requirement for credit risk.

On 22 September 2016 mBank SA obtained approval from ECB and PFSA to the application of AIRB approach to the calculation of the capital requirement for credit risk for the specialized lending exposures - income producing real estate.

On 31 January 2018 mBank SA obtained approval from European Central Bank and PSFA to the application of material change in PD model for subsidiary mLeasing.

In the calculation of the total capital ratio of mBank Group as of 31 December 2020, when calculating the total capital charge, the mBank Group applies the AIRB approach pursuant to the provisions of the CRR Regulation to calculate a capital charge for credit and counterparty credit risk and pursuant to obtained AIRB approvals.

5.2. Results of the internal capital adequacy assessment

mBank Group adjusts the own funds to the level and type of risk, mBank Group is exposed to and to the nature, the scale and the complexity of its operations. For that purpose Internal Capital Adequacy Assessment Process (ICAAP) is realized in mBank Group. The aim of this process is to maintain own funds at the level adequate to the profile and the level of risk in mBank Group's operations.

Internal capital is the amount of capital estimated by mBank and required to cover all material risks identified in mBank Group's operations. Internal capital is the total sum of the economic capital to cover risks included in economic capital calculation and capital necessary to cover other risks (including hard to quantify risks).

In 2020 mBank calculated the economic capital at the 99,91% confidence level over a one-year time horizon for credit, market and business risk. The economic capital for operational risk was calculated using an algorithm based on the Standardised Measurement Approach (SMA) described in Basel III: Finalising post-crisis reforms.

The internal capital adequacy assessment process is continuous in mBank Group and includes the following stages implemented by organizational units of mBank and mBank Group subsidiaries:

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

In order to assess the adequacy of internal capital mBank calculates risk coverage potential (RCP), i.e. economic own funds. Having estimated internal capital as well as RCP both under normal and under stressed conditions Bank determines risk absorbance capacity. On this basis and taking into account the forecast values limits for economic capital for particular risks are determined.

Risk Coverage Potential in mBank Group stays well above economic capital.
The internal capital adequacy assessment process is accepted by the Supervisory Board of mBank. The whole internal capital adequacy assessment process is reviewed annually. The Management Board of mBank is responsible for the internal capital adequacy assessment process in mBank Group.

5.3. Additional information regarding AIRB

Description of the internal rating process, provided separately for each class of exposures, addressing disclosure requirements of art. 452 (c) of CRR

Corporates and Commercial Banks

The process of rating corporate banking clients is an integral part of the lending process. Without a rating it is impossible to make a credit decision.

There are two types of rating used to assess corporate clients and exposures:

1) PD-rating - (PD - Probability of Default) assessment of the client's risk of default construed as the probability of default (client's default on obligations) over a 12-month period,
2) EL-rating - (EL - Expected Loss) assessment of the probability of a loss, taking into account the client's risk of default, structure and nature of credit products, and type and size of accepted collateral.

In order to ensure unbiased assessment and management of credit risk, mBank applies uniform rules based, in particular, on the separation of credit risk assessment function from the sales function at all levels. The sales units make the initial assessment of a client and propose a PD-rating which is then subject to independent assessment and approval of Risk Line representatives. By approving the credit risk level, the Risk Line representatives take full responsibility for its correct assessment.

Correct assessment of credit risk requires complete, valid and reliable information on the client. At a further stage of the analysis, the information affects not only PD-rating, but also other risk parameters (Exposure at Default (EAD), Loss Given Default (LGD), and consequently EL-rating). mBank indicated a list of documents which the clients are obliged to submit for the purpose of assessing their risk level and required collateral. Furthermore, in the credit agreements mBank specifies a list of documents the clients undertake to submit to mBank for the purpose of verifying/updating their assessment and updating the valuation of collateral, and obliges the clients to notify mBank of any events affecting their creditworthiness. When submitted, the documents are verified in terms of compliance with mBank's requirements and formal correctness.

Acting in line with the Banking Law and Basel recommendations, when assessing credit risk mBank takes into account the mutual relations and links between entities, as they may lead to a situation when financial problems faced by one entity translate into financial problems of another. The relations referred to above are verified by way of analysing the entity's affiliation to a group of related entities (GPP), and then are taken into account in credit risk assessment, mainly through:

– calculating PD-rating based on consolidated data, provided that the entity draws up Consolidated Financial Statements;
– including the PD-rating of the dominant entity in the assessment of its subsidiary, proportionally to the degree of the group's integration.

When assessing foreign entities (non-residents), mBank takes into account the risk of the country of their origin.

The assessment and PD-rating calculation for corporate clients take place in one of the following systems:

1) RC-POL,
2) Central Commerzbank PD model for Commercial Banks,
3) System for Property Insurance Institutions,
4) System for Life Insurance Institutions,
5) System for Investment Funds,
6) System for Pension Funds,
7) System for Local Governments (JST),
8) System for Specialized Lending Entities (SPL),
9) Brokerage operations – expert system for selected clients (who meet specific criteria) who conduct brokerage operations connected with the securities and commodities market,
10) Model PD for Sovereigns (central Commerzbank model for governments and central banks)
11) Expert System – dedicated to the remaining corporate banking clients.

The RC-POL system covers 2 rating segments (SME and Corporations) used depending on the amount of the client's average, annual net revenues from the sales of products, commodities and materials:

a) RC-POL SME revenues ≤ PLN 50 million,
b) RC-POL Corporations revenues > PLN 50 million.

The detailed principles for assigning corporate banking clients to a given rating system are set out in mBank's internal regulations.

The process of assigning PD-rating is supported by Credit System (SK), an IT application based on a workflow platform. The process takes place individually for each entity applying to mBank for a credit risk product. The calculation of PD-rating takes the following into account: analysis of financial data comprised in the annual financial statements, analysis of mid-year financial data, quality analysis and analysis of other factors.

The complete course of the PD-rating calculation process is registered in SK, including all the data which forms a basis for the assessment, and decisions of authorities approving the assessment.

Upon completing the analysis, the system automatically proposes the final PD-rating, which in exceptional and justified cases may be corrected on an expert basis (the so-called overriding). Usually, overriding may change the rating by 1 notch on a 25-point rating scale. The Bank allows a wider scope of overriding:

- full-scale overriding is possible in the case of non-residents and selected client classes,
- extended overriding (by a maximum of 5 notches) in a limited scope (defined in Bank's internal regulations) is allowed for entities for which during the financial year an unitary business event occurred, which due to the accounting method could not be included in the rating model.

mBank systematically analyses all the events of overriding, which is aimed at preventing its excessive use. On the basis of results of the client's risk assessment and his financial needs, the amount and structure of the General Limit (LG) are determined. LG is the maximum permissible financial exposure of mBank to the Client. The LG structure defines: the permissible structure of credit products, amounts and terms, required minimum level and type of collateral, and other conditions specific to particular types of funding.

EL-rating, which determines the maximum risk acceptable by mBank in the case of a given client or GPP under the conditions established in the decision, constitutes a comprehensive assessment of the risk posed by the entire exposure to the client or GPP. Exposures to clients and GPP must go through a multi-level system of credit decisions. The key criteria qualifying exposures to particular decision-making levels include total exposure and EL-rating. When taking a decision on total exposure to a given client, mBank takes into account also the client's exposure to mBank Group subsidiaries (i.e. mLeasing, mBank Hipoteczny and mFaktoring). Clients generating high capital requirements must undergo a special decision-making procedure. In such a case, the decisions are made by mBank's Management Board.

PD-rating of each credit client is updated at least once a year based on the latest audited annual financial statements and the most recent information on the client. According to the monitoring matrix mBank reviews all its credit clients in order to check whether the PD-rating determined during the annual review is adequate to their current situation assessed on the basis of the latest mid-year data. Each quarterly monitoring may end with the reassignment of rating. Moreover, each time mBank obtains new and relevant information on its obligors or exposures in the time between the quarterly assessments, another analysis of their situation may be carried out and on the basis of its results mBank may decide to take new actions. Once a year, the client's assessment is combined with a review of his exposures; consequently, a credit decision is made on further cooperation with the client.

For the assessment of exposures classified as specialized lending, the Bank uses two independent rating models:

- a model built internally by the Bank, dedicated to the assessment of specialized lending exposure, classified as financing of: goods, facilities, projects, leveraged acquisition (SPL TOP),
- a model, dedicated to the assessment of specialized lending exposures, classified as the financing of commercial real estate (SPL FN).

Both models are based on a list of questions covering supervisory requirements and results in the EL parameter in accordance with the values predefined by the Supervisor.

mBank applies individualized rating sheets within a given rating model. The individualization of rating sheets under the specialized lending consists in the fact that:

- for SPL FN depending on the type of real estate (offices, shopping centres, warehouse centres / logistics centres, developer housing projects, hotels) and type of transaction (financing/refinancing),
- for SPL TOP, depending on the type of financing (goods, facilities, projects, leveraged acquisition)

an appropriate, separate format of the rating sheet is used.

The rating for SPL TOP and SPL FN is supported by Bank's systems through dedicated calculation processes for this parameter.

The Bank performs transactions generating credit risk in relation to banks, credit institutions and international financial institutions within the limits of credit exposure designated for these entities. The element used in determining these limits is PD rating of the entity, obtained from Commerzbank AG and setting on the basis of a central rating model dedicated to the appropriate institution type.

The process of setting exposure limits for these entities is carried out using the methodology contained in the "Criteria for assessment and setting limits of banks and international financial institutions credit exposure ".
The criteria include:

a) the rating of the financial strength of the counterparty / issuer based on:
   - assessment of the probability of incurring losses by the bank / international financial institution (analysis of credit risk of assets and liabilities, analysis of liquidity risk, assessment of other relevant information indicating the possibility of bank losses),
   - assessment of the bank's ability to withstand critical situations in relation to the risks incurred (analysis of financial results, assessment of capital adequacy, assessment of other relevant information indicating the ability to withstand critical situations),
b) rating including the assessment of counterparty / issuer integration in the group,
c) the financial rating of the counterparty / issuer - rating including a credit risk assessment of the country of origin and country of risk of the counterparty / issuer (in accordance with the "Criteria for credit risk assessment of the country and setting the county credit exposure limit"),

An integral part of the criteria is the Business Model Risk Assessment Block consisting of:
a) identification of the structure of used intangible assets,
b) analysis of the features of the broadly understood business model (analysis of the intangible assets model),
c) assessing the sensitivity of the broadly understood business model.

In addition, the criteria include:
a) the method of setting the maximum limit of credit exposure,
b) rules for updating temporary tenors for which limits on transactions are set,
c) the method of setting the financial rating of the counterparty / issuer according to the shortened credit risk assessment formula,
d) an early warning model.

Retail

The assessment of a retail banking customer, applying for a loan/change of loan terms, is focused, in accordance with the provisions of the Banking Law and PFSA recommendations, on two areas:

- assessment of the customer's credit capacity, which consists in determining the loan amount available to the customer;
- assessment of the customer's creditworthiness, that is assessment of default risk during the service of the loan, expressed in the form of PD Rating (PD – Probability of Default).

These areas are assessed independently from each other, that is the lack of credit capacity may not be compensated for with a very good PD Rating; and high credit capacity may not offset unacceptable PD Rating. In order to ensure the high accuracy of the determined PD Rating, data from all available sources are used, i.e.:

- data from the loan application (application scoring, specific for different product segments of the portfolio);
- data on customers behaviour in relations with mBank (internal behavioural scoring);
- data on customers behaviour in relations with other banks (external behavioural scoring based on BIK - Credit Bureau information).

Depending on the availability of data from individual areas and the context of making the assessment (customer's credit application / offer provided to the customer by mBank), the above data sources are used in various combinations. Each application for a credit product for individuals / small enterprises is registered in a loan application processing IT system. After registering the application, the information from internal and external data sources are downloaded. The verification results are again registered in the application processing system, and then the set of data required for calculating risk parameters is handed over to the decision-making engine, integrated with application processing system.

On the basis of the information obtained, PD score is calculated in the decision-making engine and the customer is assigned to the appropriate rating class (consistently within the Commerzbank Group). Moreover, risk parameters LGD (Loss Given Default) and EL (Expected Loss) are calculated on the basis of data related to the assessed transaction. At the subsequent stage of the process, decision rules based on threshold values of risk parameters (PD Rating, LGD, EL) are applied, in accordance with the rules of the decision-making policy accepted at mBank. The result of the assessment is then returned to the application system. The process of PD Rating assignment and the calculation of the remaining risk parameters is, thanks to the use of IT applications, strictly structured and automated.

Customer's rating and the values of other risk parameters are made available to persons taking credit decisions. The level of authority required for taking an individual credit decision is dependent, i.a. on the value of risk parameters (PD Rating / LGD / EL). In the case of retail customers, mBank does not allow for arbitrary rating amendments, hence the persons taking credit decisions are not allowed to modify the registered values.

Taking a positive decision in spite of a negative assessment in the system (PD Rating or another risk parameter that is beyond the accepted range) is treated as a non-standard decision and requires approval by a superior decision-making level. mBank monitors the quality of loans granted on the basis of non-standard decisions that is independent from the quality monitoring of the entire credit portfolio.

In retail banking, risk parameter values (including PD Rating) are updated:

- periodically – on the basis of a monthly recalculation of behavioural scoring and updating the delinquency data,
- ad hoc – in the process of customer's applying for new loans.

The rating process is under constant supervision in terms of quality of data that are used. Data quality assessment is conducted by a dedicated unit.

Retail foreign branches (Czech and Slovak market)

The risk assessment of a retail banking customer applying for a loan/change of loan terms in retail foreign branches, for the purposes of credit decisions, is based on the internal PD rating model. In order to ensure both: the high accuracy of the determined PD Rating and usage of all available sources of information model consist of modules based on different types of data:

- application scoring (specific for different product segments of the portfolio, based on the information from application form);
- internal behavioural scoring, (based on the data on customers behaviour and delinquencies in relations with mBank);
- external behavioural scoring form Credit Bureaus (based on the history of relations with other banks).

Depending on the availability of data and the assessment purpose (customer's credit application / offer provided to the customer by mBank), the above data sources are used in various combinations. On the basis of the gathered information, the percentage value of probability of default for each customer is calculated in the decision-making engine and the customer is assigned to the appropriate rating class (coherent approach within Commerzbank Group). The next stage of the process is the use of decision rules based on limit PD rating values).

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Similarly as in the Polish retail area PD parameter is updated:

- periodically – on the basis of a monthly recalculation of behavioural scoring and updating the delinquency data,
- ad hoc – in the process of customer's applying for new loans.

The rating process is under constant supervision in terms of quality of data that are used. Data quality assessment is conducted by a dedicated unit.

Form EU CRE – IRB approach – Backtesting of PD per exposure class, addressing disclosure requirements of Art. 452 letter i) of CRR Regulation.

Portfolio (model name)	Model type	Scope of use	Control mechanisms	Reporting process	Most important features of the model
PD models					
Retail exposures portfolio (PD retail rating model)	• group model, developed locally, used locally in the Bank and in the Group (mBank Hipoteczny) • statistical with expert influence	• calculation of regulatory measures • calculation of reserves • calculation of the Bank's financial result / regulatory capital (AIRB) • credit decisions	• annual monitoring performed by the Modelling Unit based on internal Bank data • annual validation performed by the independent Validation Unit	• compliant with the internal Management Information System with a quarterly / half-year / annual frequency depending on the recipient Committee / Forum / Management Board and Supervisory Board • the scope of reporting includes the risk assessment of the model along with a synthetic summary of the results of the last monitoring and validation of the model • model quality assessment from the last reporting cycle for the model: green light	• definitions compliant with external regulations (CRR package) and internal ones of the Bank, including definition of "bad" observation • methods used in the model building process: logistic regression, WoE, kernel density estimation • methods used in the model back testing process: GINI, ETLA test • internal data (application and behavioural data about clients) and external (Credit Information Bureau) from at least 5-year time horizon covering all observations qualifying for the rating system were used in the model development process • differences between PD and default rates result from the Bank's conservative approach, ie PD> DR
Corporate exposures portfolio for enterprises (RC-POL rating model)	• group model, developed locally, used locally in the Bank and in the Group (mLeasing) • statistical with expert influence	• calculation of regulatory measures • calculation of reserves • calculation of the Bank's financial result / regulatory capital (AIRB) • credit decisions	• annual monitoring performed by the Modelling Unit based on internal data (Bank and Group) • annual validation performed by the independent Validation Unit	• compliant with the internal Management Information System with a quarterly / half-year / annual frequency depending on the recipient Committee / Forum / Management Board and Supervisory Board • the scope of reporting includes the risk assessment of the model along with a synthetic summary of the results of the last monitoring and validation of the model • model quality assessment from the last reporting cycle for the model: green light	• definitions compliant with external regulations (CRR package) and internal ones of the Bank, including definition of "bad" observation • methods used in the model building process: logistic regression, WoE, ln(odds), kernel density estimation • methods used in the model back testing process: GINI, ETLA test • internal Group data (mBank and mLeasing) from at least 5-year time horizon covering all observations qualifying for the rating system were used in the model development process • description of differences between PD and default rates, see below *
Corporate exposures portfolio for commercial banks (rating model for banks)	• central model (origin CommerzBank AG), used locally (mBank) • statistical with expert influence	• calculation of regulatory measures • calculation of reserves • calculation of the Bank's financial result / regulatory capital (AIRB) • credit decisions	• annual validation/monitoring performed by the CommerzBank AG with special consideration of mBank portfolio • annual validation performed by the independent Validation Unit	• compliant with the internal Management Information System with a quarterly / half-year / annual frequency depending on the recipient Committee / Forum / Management Board and Supervisory Board • the scope of reporting includes the risk assessment of the model along with a synthetic summary of the results of the last monitoring and validation of the model • model quality assessment from the last reporting cycle for the model: green light	• definitions compliant with external regulations (CRR package) and internal ones of the Bank, including definition of "bad" observation • methods used in the model building process: logistic regression, ln(odds), kernel density estimation • methods used in the model back testing process: AUC, GINI. • in the development process internal data of CommerzBank and external data (Bankscope base, Fitch agency) from at least 5-year time horizon covering all observations eligible for the rating system were used • possible differences between PD and default rates result from the specificity of the low default portfolio at mBank

Portfolio (model name)	Model type	Scope of use	Control mechanisms	Reporting process	Most important features of the model
PD models					
Corporate exposures portfolio for special lending of real estates (SPL-FN model)	• group model (origin mBank Hipoteczny), used locally in mBank and in the group (mBank Hipoteczny) • expert model	• calculation of regulatory measures • calculation of reserves • calculation of internal risk measures • calculation of the Bank's financial result / regulatory capital (AIRB) • credit decisions	• annual monitoring performed by the Modelling Unit based on internal data (Bank and Group) • validation performed by an independent Validation Unit in two-year cycles	• compliant with the internal Management Information System with a quarterly / half-year / annual frequency depending on the recipient Committee / Forum / Management Board and Supervisory Board • the scope of reporting includes the risk assessment of the model along with a synthetic summary of the results of the last monitoring and validation of the model • model quality assessment from the last reporting cycle for the model: green light	• definitions compliant with external regulations (CRR package) and internal ones of the Bank, including definition of "bad" observation • methods used in the model building process: linear regression (least squares method) • methods used in the model back testing process: GINI • internal Group data (mBank and mBank Hipoteczny) from at least 5-year time horizon covering all observations qualifying for the rating system were used in the model development process
mLeasing retail exposures portfolio (PD retail Leasing rating model)	• group model, used in the Group (mLeasing) • statistical model	• calculation of regulatory measures • calculation of reserves • calculation of internal risk measures • calculation of the Bank's financial result / regulatory capital (AIRB) • credit decisions	• annual monitoring performed by the Modelling Unit based on internal Group data • annual validation performed by the independent Validation Unit	• compliant with the internal Management Information System with a quarterly / half-year / annual frequency depending on the recipient Committee / Forum / Management Board and Supervisory Board • the scope of reporting includes the risk assessment of the model along with a synthetic summary of the results of the last monitoring and validation of the model • model quality assessment from the last reporting cycle for the model: green light	• definitions compliant with external regulations (CRR package) and internal ones of the Bank, including definition of "bad" observation • methods used in the model building process: logistic regression, WoE, kernel density estimation • methods used in the model back testing process: GINI, ETLA test • internal Group data from at least 5-year time horizon covering all observations qualifying for the rating system were used in the model development process

Portfolio (model name)	Model type	Scope of use	Control mechanisms	Reporting process	Most important features of the model
LGD models					
Retail exposures portfolio (LGD model)	• local model, developed locally, used locally in the Bank • statistical with expert influence	• calculation of regulatory measures • calculation of the Bank's financial result / regulatory capital (AIRB) • credit decisions	• annual monitoring performed by the Modelling Unit based on internal Bank data • annual validation performed by the independent Validation Unit	• compliant with the internal Management Information System with a quarterly / half-year / annual frequency depending on the recipient Committee / Forum / Management Board and Supervisory Board • the scope of reporting includes the risk assessment of the model along with a synthetic summary of the results of the last monitoring and validation of the model • model quality assessment from the last reporting cycle for the model: green light	• definitions compliant with external regulations (CRR package) and internal ones of the Bank, including definition of default • methods used in the model building process: mean • conservative approach: conservative corrections and haircuts, e.g. downturn haircut, lack of recoveries after certain time in default • methods used in the model back testing process: ROC, GINI, calibration of model values to empirical values • internal data from at least 5-year time horizon covering all observations qualifying for the rating system were used in the model development process
Retail exposures portfolio (CCF model)	• local model, developed locally, used locally in the Bank • statistical model	• calculation of regulatory measures • calculation of reserves calculation of the Bank's financial result / regulatory capital (AIRB)	• annual monitoring performed by the Modelling Unit based on internal Bank data • annual validation performed by the independent Validation Unit	• compliant with the internal Management Information System with a quarterly / half-year / annual frequency depending on the recipient Committee / Forum / Management Board and Supervisory Board • the scope of reporting includes the risk assessment of the model along with a synthetic summary of the results of the last monitoring and validation of the model • model quality assessment from the last reporting cycle for the model: green light	• definitions compliant with external regulations (CRR package) and internal ones of the Bank, including definition of default • methods used in the model building process: mean • methods used in the model back testing process: ROC, GINI • internal data from at least 5-year time horizon covering all observations qualifying for the rating system were used in the model development process
Corporate exposures portfolio (LGD model)	• local model, developed locally, used locally in the Bank • statistical with expert influence	• calculation of regulatory measures • calculation of reserves • calculation of the Bank's financial result / regulatory capital (AIRB) • credit decisions	• annual monitoring performed by the Modelling Unit based on internal Bank data • annual validation performed by the independent Validation Unit	• compliant with the internal Management Information System with a quarterly / half-year / annual frequency depending on the recipient Committee / Forum / Management Board and Supervisory Board • the scope of reporting includes the risk assessment of the model along with a synthetic summary of the results of the last monitoring and validation of the model • model quality assessment from the last reporting cycle for the model: yellow light	• definitions compliant with external regulations (CRR package) and internal ones of the Bank, including definition of default • methods used in the model building process: mean, linear regression (least squares method) • conservative approach: conservative corrections and haircuts, e.g. downturn haircut • methods used in the model back testing process: ROC, GINI, calibration of model values to empirical values • internal data from at least 5-year time horizon covering all observations qualifying for the rating system were used in the model development process

Portfolio (model name)	Model type	Scope of use	Control mechanisms	Reporting process	Most important features of the model
LGD models					
Corporate exposures portfolio (CCF model)	• local model, developed locally, used locally in the Bank • statistical model	• calculation of regulatory measures • calculation of reserves • calculation of the Bank's financial result / regulatory capital (AIRB)	• annual monitoring performed by the Modelling Unit based on internal Bank data • annual validation performed by the independent Validation Unit	• compliant with the internal Management Information System with a quarterly / half-year / annual frequency depending on the recipient Committee / Forum / Management Board and Supervisory Board • the scope of reporting includes the risk assessment of the model along with a synthetic summary of the results of the last monitoring and validation of the model • model quality assessment from the last reporting cycle for the model: yellow light	• definitions compliant with external regulations (CRR package) and internal ones of the Bank, including definition of default • methods used in the model building process: mean • methods used in the model back testing process: ROC, GINI • internal data from at least 5-year time horizon covering all observations qualifying for the rating system were used in the model development process
Corporate exposures portfolio for commercial banks (LGD/EAD model)	• central model (origin CommerzBank AG), used locally (mBank) • statistical model	• calculation of regulatory measures • calculation of reserves • calculation of the Bank's financial result / regulatory capital (AIRB) • credit decisions	• annual validation/monitoring performed by the CommerzBank AG with special consideration of mBank portfolio • annual validation performed by the independent Validation Unit	• compliant with the internal Management Information System with a quarterly / half-year / annual frequency depending on the recipient Committee / Forum / Management Board and Supervisory Board • the scope of reporting includes the risk assessment of the model along with a synthetic summary of the results of the last monitoring and validation of the model • model quality assessment from the last reporting cycle for the model: yellow light	• definitions compliant with external regulations (CRR package) and internal ones of CommerzBank AG, including definition of default • methods used in the model building process: mean • conservative approach: conservative corrections and haircuts, e.g. risk transfer haircut • internal data of CommerzBank AG from at least 5-year time horizon covering all observations qualifying for the rating system were used in the model development process •
mLeasing exposures portfolio (LGD model)	• group model, used in the Group (mLeasing) • statistical with expert influence	• calculation of regulatory measures • calculation of reserves • calculation of the Bank's financial result / regulatory capital (AIRB) • credit decisions	• annual monitoring performed by the Modelling Unit based on internal Group data • annual validation performed by the independent Validation Unit	• compliant with the internal Management Information System with a quarterly / half-year / annual frequency depending on the recipient Committee / Forum / Management Board and Supervisory Board • the scope of reporting includes the risk assessment of the model along with a synthetic summary of the results of the last monitoring and validation of the model • model quality assessment from the last reporting cycle for the model: yellow light	• definitions compliant with external regulations (CRR package) and internal ones of the Bank and the Group, including definition of default • methods used in the model building process: mean • conservative approach: conservative corrections and haircuts, e.g. downturn haircut, lack of recoveries after certain time in default • methods used in the model back testing process: ROC, GINI, calibration of model values to empirical values • internal Group data from at least 5-year time horizon covering all observations qualifying for the rating system were used in the model development process

* differences between PD and default rate values result from the data presentation schema defined in the EU-CR9 form where average PD value with number of obligors were given as at the end of the previous period (portfolio snapshot on 31/12/2019) with number of obligors for which loss event was realized in the horizon from the end of previous period (31/12/2019) to the end of current period (31/12/2020). Such a scheme is adequate for models in which PD is calculated on a monthly basis but in the case of models where PD is calculated annually (as in the RC-POL model where PD is calculated at least annually, where the trigger of recalculation is obtaining of new financial statement or negative qualitative information requiring rating renewal) this indicates situation where realization of PD parameter is verified in a time horizon longer than 12 months from the moment of PD calculation – max. 23 months (as in given example: realisation of PD calculated on 15/01/2019 in EU-CR9 data set on 31/12/2019 is verified in time horizon 31/12/2019 – 31/12/2020. so up to 12 months old) what generates the occurrence of default cases in low rating classes as well as the occurrence of a DR>PD relationship in selected rating classes. Additionally it should be noted that the reported portfolio is characterized by a relatively low number of defaults (about several dozen cases per year) which in the case of disaggregation of the data into 24 rating classes leads to a situation where the DR>PD relationship is determined by the occurrence of one more case of default.

Rating systems' validation

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

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 (Division in Integrated Risk Management Department) is responsible for the validation in mBank.

The scope of validation performed by the Validation Unit covers the assessment of:

- models,
- model implementation,
- 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 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.

All the models used for the purpose of calculating capital requirements for credit risk under the AIRB method were validated.

In the table below (with a breakdown to exposure classes) we present PD values, the number of obligors as well the default rate calculated in line with the rules described in EU CR9 form.

EU CR9 – IRB approach – Backtesting of PD per exposure class, addressing disclosure requirements of Art. 452 letter i) of CRR Regulation.

a)	b)	c)	d)	e)	f)		g)	h)	i)
Exposure class	PD range	External rating equivalent	Weighted average PD	Arithmetic average PD by obligors	Number of obligors		Defaulted obligors in the year	Of which new obligors	Average historical annual default rate
					End of previous year	End of the year			
09. Institutions	(0; 0.000191]	AAA	n/d	n/d	0	0	0	0	n/d
	(0.000191; 0.00032]	AA+	0.03%	0.03%	5	3	0	0	0.00%
	(0.00032; 0.000526]	AA. AA-	0.04%	0.04%	28	18	0	0	0.00%
	(0.000526; 0.000848]	A+. A	0.07%	0.06%	19	27	0	0	0.00%
	(0.000848; 0.00134]	A-	0.11%	0.11%	10	11	0	0	0.00%
	(0.00134; 0.002074]	BBB+	0.14%	0.14%	5	4	0	0	0.00%
	(0.002074; 0.003144]	BBB	0.26%	0.26%	14	15	0	0	0.00%
	(0.003144; 0.004666]		0.45%	0.42%	11	9	0	0	0.00%
	(0.004666; 0.006775]	BBB-	0.48%	0.55%	7	5	0	0	0.00%
	(0.006775; 0.009621]	BB+	0.89%	0.88%	5	4	0	0	0.00%
	(0.009621; 0.013355]	BB	1.02%	1.07%	5	4	0	0	0.00%
	(0.013355; 0.01811]		1.57%	1.63%	4	4	0	0	0.00%
	(0.01811; 0.023979]	BB-	2.34%	2.31%	2	10	0	0	0.00%
	(0.023979; 0.030982]		2.57%	2.62%	1	4	0	0	0.00%
	(0.030982; 0.03904]	B+	n/d	n/d	0	0	0	0	6.25%
	(0.03904; 0.048571]	B	n/d	n/d	1	0	0	0	0.00%
	(0.048571; 0.06043]		n/d	n/d	2	0	0	0	0.00%
	(0.06043; 0.075185]		n/d	n/d	0	0	0	0	n/d
	(0.075185; 0.093541]	B-	8.39%	8.39%	1	1	0	0	0.00%
	(0.093541; 0.11638]		n/d	n/d	0	0	0	0	0.00%
	(0.11638; 0.144795]	CCC+ do C	n/d	n/d	0	0	0	0	0.00%
	(0.144795; 0.180147]		n/d	n/d	1	0	0	0	0.00%
	(0.180147; 0.224131]		n/d	n/d	0	0	0	0	0.00%
	(0.224131; 1)		n/d	n/d	0	0	0	0	0.00%
	1	DEFAULT	100.00%	100.00%	0	0	0	0	n/d

a)	b)	c)	d)	e)	f)		g)	h)	i)
Exposure class	PD range	External rating equivalent	Weighted average PD	Arithmetic average PD by obligors	Number of obligors		Defaulted obligors in the year	Of which new obligors	Average historical annual default rate
					End of previous year	End of the year			
10. Corporates: thereof SMEs	(0; 0.000191]	AAA	n/d	n/d	0	0	0	0	n/d
	(0.000191; 0.00032]	AA+	0.03%	0.03%	44	43	0	0	0.35%
	(0.00032; 0.000526]	AA. AA-	0.04%	0.04%	63	37	0	0	0.00%
	(0.000526; 0.000848]	A+. A	0.07%	0.07%	66	58	0	0	0.68%
	(0.000848; 0.00134]	A-	0.11%	0.10%	90	91	0	0	0.00%
	(0.00134; 0.002074]	BBB+	0.17%	0.17%	96	94	0	0	1.05%
	(0.002074; 0.003144]	BBB	0.25%	0.26%	142	120	1	0	0.14%
	(0.003144; 0.004666]		0.39%	0.39%	247	225	0	0	0.26%
	(0.004666; 0.006775]	BBB-	0.57%	0.58%	390	338	5	2	0.98%
	(0.006775; 0.009621]	BB+	0.81%	0.82%	579	490	6	5	0.88%
	(0.009621; 0.013355]	BB	1.12%	1.14%	565	527	12	6	0.81%
	(0.013355; 0.01811]		1.56%	1.57%	583	506	9	3	1.80%
	(0.01811; 0.023979]	BB-	2.11%	2.11%	501	533	9	4	1.38%
	(0.023979; 0.030982]		2.74%	2.72%	319	382	7	5	3.08%
	(0.030982; 0.03904]	B+	3.47%	3.47%	263	258	6	1	4.39%
	(0.03904; 0.048571]	B	4.30%	4.33%	136	208	8	1	3.02%
	(0.048571; 0.06043]		5.40%	5.44%	94	107	7	1	7.95%
	(0.06043; 0.075185]		6.77%	6.71%	64	77	4	0	5.62%
	(0.075185; 0.093541]	B-	8.40%	8.31%	57	67	3	0	5.26%
	(0.093541; 0.11638]		10.47%	10.44%	33	62	1	0	9.65%
	(0.11638; 0.144795]	CCC+ do C	12.83%	12.89%	21	28	0	0	3.06%
	(0.144795; 0.180147]		16.55%	16.38%	19	29	0	0	4.98%
	(0.180147; 0.224131]		20.58%	20.00%	16	15	1	0	6.87%
	(0.224131; 1)		34.08%	34.63%	46	56	2	0	4.17%
	1	DEFAULT	100.00%	100.00%	69	97	69	12	n/d

a)	b)	c)	d)	e)	f)		g)	h)	i)
Exposure class	PD range	External rating equivalent	Weighted average PD	Arithmetic average PD by obligors	Number of obligors		Defaulted obligors in the year	Of which new obligors	Average historical annual default rate
					End of previous year	End of the year			
12. Corporates: thereof other	(0; 0.000191]	AAA	n/d	n/d	0	0	0	0	n/d
	(0.000191; 0.00032]	AA+	0.03%	0.03%	9	17	0	0	0.00%
	(0.00032; 0.000526]	AA. AA-	0.04%	0.04%	35	33	0	0	0.00%
	(0.000526; 0.000848]	A+. A	0.07%	0.07%	31	28	0	0	0.00%
	(0.000848; 0.00134]	A-	0.11%	0.11%	31	42	1	0	0.65%
	(0.00134; 0.002074]	BBB+	0.17%	0.17%	56	103	0	0	0.00%
	(0.002074; 0.003144]	BBB	0.25%	0.25%	104	114	0	0	0.00%
	(0.003144; 0.004666]		0.40%	0.39%	185	161	1	0	0.37%
	(0.004666; 0.006775]	BBB-	0.58%	0.56%	184	186	0	0	0.24%
	(0.006775; 0.009621]	BB+	0.81%	0.82%	213	222	1	0	0.33%
	(0.009621; 0.013355]	BB	1.16%	1.14%	213	248	1	1	0.90%
	(0.013355; 0.01811]		1.54%	1.55%	173	223	2	0	1.00%
	(0.01811; 0.023979]	BB-	2.14%	2.10%	121	215	1	0	1.12%
	(0.023979; 0.030982]		2.74%	2.74%	106	131	3	1	2.53%
	(0.030982; 0.03904]	B+	3.52%	3.51%	97	87	4	2	5.18%
	(0.03904; 0.048571]	B	4.25%	4.45%	47	120	0	0	4.34%
	(0.048571; 0.06043]		5.30%	5.37%	53	54	7	0	6.85%
	(0.06043; 0.075185]		6.69%	6.65%	35	52	3	0	7.30%
	(0.075185; 0.093541]	B-	8.31%	8.24%	43	40	5	1	4.63%
	(0.093541; 0.11638]		10.69%	10.65%	54	80	4	1	4.66%
	(0.11638; 0.144795]	CCC+ do C	12.23%	12.75%	23	22	6	1	7.72%
	(0.144795; 0.180147]		15.75%	16.05%	9	19	1	0	5.29%
	(0.180147; 0.224131]		20.36%	20.63%	25	28	0	0	1.43%
	(0.224131; 1)		43.06%	44.52%	186	215	6	5	3.42%
	1	DEFAULT	100.00%	100.00%	352	343	352	4	n/d

a)	b)	c)	d)	e)	f)		g)	h)	i)
Exposure class	PD range	External rating equivalent	Weighted average PD	Arithmetic average PD by obligors	Number of obligors		Defaulted obligors in the year	Of which new obligors	Average historical annual default rate
					End of previous year	End of the year			
13. Retail: thereof secured by mortgages / SMEs	(0; 0.000191]	AAA	n/d	n/d	0	0	0	0	n/d
	(0.000191; 0.00032]	AA+	n/d	n/d	0	0	0	0	0.00%
	(0.00032; 0.000526]	AA. AA-	n/d	n/d	0	0	0	0	0.00%
	(0.000526; 0.000848]	A+. A	0.08%	0.08%	48	125	0	0	0.00%
	(0.000848; 0.00134]	A-	0.11%	0.11%	534	602	0	0	0.06%
	(0.00134; 0.002074]	BBB+	0.17%	0.17%	1151	922	0	0	0.06%
	(0.002074; 0.003144]	BBB	0.26%	0.26%	1018	845	3	0	0.11%
	(0.003144; 0.004666]		0.38%	0.38%	760	814	3	0	0.10%
	(0.004666; 0.006775]	BBB-	0.56%	0.56%	784	656	4	0	0.37%
	(0.006775; 0.009621]	BB+	0.80%	0.80%	501	560	2	0	0.26%
	(0.009621; 0.013355]	BB	1.11%	1.12%	209	456	1	1	0.27%
	(0.013355; 0.01811]		1.52%	1.53%	274	236	5	0	0.82%
	(0.01811; 0.023979]	BB-	2.09%	2.06%	117	185	1	0	0.79%
	(0.023979; 0.030982]		2.79%	2.77%	120	121	1	0	1.01%
	(0.030982; 0.03904]	B+	3.40%	3.41%	52	68	0	0	1.61%
	(0.03904; 0.048571]	B	4.18%	4.25%	41	52	1	0	2.49%
	(0.048571; 0.06043]		5.48%	5.37%	27	31	0	0	1.90%
	(0.06043; 0.075185]		6.61%	6.62%	30	33	0	0	4.16%
	(0.075185; 0.093541]	B-	8.62%	8.66%	39	39	1	0	3.73%
	(0.093541; 0.11638]		10.27%	10.35%	40	22	2	0	4.03%
	(0.11638; 0.144795]	CCC+ do C	12.66%	12.65%	36	19	2	0	5.93%
	(0.144795; 0.180147]		16.20%	16.38%	35	21	2	0	11.11%
	(0.180147; 0.224131]		20.35%	20.19%	37	32	3	0	13.53%
	(0.224131; 1)		32.35%	31.00%	94	69	16	0	25.48%
	1	DEFAULT	100.00%	100.00%	260	259	260	0	n/d

a)	b)	c)	d)	e)	f)		g)	h)	i)
Exposure class	PD range	External rating equivalent	Weighted average PD	Arithmetic average PD by obligors	Number of obligors		Defaulted obligors in the year	Of which new obligors	Average historical annual default rate
					End of previous year	End of the year			
14. Retail: thereof secured by mortgages / non-SMEs	(0; 0.000191]	AAA	n/d	n/d	40	0	0	0	0.00%
	(0.000191; 0.00032]	AA+	0.03%	0.03%	1592	2238	0	0	0.06%
	(0.00032; 0.000526]	AA. AA-	0.05%	0.05%	23803	14863	14	0	0.03%
	(0.000526; 0.000848]	A+. A	0.07%	0.07%	34969	47376	44	2	0.06%
	(0.000848; 0.00134]	A-	0.11%	0.10%	42181	42185	63	1	0.09%
	(0.00134; 0.002074]	BBB+	0.16%	0.16%	20156	24910	35	0	0.09%
	(0.002074; 0.003144]	BBB	0.25%	0.25%	8591	10599	35	0	0.19%
	(0.003144; 0.004666]		0.38%	0.38%	5550	5890	22	1	0.23%
	(0.004666; 0.006775]	BBB-	0.56%	0.56%	3428	3752	15	0	0.41%
	(0.006775; 0.009621]	BB+	0.80%	0.80%	1937	2181	21	2	0.78%
	(0.009621; 0.013355]	BB	1.12%	1.12%	998	1316	13	0	1.07%
	(0.013355; 0.01811]		1.54%	1.54%	849	837	18	0	1.24%
	(0.01811; 0.023979]	BB-	2.09%	2.08%	580	545	10	0	1.33%
	(0.023979; 0.030982]		2.77%	2.77%	615	560	13	0	2.05%
	(0.030982; 0.03904]	B+	3.50%	3.47%	457	367	12	0	2.05%
	(0.03904; 0.048571]	B	4.38%	4.39%	430	403	18	0	3.42%
	(0.048571; 0.06043]		5.45%	5.44%	421	315	19	1	4.41%
	(0.06043; 0.075185]		6.66%	6.71%	546	299	48	1	5.59%
	(0.075185; 0.093541]	B-	8.55%	8.53%	799	389	55	4	5.23%
	(0.093541; 0.11638]		10.51%	10.54%	661	393	52	0	6.28%
	(0.11638; 0.144795]	CCC+ do C	12.88%	12.88%	380	326	32	1	6.54%
	(0.144795; 0.180147]		15.98%	16.13%	363	251	46	1	9.65%
	(0.180147; 0.224131]		19.83%	19.85%	293	194	29	1	11.64%
	(0.224131; 1)		29.22%	28.54%	402	296	91	2	21.56%
	1	DEFAULT	100.00%	100.00%	2263	2404	2263	3	n/d

a)	b)	c)	d)	e)	f)		g)	h)	i)
Exposure class	PD range	External rating equivalent	Weighted average PD	Arithmetic average PD by obligors	Number of obligors		Defaulted obligors in the year	Of which new obligors	Average historical annual default rate
					End of previous year	End of the year			
16. Retail: thereof other / SMEs	(0; 0.000191]	AAA	n/d	n/d	0	0	0	0	0.00%
	(0.000191; 0.00032]	AA+	0.03%	0.03%	31	3	0	0	0.00%
	(0.00032; 0.000526]	AA. AA-	0.05%	0.05%	36	25	0	0	0.00%
	(0.000526; 0.000848]	A+. A	0.08%	0.08%	622	392	9	1	0.32%
	(0.000848; 0.00134]	A-	0.11%	0.11%	6042	2320	30	2	0.15%
	(0.00134; 0.002074]	BBB+	0.18%	0.18%	11702	8773	66	4	0.22%
	(0.002074; 0.003144]	BBB	0.26%	0.27%	13582	16620	73	1	0.22%
	(0.003144; 0.004666]		0.39%	0.38%	16191	17236	90	9	0.29%
	(0.004666; 0.006775]	BBB-	0.57%	0.57%	20581	19394	127	13	0.35%
	(0.006775; 0.009621]	BB+	0.81%	0.81%	19534	17750	173	11	0.51%
	(0.009621; 0.013355]	BB	1.15%	1.14%	14447	15428	178	19	0.83%
	(0.013355; 0.01811]		1.55%	1.55%	11993	12148	193	21	1.16%
	(0.01811; 0.023979]	BB-	2.09%	2.08%	9455	10502	225	30	1.67%
	(0.023979; 0.030982]		2.74%	2.74%	8320	10305	437	34	2.87%
	(0.030982; 0.03904]	B+	3.48%	3.49%	5967	7617	209	38	3.48%
	(0.03904; 0.048571]	B	4.35%	4.34%	5474	6183	280	50	4.47%
	(0.048571; 0.06043]		5.44%	5.42%	6264	5616	398	37	4.85%
	(0.06043; 0.075185]		6.73%	6.73%	4956	4946	377	39	6.11%
	(0.075185; 0.093541]	B-	8.33%	8.35%	3700	4017	350	42	7.38%
	(0.093541; 0.11638]		10.39%	10.40%	2999	2915	341	47	9.76%
	(0.11638; 0.144795]	CCC+ do C	13.09%	12.99%	2504	2298	351	34	11.77%
	(0.144795; 0.180147]		15.98%	16.01%	2939	1906	527	49	14.40%
	(0.180147; 0.224131]		20.45%	20.40%	2759	3267	630	77	16.63%
	(0.224131; 1)		31.84%	33.20%	5533	3980	1830	314	28.66%
	1	DEFAULT	100.00%	100.00%	12976	11288	12976	296	n/d

a)	b)	c)	d)	e)	f)		g)	h)	i)
Exposure class	PD range	External rating equivalent	Weighted average PD	Arithmetic average PD by obligors	Number of obligors		Defaulted obligors in the year	Of which new obligors	Average historical annual default rate
					End of previous year	End of the year			
17. Retail: thereof other / non-SMEs	(0; 0.000191]	AAA	n/d	n/d	1	0	0	0	0.00%
	(0.000191; 0.00032]	AA+	0.03%	0.03%	93	214	0	0	0.04%
	(0.00032; 0.000526]	AA. AA-	0.05%	0.05%	12900	7420	10	0	0.03%
	(0.000526; 0.000848]	A+. A	0.07%	0.07%	19330	25761	22	3	0.07%
	(0.000848; 0.00134]	A-	0.11%	0.11%	36761	38309	44	5	0.09%
	(0.00134; 0.002074]	BBB+	0.17%	0.17%	42918	86479	62	3	0.10%
	(0.002074; 0.003144]	BBB	0.26%	0.26%	70973	99890	96	13	0.12%
	(0.003144; 0.004666]		0.38%	0.38%	114331	67375	154	18	0.22%
	(0.004666; 0.006775]	BBB-	0.57%	0.57%	90024	58813	250	28	0.34%
	(0.006775; 0.009621]	BB+	0.81%	0.81%	81219	57918	382	72	0.53%
	(0.009621; 0.013355]	BB	1.15%	1.15%	78280	65096	576	79	0.77%
	(0.013355; 0.01811]		1.56%	1.55%	50728	59569	516	93	1.29%
	(0.01811; 0.023979]	BB-	2.09%	2.08%	46119	45561	608	127	1.76%
	(0.023979; 0.030982]		2.73%	2.72%	41391	38233	750	164	2.25%
	(0.030982; 0.03904]	B+	3.53%	3.50%	22984	37254	605	147	2.70%
	(0.03904; 0.048571]	B	4.30%	4.31%	26630	33950	609	133	4.10%
	(0.048571; 0.06043]		5.39%	5.37%	11560	19369	560	153	5.64%
	(0.06043; 0.075185]		6.65%	6.66%	9650	11640	567	123	6.20%
	(0.075185; 0.093541]	B-	8.36%	8.37%	7971	7126	615	125	8.47%
	(0.093541; 0.11638]		10.33%	10.27%	6764	6732	552	93	9.32%
	(0.11638; 0.144795]	CCC+ do C	12.86%	12.86%	5714	4009	620	104	13.60%
	(0.144795; 0.180147]		16.21%	16.14%	6859	2865	944	108	16.87%
	(0.180147; 0.224131]		20.11%	20.11%	7749	2589	1491	156	21.93%
	(0.224131; 1)		30.67%	30.36%	8614	4558	3318	1008	33.79%
	1	DEFAULT	100.00%	100.00%	33239	26991	33239	915	n/d

The following table presents the average model LGD values as of 31.12.2020 for retail mortgage, retail non-mortgage, corporate and commercial banks and mLeasing portfolio based on long-term historical series for non-defaulted exposures and compared with observed (realized) loss rates based on historical observation.

Indicators	Retail mortgages exposures	Retail non-mortgages exposures	Corporate exposures	Commercial banks exposures	mLeasing exposures
Mean model LGD (31.12.2020)	22.35%	46.99%	48.90%	44.09%	20.57%
Mean model LGD weighted by EAD (31.12.2020)	28.03%	50.57%	47.80%	48.62%	17.90%
Mean empirical LGD*	15.16%	38.47%	39.51%	17.6%	11.70%
Mean empirical LGD weighted by EAD*	20.54%	48.47%	34.21%	17.6%	12.38%

* *Retail mortgages exposures and Retail non-mortgages exposures (01.2006-12.2019), Corporate exposures (01.2006-03.2020), Commercial banks exposures (01.2006 - 06.2019), mLeasing exposures (01.2007 - 06.2020)*

Higher expected value of model LGD parameter compared to the empirical LGD observations in the analyzed period reflects required margin of conservatism for model estimates.

5.4. Supervisory requirements regarding capital ratio

According to provisions of the CRR Regulation the Bank and the Group are required to meet minimum regulatory level of capital ratios, i.e. to maintain a minimum total capital ratio above 8%, Tier 1 capital ratio above 6% and common equity Tier 1 capital ratio above 4.5%.

Provisions of CRD IV, in particular provisions regarding capital buffers, were transposed into a national legislation, which took place in 2015 with the endorsement of the Act on Macro-prudential Supervision over the Financial System and Crisis Management in the Financial System (Act) and with an update of the Banking Law. The act stipulates capital buffers banks in Poland should meet once buffers are implemented by competent authorities indicated in the Act.

As of 31 December 2020 mBank Group was obliged to ensure adequate own funds to meet conservation capital buffer of 2.5% of total risk exposure amount, as defined in the Act.

As of 31 December 2020 the countercyclical capital buffer rate set for relevant exposures in Poland according with the article 83 of the Act amounted to 0%. The ratio shall be effective until it is changed by way of an ordinance of the Minister of Finance.

Countercyclical capital buffer in accordance with the provisions of the Act as the weighted average of the countercyclical buffer rates that apply in the countries where the relevant credit exposures of the Group are located. As at the end of December 2020 this ratio amounted to 0.04%.

Exposures of foreign branches in Czech Republic and in Slovakia, where countercyclical buffer rates as of 31 December 2020 amounted to 0.5%, and 1.0% in each, had an impact on the mBank Group specific countercyclical capital buffer.

The amount of the Group institution-specific countercyclical capital buffer

	31.12.2020
Total risk exposure amount	88 539 932
Institution specific countercyclical buffer rate (%)	0.0370%
Institution specific countercyclical buffer requirement*	32 760

**Calculated as the institution-specific countercyclical buffer rate applied to the total risk exposure amount*

Geographical distribution of credit exposures relevant for the calculation of the countercyclical capital buffer in thous. PLN

	Breakdown by country:	General credit exposures		Trading book exposures		Securitisation exposures		Own funds requirements				Contercyclical buffer ratio	
		Exposure value for SA	Exposure value for IRB	Sum of long and short positions of trading book exposures for SA	Value of trading book exposures for internal models	Exposure value for SA	Exposure value for IRB	Of which: General credit exposures	Of which: Trading book exposures	Of which: Securitisation exposures	Total	Own funds requirement weights	Countercyclical capital buffer rate
1	Poland	18 852 845	109 001 839	2 844 327	0	0	0	5 543 728	33 521	0	5 577 249	93.10630	0.0000
2	Czech Republic	5 285 792	35 056	0	0	0	0	235 595	0	0	235 595	3.93300	0.0197
3	Slovakia	2 065 171	3 002	0	0	0	0	97 586	0	0	97 586	1.62910	0.0163
4	Netherlands	153 319	110 461	0	0	0	0	24 450	0	0	24 450	0.40820	0.0000
5	Luxembourg	277 338	11 401	0	0	0	0	23 093	0	0	23 093	0.38550	0.0010
6	Germany	51 174	201 349	0	0	0	0	15 340	0	0	15 340	0.25610	0.0000
7	USA	76 585	20 212	0	0	0	0	6 551	0	0	6 551	0.10940	0.0000
8	Cyprus	1 522	53 008	0	0	0	0	3 803	0	0	3 803	0.06350	0.0000
9	Sweden	47 184	479	0	0	0	0	3 778	0	0	3 778	0.06310	0.0000
10	Ireland	6 014	7 686	0	0	0	0	1 012	0	0	1 012	0.01690	0.0000
11	France	2 349	2 964	0	0	0	0	573	0	0	573	0.00960	0.0000
12	United Kingdom	790	9 279	0	0	0	0	390	0	0	390	0.00650	0.0000
13	Hungary	0	2 531	0	0	0	0	182	0	0	182	0.00300	0.0000
14	Austria	10	8 454	0	0	0	0	143	0	0	143	0.00240	0.0000
15	Belgium	1 355	1 039	0	0	0	0	110	0	0	110	0.00180	0.0000
16	Italy	23	297	0	0	0	0	72	0	0	72	0.00120	0.0000
17	Switzerland	544	4 100	0	0	0	0	62	0	0	62	0.00100	0.0000
18	Malta	106	632	0	0	0	0	44	0	0	44	0.00070	0.0000
19	Spain	1	1 025	0	0	0	0	30	0	0	30	0.00050	0.0000
20	Portugal	123	1 092	0	0	0	0	21	0	0	21	0.00040	0.0000
21	United Arab Emirates	201	298	0	0	0	0	20	0	0	20	0.00030	0.0000
22	Lithuania	27	134	0	0	0	0	18	0	0	18	0.00030	0.0000
23	Norway	6	548	0	0	0	0	14	0	0	14	0.00020	0.0000
24	Denmark	48	147	0	0	0	0	11	0	0	11	0.00020	0.0000
25	Bahamas	0	93	0	0	0	0	10	0	0	10	0.00020	0.0000
26	Australia	1	534	0	0	0	0	8	0	0	8	0.00010	0.0000
27	Estonia	72	0	0	0	0	0	6	0	0	6	0.00010	0.0000
28	Israel	0	83	0	0	0	0	4	0	0	4	0.00010	0.0000
29	Malaysia	50	0	0	0	0	0	4	0	0	4	0.00010	0.0000
30	Dominican Republic	0	70	0	0	0	0	4	0	0	4	0.00010	0.0000
31	Ukraine	3	47	0	0	0	0	3	0	0	3	0.00010	0.0000
32	Andorra	0	98	0	0	0	0	2	0	0	2	0.00000	0.0000
33	Canada	0	81	0	0	0	0	2	0	0	2	0.00000	0.0000
34	Taiwan	0	53	0	0	0	0	2	0	0	2	0.00000	0.0000
35	Hong Kong	20	0	0	0	0	0	2	0	0	2	0.00000	0.0000
36	New Zeland	0	145	0	0	0	0	1	0	0	1	0.00000	0.0000
37	Panama	0	55	0	0	0	0	1	0	0	1	0.00000	0.0000
38	Singapore	0	36	0	0	0	0	1	0	0	1	0.00000	0.0000
39	Other	21	10 404	0	0	0	0	7	0	0	7	0.00000	0.0000
	Total	**26 822 694**	**109 488 732**	**2 844 327**	**0**	**0**	**0**	**5 956 683**	**33 521**	**0**	**5 990 204**	**100.00000**	**0.0370**

In 2016 Bank received an administrative decision of the PFSA (KNF), in which mBank has been identified as other systemically important institution (O-SII). mBank was subject to a capital buffer which on the basis of KNF administrative decision of October 29th, 2020 amounted to 0.5% of the total risk exposure amount, calculated in accordance with article 92(3) of CRR Regulation, to be maintained on individual and consolidated levels. This amount of buffer was in force as at 31 December 2020.

Starting from 1st 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 was in force since 19 March 2020.

Consequently, the combined buffer requirement set for the mBank Group as of the end of December 2020 amounted to 3.04% of the total risk exposure amount.

Additionally, as a result of the annual risk assessment carried out in 2020 by the PFSA within the supervisory review and evaluation process (SREP), in particular with regard to the evaluation of risk related to the portfolio of foreign exchange retail mortgage loans, mBank Group received an individual recommendation to maintain own funds on the consolidated level to cover additional capital requirement of 2.82% in order to mitigate the risk and 2.11% for Tier 1 capital (on individual basis: 3.24% and 2.43% respectively). Additional capital requirement in Pillar II encompasses also additional risk factors related to the FX mortgage loan portfolio such as operational risk, market risk or risk of collective default of borrowers.

The high level of additional capital requirement in Pillar II resulted from the fact that the PFSA applied one methodology to all banks in Poland. This did not take into account the results of internal models applied by mBank to the calculation of capital requirements for credit risk. According to PFSA's methodology, the calculation of the additional capital requirement for each and every bank uses the risk weight under the standardised approach as a starting point (risk weight 150%).

Consequently, more than half of the additional capital requirement calculated by the PFSA for mBank Group comes from "aligning" the capital requirement to the requirement calculated under the standardised approach. The second important component with effect on an additional capital requirement within Pillar II was related to the BION score quantifying the risk of foreign exchange retail mortgage loans portfolio, taking into account the specific nature of the Bank portfolio, the following factors were taken into account:

- the share of loans with LTV >100% in total FX lending portfolio,
- the level of margin realised in the Bank on FX lending portfolio,
- sensitivity of total capital ratio to exchange rate and interest rate changes,
- Bank's readiness to absorb losses of a potential portfolio currency conversion.

Capital ratios both on consolidated and individual basis in 2020 were above the required values.

With a considerable surplus of own funds mBank Group comfortably meets the additional own funds requirement related to Pillar II and the combined buffer requirement.

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mBank Group	31 December 2020		31 December 2019	
Capital ratio	Required level	Reported level	Required level	Reported level
Total capital ratio (TCR)	**13.86%**	**19.86%**	**17.25%**	**19.46%**
Of which: FX ADD ON	2.82%		3.11%	
Of which: combined buffer requirement	3.04%		6.14%	
Tier 1 ratio*	**11.15%**	**16.99%**	**14.47%**	**16.51%**
Of which: FX ADD ON	2.11%		2.33%	
Of which: combined buffer requirement	3.04%		6.14%	

**Tier 1 ratio reported in mBank Group is equal to CET 1 ratio*

5.5. Quantitative data regarding capital adequacy

Capital ratios are calculated on the basis of total risk exposure amount that corresponds to the sum of risk exposure amounts for particular risk types that are calculated according to provisions of the CRR Regulation.

Total risk exposure amount of mBank Group consists of:

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

The template presents all components of the total risk exposure amount of mBank Group, a denominator for capital ratios calculated according with art. 92 of CRR Regulation.

EU OV1 – Overview of RWAs, addressing disclosure requirements of art. 438 letters c) to f) of CRR Regulation.

			RWAs		Minimum capital requirements
			31.12.2020	31.12.2019	31.12.2020
	1	**Credit risk (excluding CCR)**	**74 557 564**	**71 500 004**	**5 964 605**
art. 438 c) and d)	2	Of which the standardised approach	18 698 872	17 279 081	1 495 910
art. 438 c) and d)	3	Of which the foundation IRB (FIRB) approach	0	0	0
art. 438 c) and d)	4	Of which the advanced IRB (AIRB) approach	55 858 692	54 220 923	4 468 695
art. 438 d)	5	Of which equity IRB under the simple risk-weighted approach or the IMA	0	0	0
art. 107 art. 438 c) and d)	6	**CCR**	**1 977 144**	**1 209 536**	**158 172**
art. 438 c) and d)	7	Of which mark to market	1 562 787	1 022 717	125 023
art. 438 c) and d)	8	Of which original exposure	0	0	0
	9	Of which the standardised approach	0	0	0
	10	Of which internal model method (IMM)	0	0	0
art. 438 c) and d)	11	Of which risk exposure amount for contributions to the default fund of a CCP	8 116	2 474	649
art. 438 c) and d)	12	Of which CVA	406 241	184 345	32 499
art. 438 e)	13	**Settlement risk**	**0**	**0**	**0**
art. 449 o) and i)	14	**Securitisation exposures in the banking book (after the cap)**	**0**	**0**	**0**
	15	Of which IRB approach	0	0	0
	16	Of which IRB supervisory formula approach (SFA)	0	0	0
	17	Of which internal assessment approach (IAA)	0	0	0
	18	Of which standardised approach	0	0	0
art. 438 e)	19	**Market risk**	**886 913**	**913 708**	**70 953**
	20	Of which the standardised approach	886 913	913 708	70 953
	21	Of which IMA	0	0	0
art. 438 e)	22	**Large exposures**	**0**	**0**	**0**
art. 438 f)	23	**Operational risk**	**8 834 765**	**7 993 942**	**706 781**
	24	Of which basic indicator approach	0	0	0
	25	Of which standardised approach	8 834 765	7 993 942	706 781
	26	Of which advanced measurement approach	0	0	0
art. 437 2), art. 48 and art. 60	27	**Amounts below the thresholds for deduction (subject to 250% risk weight)**	**2 283 546**	**2 488 612**	**182 684**
art. 500	28	**Floor adjustment**	**0**	**0**	**0**
	29	**Total**	**88 539 932**	**84 105 802**	**7 083 195**

EU CR10 – IRB, specialised lending and equities, addressing disclosure requirements of Art. 438 and art. 452 letters d) and e) of CRR Regulation.

mBank Group does not apply AIRB approach to calculate risk weighted assets for equity exposures.

Specialised lending							
Regulatory categories	Remaining maturity	On- balance-sheet amount	Off-Balance- sheet amount	Risk weight	Exposure amount	RWAs	Expected losses
Category 1	Less than 2.5 years	155 496	55 502	50%	171 986	85 979	0
	Equal to or more than 2.5 years	57 708	24 685	70%	64 373	45 061	257
Category 2	Less than 2.5 years	1 805 667	979 227	70%	2 122 176	1 475 670	8 489
	Equal to or more than 2.5 years	5 843 172	306 199	90%	5 927 053	5 316 530	47 416
Category 3	Less than 2.5 years	271 485	20 763	115%	277 834	319 161	7 779
	Equal to or more than 2.5 years	697 587	80	115%	697 652	797 720	19 534
Category 4	Less than 2.5 years	0	0	250%	0	0	0
	Equal to or more than 2.5 years	5 027	0	250%	5 027	12 569	402
Category 5	Less than 2.5 years	229 679	331	0%	230 010	0	115 005
	Equal to or more than 2.5 years	279 906	0	0%	279 906	0	139 954
Total	Less than 2.5 years	2 462 327	1 055 823		2 802 006	1 880 810	131 273
	Equal to or more than 2.5 years	6 883 400	330 964		6 974 011	6 171 880	207 563

Equity under the simple risk-weighted approach						
Categories	On- balance-sheet amount	Off-Balance- sheet amount	Risk weight	Exposure amount	RWAs	Capital requirements
Private equity exposures			190%			
Exchange-traded equity exposures			290%			
Other equity exposures			370%			
Total						

EU CR8 – RWA flow statements of credit risk exposures, including IRB approach, addressing disclosure requirements of Art. 438 letter d) of CRR Regulation.

	Grupa mBank *w mln PLN*	Risk weighted exposure amount for credit and counterparty credit risk, including supervisory floors	Capital requirements
1	**Risk weighted exposure amount as of 30 September 2020**	**79 228**	**6 338**
2	Asset size	(801)	(64)
3	Asset quality	117	9
4	AIRB model updates	(505)	(40)
5	Methodology and policy	0	0
6	Acquisitions and disposals	0	0
7	Foreign exchange movements	373	30
8	Other	0	0
9	**Risk weighted exposure amount as of 31 December 2020**	**78 412**	**6 273**

The percentage coverage of the Group's loan portfolios by the AIRB approach is presented below, addressing disclosure requirements of art. 452 letter. a) of CRR Regulation

AIRB stage	Asset class	% share in risk-weighted assets (% of RWA STA)
AIRB first stage portfolios	mBank exposures, including:	**67%**
	Corporate exposures	20%
	Specialised lending exposures – income producing real estate	6%
	Retail exposures – mortgage loans	29%
	Retail exposures – non-mortgage loans	8%
	Retail exposures of microenterprises – mortgage loans	1%
	Retail exposures of microenterprises – non-mortgage loans	2%
	Bank exposures	1%
	Exposures of mBank Hipoteczny – specialised lending exposures (income producing real estate)	3%
	Exposures of mLeasing	8%
	Non-credit assets	3%
	AIRB first stage	**81%**
Roll-out portfolios	mBank – other specialised lending exposures	0%
	mBank Hipoteczny - Retail exposures – mortgage loans	0%
	Roll-out	**0%**
Permanent partial use		19%
Total		100%

Information about the structure of risk-weighted assets

Templates below provide more information on risk weighted assets, applied approaches to calculate RWA and the scope of credit risk and counterparty credit risk mitigation techniques in place.

EU CR4 – Standardised approach – Credit risk exposure and counterparty credit risk with CRM effects, addressing disclosure requirements of art. 453 letter g) of CRR Regulation

		a)	b)	c)	d)	e)	f)
		Exposures before CCF and CRM		Exposures post CCF and CRM		RWAs and RWA density	
	Exposure classes	On-Balance-sheet amount	Off-balance-sheet amount	On-balance-sheet amount	Off-balance-sheet amount	RWAs	RWA density
1	Central governments or central banks	56 321 601	0	56 322 811	120	2 178 526	3.87%
2	Regional government or local authorities	162 740	20 050	266 546	10 007	55 311	20.00%
3	Public sector entities	46 713	26 798	3 648	13 320	9 203	54.24%
4	Multilateral development banks	2 791 921	0	2 791 921	0	0	0.00%
5	International organisations	0	0	0	0	0	0.00%
6	Institutions	594 859	48 707	616 212	21 498	182 588	28.63%
7	Corporates	7 326 428	6 400 673	7 094 708	1 786 835	8 838 265	99.51%
8	Retail	5 178 814	767 966	5 178 775	177 485	4 015 341	74.97%
9	Secured by mortgages on immovable property	11 037 861	25 854	11 037 861	12 927	4 238 767	38.36%
10	Exposures in default	683 680	10 928	677 191	3 553	855 725	125.70%
11	Exposures associated with particularly high risk	94 721	0	94 721	0	142 081	150.00%
12	Covered bonds	0	0	0	0	0	0.00%
13	Institutions and corporates with a short-term credit assessment	0	0	0	0	0	0.00%
14	Collective investment undertakings	0	0	0	0	0	0.00%
15	Equity	211 159	0	211 159	0	307 735	145.74%
16	Other items	32 595	37 248	32 595	37 248	69 842	100.00%
17	**Total**	**84 483 092**	**7 338 224**	**84 328 148**	**2 062 993**	**20 893 384**	**23.04%**

EU CR5 - Standardised approach, addressing disclosure requirements of art. 444 letter e) of CRR Regulation and presents regulatory exposure values post conversion factor and post risk mitigation techniques for a part of credit and credit counterparty portfolio where Group applies standardized approach, broken down by assets classes and risk weights.

	Exposure classes	Risk weight								
		0%	2%	4%	10%	20%	35%	50%	70%	75%
1	Central governments or central banks	55 194 204	0	0	0	279 691	0	0	0	0
2	Regional government or local authorities	0	0	0	0	276 553	0	0	0	0
3	Public sector entities	0	0	0	0	0	0	15 531	0	0
4	Multilateral development banks	2 791 921	0	0	0	0	0	0	0	0
5	International organisations	0	0	0	0	0	0	0	0	0
6	Institutions	0	225 793	0	0	92 953	0	318 964	0	0
7	Corporates	0	0	0	0	0	0	250	0	0
8	Retail	0	0	0	0	0	0	0	0	5 356 260
9	Secured by mortgages on immovable property	0	0	0	0	0	10 298 691	241 198	0	0
10	Exposures in default	0	0	0	0	0	0	0	0	0
11	Exposures associated with particularly high risk	0	0	0	0	0	0	0	0	0
12	Covered bonds	0	0	0	0	0	0	0	0	0
13	Institutions and corporates with a short-term credit assessment	0	0	0	0	0	0	0	0	0
14	Collective investment undertakings	0	0	0	0	0	0	0	0	0
15	Equity	0	0	0	0	0	0	0	0	0
16	Other items	0	0	0	0	0	0	0	0	0
17	**Total**	**57 986 125**	**225 793**	**0**	**0**	**649 197**	**10 298 691**	**575 943**	**0**	**5 356 260**

	Exposure classes	Risk weight					Others	Deducted	Total	Of which unrated
		100%	150%	250%	370%	1250%				
1	Central governments or central banks	1	0	849 035	0	0	0	0	**56 322 931**	1 682 512
2	Regional government or local authorities	0	0	0	0	0	0	0	**276 553**	103 780
3	Public sector entities	1 437	0	0	0	0	0	0	**16 968**	1 437
4	Multilateral development banks	0	0	0	0	0	0	0	**2 791 921**	0
5	International organisations	0	0	0	0	0	0	0	**0**	0
6	Institutions	0	0	0	0	0	0	0	**637 710**	368 812
7	Corporates	8 881 293	0	0	0	0	0	0	**8 881 543**	8 881 285
8	Retail	0	0	0	0	0	0	0	**5 356 260**	5 356 257
9	Secured by mortgages on immovable property	499 226	11 673	0	0	0	0	0	**11 050 788**	11 050 786
10	Exposures in default	330 781	349 963	0	0	0	0	0	**680 744**	680 744
11	Exposures associated with particularly high risk	0	94 721	0	0	0	0	0	**94 721**	94 721
12	Covered bonds	0	0	0	0	0	0	0	**0**	0
13	Institutions and corporates with a short-term credit assessment	0	0	0	0	0	0	0	**0**	0
14	Collective investment undertakings	0	0	0	0	0	0	0	**0**	0
15	Equity	146 777	0	64 383	0	0	0	0	**211 160**	211 160
16	Other items	69 842	0	0	0	0	0	0	**69 842**	69 842
17	**Total**	**9 929 357**	**456 357**	**913 418**	**0**	**0**	**0**	**0**	**86 391 141**	**28 501 336**

EU CR6 – IRB approach – Credit risk and counterparty credit exposures by exposure class and PD range, addressing disclosure requirements of art. 452 letter d) to g) and j) of CRR Regulation.

The table below presents exposure values, the amount of undrawn commitments, the average CCF, PD and LGD in percentage, risk-weighted exposure values for particular exposure classes for a part of credit and counterparty credit portfolio where Group applies AIRB approach.

		a	b	c	d	e	f	g	h	i	j	k	l
	PD scale	Original on-balance-sheet gross exposures	Off-balance-sheet exposures pre-CCF	Average CCF	EAD post CRM and post CCF	Average PD	Number of obligors	Average LGD	Average maturity	RWAs	RWA density	EL	Value adjustments and provisions
Exposure class	**Retail mortgage portfolio (microfirms)**												
	0.00 - 0.15	230 557	23 736	88.80%	251 635	0.11%	815	30.44%	0	16 313	6.48%	88	
	0.15 - 0.25	480 434	40 968	84.78%	515 165	0.19%	1 119	34.62%	0	56 205	10.91%	345	
	0.25 - 0.50	512 492	80 648	98.26%	591 734	0.36%	1 575	34.66%	0	101 964	17.23%	741	
	0.50 - 0.75	340 291	29 523	130.34%	378 774	0.62%	807	34.91%	0	95 959	25.33%	813	
	0.75 - 2.50	489 437	58 724	192.76%	602 631	1.28%	1 451	36.50%	0	256 070	42.49%	2 790	
	2.50 - 10.00	150 035	8 177	171.45%	164 054	4.37%	367	33.38%	0	132 772	80.93%	2 443	
	10.00 - 100.00	73 177	93	106.22%	77 828	23.68%	164	33.84%	0	116 398	149.56%	6 138	
	100.00 (default)	133 954	301	0.00%	133 954	100.00%	247	62.03%	0	329 299	245.83%	61 531	
	Subtotal	**2 410 377**	**242 170**	**126.11%**	**2 715 775**	**6.37%**	**6 545**	**35.95%**	**0**	**1 104 980**	**40.69%**	**74 889**	**72 436**
Exposure class	**Retail mortgage portfolio (natural persons)**												
	0.00 - 0.15	20 725 161	786 780	61.00%	21 205 103	0.09%	132 059	27.72%	0	1 293 439	6.10%	5 012	
	0.15 - 0.25	4 560 305	110 187	62.69%	4 629 378	0.19%	24 459	26.89%	0	508 412	10.98%	2 364	
	0.25 - 0.50	2 951 866	82 787	67.55%	3 007 788	0.34%	15 492	27.14%	0	514 851	17.12%	2 813	
	0.50 - 0.75	873 639	19 135	91.10%	891 070	0.61%	4 450	26.95%	0	226 627	25.43%	1 456	
	0.75 - 2.50	1 028 184	17 149	96.76%	1 044 778	1.29%	4 822	26.60%	0	428 795	41.04%	3 590	
	2.50 - 10.00	537 358	2 159	62.14%	538 700	5.29%	2 196	26.26%	0	491 771	91.29%	7 485	
	10.00 - 100.00	364 681	1 123	46.94%	365 208	18.13%	1 232	26.61%	0	547 908	150.03%	17 806	
	100.00 (default)	791 851	1 319	0.00%	791 851	100.00%	2 065	60.27%	0	1 191 784	150.51%	400 648	
	Subtotal	**31 833 045**	**1 020 639**	**62.79%**	**32 473 876**	**2.90%**	**186 775**	**28.25%**	**0**	**5 203 587**	**16.02%**	**441 174**	**446 654**

		a	b	c	d	e	f	g	h	i	j	k	l
	PD scale	Original on-balance-sheet gross exposures	Off-balance-sheet exposures pre-CCF	Average CCF	EAD post CRM and post CCF	Average PD	Number of obligors	Average LGD	Average maturity	RWAs	RWA density	EL	Value adjustments and provisions
Exposure class	**Retail non-mortgage portfolio (microfirms)**												
	0.00 - 0.15	69 403	156 726	76.79%	189 756	0.11%	5 299	46.97%	0	19 375	10.21%	100	
	0.15 - 0.25	222 133	669 689	79.09%	751 780	0.20%	24 108	49.80%	0	123 165	16.38%	757	
	0.25 - 0.50	1 129 052	927 607	76.22%	1 836 114	0.37%	51 123	38.24%	0	348 802	19.00%	2 558	
	0.50 - 0.75	1 302 425	378 958	84.04%	1 620 899	0.62%	37 849	32.68%	0	371 651	22.93%	3 284	
	0.75 - 2.50	3 572 049	637 112	90.58%	4 149 155	1.40%	102 121	35.72%	0	1 440 913	34.73%	20 945	
	2.50 - 10.00	2 798 122	211 531	104.89%	3 019 987	4.92%	71 952	34.87%	0	1 346 912	44.60%	51 070	
	10.00 - 100.00	1 130 016	18 214	116.18%	1 151 178	20.32%	22 770	27.97%	0	641 862	55.76%	65 997	
	100.00 (default)	648 613	3 761	5.59%	648 823	100.00%	17 162	69.19%	0	285 915	44.07%	456 220	
	Subtotal	**10 871 813**	**3 003 598**	**83.10%**	**13 367 692**	**8.29%**	**332 384**	**37.42%**	**0**	**4 578 595**	**34.25%**	**600 931**	**668 025**
Exposure class	**Retail non-mortgage portfolio (natural persons)**												
	0.00 - 0.15	502 459	983 679	73.46%	1 225 044	0.10%	155 941	48.48%	0	153 407	12.52%	589	
	0.15 - 0.25	610 711	1 627 478	68.73%	1 729 218	0.20%	234 064	48.56%	0	358 022	20.70%	1 670	
	0.25 - 0.50	1 212 667	1 526 057	67.98%	2 250 021	0.35%	294 980	49.53%	0	687 366	30.55%	3 942	
	0.50 - 0.75	972 885	371 569	76.46%	1 256 989	0.62%	156 478	50.59%	0	543 743	43.26%	3 945	
	0.75 - 2.50	4 062 387	620 506	77.55%	4 543 577	1.46%	575 019	51.29%	0	2 827 628	62.23%	34 040	
	2.50 - 10.00	3 398 502	166 358	84.42%	3 538 947	4.47%	350 094	51.00%	0	2 781 327	78.59%	80 740	
	10.00 - 100.00	518 821	13 257	87.18%	530 378	19.47%	57 350	51.29%	0	609 696	114.96%	53 022	
	100.00 (default)	864 296	7 847	0.00%	864 296	100.00%	73 844	67.84%	0	582 382	67.38%	598 001	
	Subtotal	**12 142 728**	**5 316 751**	**71.39%**	**15 938 470**	**7.61%**	**1 897 770**	**51.31%**	**0**	**8 543 571**	**53.60%**	**775 949**	**900 493**
Exposure class	**Corporations - medium and small enterprises**												
	0.00 - 0.15	187 071	384 513	40.98%	344 637	0.08%	237	40.53%	2	50 676	14.70%	108	
	0.15 - 0.25	206 224	217 434	45.51%	305 171	0.20%	112	36.60%	2	95 036	31.14%	224	
	0.25 - 0.50	446 635	549 529	47.99%	710 342	0.38%	343	39.13%	2	257 823	36.30%	1 039	
	0.50 - 0.75	636 973	370 138	46.23%	808 086	0.63%	383	34.36%	2	366 739	45.38%	1 738	
	0.75 - 2.50	4 116 210	1 929 385	48.19%	5 045 934	1.54%	1 994	35.04%	2	3 264 683	64.70%	27 207	
	2.50 - 10.00	2 710 669	718 472	48.08%	3 056 135	4.36%	1 054	29.62%	2	2 246 833	73.52%	38 795	
	10.00 - 100.00	237 759	54 410	53.16%	266 683	19.00%	170	29.33%	2	303 856	113.94%	15 919	
	100.00 (default)	176 278	12 650	34.90%	180 693	100.00%	92	65.61%	1	243 094	134.53%	120 438	
	Subtotal	**8 717 819**	**4 236 531**	**47.21%**	**10 717 681**	**4.21%**	**4 385**	**34.31%**	**2**	**6 828 740**	**63.71%**	**205 468**	**206 142**

		a	b	c	d	e	f	g	h	i	j	k	l
	PD scale	Original on-balance-sheet gross exposures	Off-balance-sheet exposures pre-CCF	Average CCF	EAD post CRM and post CCF	Average PD	Number of obligors	Average LGD	Average maturity	RWAs	RWA density	EL	Value adjustments and provisions
Exposure class	Corporations - other												
	0.00 - 0.15	547 710	1 537 884	40.37%	1 168 555	0.08%	149	48.29%	2	308 797	26.43%	476	
	0.15 - 0.25	663 801	1 138 054	42.78%	1 150 633	0.21%	119	49.76%	2	579 835	50.39%	1 219	
	0.25 - 0.50	1 563 683	2 532 793	42.30%	2 635 150	0.38%	253	46.94%	2	1 541 981	58.52%	4 677	
	0.50 - 0.75	1 543 838	1 563 561	40.18%	2 172 027	0.63%	189	46.63%	2	1 771 695	81.57%	6 357	
	0.75 - 2.50	6 286 558	4 793 945	45.39%	8 462 596	1.45%	868	45.51%	2	8 777 556	103.72%	55 303	
	2.50 - 10.00	1 484 662	1 377 782	51.08%	2 188 452	4.37%	471	38.22%	2	2 557 738	116.87%	35 619	
	10.00 - 100.00	303 617	221 753	34.17%	379 389	21.18%	348	38.66%	2	770 971	203.21%	30 484	
	100.00 (default)	777 436	99 976	24.80%	802 231	100.00%	340	70.32%	2	872 304	108.73%	655 135	
	Subtotal	**13 171 305**	**13 265 748**	**43.63%**	**18 959 033**	**5.95%**	**2 737**	**46.34%**	**2**	**17 180 877**	**90.62%**	**789 270**	**783 301**
Exposure class	Corporations - specialized lending exposures												
	Subtotal	**9 345 727**	**1 386 787**	**31.03%**	**9 776 017**		**452**		**4**	**8 052 690**	**82.37%**	**338 836**	**278 231**
Exposure class	Institutions												
	0.00 - 0.15	110 246	3 435 437	32.47%	1 225 772	0.06%	81	48.74%	1	290 853	23.73%	375	
	0.15 - 0.25	0	19 351	25.29%	4 894	0.24%	5	44.87%	2	2 448	50.02%	5	
	0.25 - 0.50	111 339	116 303	46.69%	165 644	0.41%	22	44.52%	1	105 680	63.80%	304	
	0.50 - 0.75	205	5 000	25.00%	1 455	0.59%	3	49.13%	1	1 079	74.18%	4	
	0.75 - 2.50	22 087	197 759	49.09%	119 166	2.12%	21	47.06%	4	205 389	172.36%	1 170	
	2.50 - 10.00	17 656	7 138	20.58%	19 125	2.58%	3	54.81%	1	25 781	134.80%	270	
	10.00 - 100.00												
	100.00 (default)												
	Subtotal	**261 533**	**3 780 988**	**33.71%**	**1 536 056**	**0.29%**	**135**	**48.22%**	**2**	**631 230**	**41.09%**	**2 128**	**1 161**
Total (all portfolios)		**88 754 347**	**32 253 212**	**51.87%**	**105 484 600**	**4.76%**	**2 431 183**	**34.63%**	**3**	**52 124 270**	**49.41%**	**3 228 645**	**3 356 443**

EU CR7 – IRB approach – Effect on the RWAs of credit derivatives used as CRM techniques addressing disclosure requirements of art. 453 letter g) of CRR Regulation.

mBank Group does not disclose this information as credit derivatives are not used as CRM techniques with an impact on RWA.

6. Leverage ratio

Since 2014 mBank Group calculates leverage ratio according to the CRR Regulation provisions. The purpose of the introduction of the supplementary measure depicting relation between Tier I capital and exposure measure for balance and off balance sheet exposures by the regulators was to reduce excessive and unsustainable debt of credit institutions that may be inadequate to capital base in place.

Information regarding leverage ratio presented below are compliant with regulatory reporting provided by mBank to NBP. Calculations are made according to the rules of CRR Regulation taking into account Commission Delegated Regulation 2015/62 as of 10 October 2014 amending Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to the leverage ratio. Disclosures regarding leverage ratio follow the rules defined in Commission Implementing Regulation 2016/200 of 15 February 2016 laying down implementing technical standards with regard to disclosure of the leverage ratio for institutions, according to CRR Regulation.

The table below presents a reconciliation of the total exposure measure with the relevant information disclosed in published financial statements.

Table LRSum: Summary reconciliation of accounting assets and leverage ratio exposures

		31.12.2020
1	**Total assets as per published financial statements**	**180 136 294**
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	373
3	(Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting framework but excluded from the leverage ratio total exposure measure in accordance with Article 429(13) of Regulation (EU) No 575/2013)	0
4	Adjustments for derivative financial instruments	1 955 457
5	Adjustment for securities financing transactions (SFTs)	(5 485 931)
6	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	13 405 339
EU-6A	(Adjustment for intragroup exposures excluded from the leverage ratio total exposure measure in accordance with Article 429(7) of Regulation (EU) No 575/2013)	0
EU-6B	(Adjustment for exposures excluded from the leverage ratio total exposure measure in accordance with Article 429(14) of Regulation (EU) No 575/2013)	0
7	Other adjustments	1 692 082
8	**Leverage ratio total exposure measure**	**191 703 614**

The table below presents a breakdown of the total exposure measure applied to calculation of the leverage ratio, information on Tier 1 capital, leverage ratio and how the institution applies Article 499(2) of the CRR Regulation.

Table LRCom: Leverage ratio common disclosure

		31.12.2020
	On-balance sheet exposures (excluding derivatives and SFTs)	
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	175 368 420
2	(Asset amounts deducted in determining Tier 1 capital)	(1 574 130)
3	**Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets)**	**173 794 290**
	Derivative exposures	
4	Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	1 354 208
5	Add-on amounts for PFE associated with all derivatives transactions (mark- to-market method)	2 323 601
EU-5A	Exposure determined under Original Exposure Method	0
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework	0
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	0
8	(Exempted CCP leg of client-cleared trade exposures)	0
9	Adjusted effective notional amount of written credit derivatives	0
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	0
11	**Total derivatives exposures**	**3 677 809**
	SFT exposures	
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	770 384
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	0
14	Counterparty credit risk exposure for SFT assets	55 791
EU-14A	Derogation for SFTs: Counterparty credit risk exposure in accordance with Articles 429b(4) and 222 of Regulation (EU) No 575/2013	0
15	Agent transaction exposures	0
EU-15A	(Exempted CCP leg of client-cleared SFT exposure)	0
16	**Total securities financing transaction exposures**	**826 175**
	Other off-balance sheet exposures	
17	Off-balance sheet exposures at gross notional amount	39 409 623
18	(Adjustments for conversion to credit equivalent amounts)	(26 004 284)
19	**Other off-balance sheet exposures**	**13 405 339**
	Exempted exposures in accordance with Article 429(7) and (14) of Regulation (EU) No 575/2013 (on and off balance sheet)	
EU-19A	(Intragroup exposures (solo basis) exempted in accordance with Article 429(7) of Regulation (EU) No 575/2013 (on and off balance sheet))	0
EU-19B	(Exposures exempted in accordance with Article 429 (14) of Regulation (EU) No 575/2013 (on and off balance sheet))	0
	Capital and total exposure measure	
20	Tier 1 capital	15 046 912
21	Leverage ratio total exposure measure	191 703 614
	Leverage ratio	
22	**Leverage ratio**	**7.85%**
	Choice on transitional arrangements and amount of derecognised fiduciary items	
EU-23	Amount of derecognised fiduciary items in accordance with Article 429(11) of Regulation (EU) No 575/2013	full
EU-24	Choice on transitional arrangements for the definition of the capital measure	0

mBank as a significant subsidiary of a EU parent institutions which is of material significance for its local market, discloses information indicated in article 13(1) of CRR Regulation on a sub-consolidated basis.

Description of the factors that had an impact on the leverage ratio during the period to which the disclosed leverage ratio refers.

Exposure value, Tier 1 capital and leverage ratio of mBank Group calculated in accordance with a transitional definition of Tier 1 capital as of 31 December 2019 and in accordance with a full definition of Tier 1 capital 31 December 2020.

	31.12.2020	31.12.2019
Exposure value	**191 703 614**	**168 247 728**
Capital and regulatory adjustments		
Tier 1 capital	15 046 912	13 882 865
Regulatory adjustments - Tier 1	(1 574 130)	(1 505 817)
Leverage ratio		
Leverage Ratio	7.85%	8.25%

The leverage ratio of the Group in the end of 2020 was driven by the following factors:

- including in Common Equity Tier 1 capital the remaining part (not included earlier) of the net profit of mBank Group for the year 2019 approved by the General Meeting of Shareholders;
- including in Common Equity Tier 1 capital the part of the net profit of mBank Group for the first half of the year 2020, in accordance with the decision of the PFSA;
- including in calculation of own funds the amount of impairment on financial assets not measured at fair value through profit or loss for the second half of the year 2020;
- including in calculation of Tier 2 capital the excess of provisions over the expected losses eligible under the IRB approach,
- changes of foreign exchange rates.

Description of the processes used to manage the risk of excessive leverage

Capital Management Committee performs the essential role in management of risk of excessive leverage in mBank Group. Management of this risk comprises two fundamental perspectives: calculation and monitoring of leverage ratio and analysis of mismatches between assets and obligations including the calculation of measures: NSFR (net stable funding ratio), M3 (coverage ratio of non–liquid assets with own funds), M4 (coverage ratio of non–liquid assets and limited liquidity assets with own funds and stable external funds). Both elements of the procedure, calculation of the leverage ratio according to CRR requirements and mismatches analysis, are performed by the Integrated Risk Management Department. Actual leverage ratio is regularly monitored and compared to peer group. In order to assure fulfilment of upcoming regulatory requirement mBank Group has aspiration to keep leverage ratio at the level of 7%. Target is monitored and verified at least on a yearly basis.

mBank counteracts risk of excessive leverage taking into account potential increase in mentioned risk caused by own funds drop associated with expected or incurred losses. Annual planning process includes forecast of year end leverage ratio as well as plan of the ratio in a four-year time horizon. The projection is updated depending on the macroeconomic environment. Moreover, in the light of rapidly changing market environment, mBank also examines capital adequacy in adverse macroeconomic scenarios, understood as risk scenario accepted by the Management Board.

7. Credit risk mitigation techniques

The information presented in this chapter fulfill the presentation requirements of **EU CRC Qualitative disclosure requirements related to CRM techniques.**

The information addresses disclosure requirements of art. 453 letters a) to e) of CRR Regulation.

7.1. Collateral valuation and management

The policies and processes for on- and off-balance sheet netting

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.

Collateral

Retail

mBank mitigates the credit risk of the retail portfolio by requesting legal collaterals for granted loans. In the case of property-secured transactions, major components of the collateral policy include maximum admissible levels of LtV (Loan to Value – the ratio of loan amount to value of property used as collateral) and the rules of accepting collaterals.

<u>Retail properties</u>

When drafting the LtV policy for mortgage loans, mBank adheres to Recommendation S, which is a set of good practices in the field of mortgage-secured retail credit exposure risk management. In the case of commercial real properties, due to lower liquidity of the collateral, mBank takes on a more prudent approach in terms of admissible LtV values than the one that is required by the regulator.

mBank carries out a careful selection of real properties which may serve as collateral. Within the analysis of a credit application, a liquidity assessment of a local real property market and of the nature of a real property (typical, non-typical) is conducted – that is aimed at ensuring the assumed effectiveness of recovery from the collateral accepted.

Prior to taking a credit decision, mBank in each case determines the value of the real property accepted as collateral. Value verification in the retail sales process is based on an appraisal report, which is verified in terms of its assumptions and parameters by analysts.

The determined value is confirmed by the analysis of similar real estate transaction prices from the internal real estate database and the AMRON interbank database, rental rates or information from available publications regarding the real estate market. For standard types of residential real estate, the Bank has introduced the possibility of an internal opinion on the value, based on the note from the inspection of real estate and also analysis of transaction prices of similar real estate originating from the internal real estate database and the interbank AMRON database. The internal valuation of the collateral uses the same valuation approaches and methods as in the external valuations delivered to the Bank.

Real estate value is updated regularly by analysts - at least once every 3 years in the case of residential real estate and not less frequently than once a year in the case of commercial real estate. The value of the selected pool of contracts is updated individually by the Bank analyst. The value of other residential real estate portfolio is updated using the price change index.

<u>Vehicles</u>

Requirements regarding the collateral valuation are dependent on the type of the financed vehicle. In the case of new vehicles purchased from an authorised dealer, a credit analyst accepts the vehicle value based on the invoice. In the case of used vehicles, mBank's analyst makes a valuation of the vehicle based on a market value catalogue of vehicles, or accepts the value indicated on the motor hull insurance (AC) delivered by the customer, which includes a value verified by the insurance company.

The main types of guarantor and credit derivative counterparty and their creditworthiness

As at 31 December 2020 mBank Group did not hold credit derivatives.

Corporates

The credit risk taken by mBank when granting credit products to clients may be mitigated by collateral. The types of collateral accepted by mBank, rules for establishing collateral, principles of evaluating and verifying value of collaterals and concerning management of collaterals are set out in detailed internal instructions of mBank. 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 not recommended,
- recommendations regarding the requirements of collateral in specific situations,
- frequency of collateral monitoring,
- Bank's approach to collateral with MRV parameter equal to zero.

mBank's policy is based on the assumption that mBank's decision to grant a credit product entails an effort to obtain collateral of the highest quality and value adequate to the scale of risk taken. The collateral value should be correlated not only with the borrower's creditworthiness, but also with the amount of the product posing credit risk and the risk level arising from the specific qualities of the credit product. In the case of mortgage-secured loans, mBank uses level of LtV ratio in line of regulatory requirements. Under justified circumstances, mBank may refrain from asking for collateral. Moreover, in the case of personal collateral (e.g. surety, guarantee) the standing and reliability of the collateral provider is evaluated using the standards applicable to the assessment of borrowers. The value of fixed assets accepted as collateral is determined on the basis of an appraisal report compiled by a licensed expert. The report is submitted to mBank and verified by a team of specialists located in the risk area who analyse it in terms of correctness of the assumed market value and assess the liquidity of the collateral from mBank's viewpoint.

On a regular basis, mBank monitors the quality of collateral. The monitoring covers in particular the effectiveness of the legal establishment of collateral, completeness of collateral documentation, update of collateral value and adequacy of collateral value and present amount of exposure. The process of valuing and monitoring collateral is supported by an IT applicationcalled CRM 2.0. The system gathers information on:

- necessary data on collateral and its providers/owners,
- original valuation and its updates,
- participants and course of the process of collateral registration, valuation and monitoring.

In addition, mBank systematically supervises the control of credit risk monitoring in the scope of accepted collateral.

7.2. Main types of collateral

Retail

Mortgage on real property

Mortgage on a financed (or other) real property is a basic collateral for mortgage loans. mBank accepts only a first lien mortgage.

Conditional transfer of ownership

Conditional transfer of ownership of a vehicle is a standard collateral for loans for the purchase of a vehicle. The customer enters into an agreement on the transfer of ownership with mBank, by which they undertake to transfer the ownership of a vehicle to mBank in the case of a failure to repay the loan when due.

The „de minimis" guarantee

The guarantee provided by Polish state bank Bank Gospodarstwa Krajowego within the governmental aid program addressed to entrepreneurs, covering the working capital loans and investment loans. The guarantee might secure up to the 60% of the loan amount and not more than PLN 3,5 million.

The COSME guarantee

The guarantee provided by Polish state bank Bank Gospodarstwa Krajowego within the governmental aid program addressed to entrepreneurs, covering the working capital loans and investment loans. The guarantee might secure up to the 80% of the loan amount and not more than PLN 0,48 million.

Corporates

When making a decision on granting funding to a client, mBank aims at obtaining collateral adequate to the risk taken. mBank prefers highly liquid property collateral or personal collateral provided by entities characterised by high PD-rating and having assets and financial strength acceptable by mBank.

The accepted collateral acts as credit risk mitigant, provided that it carries a specified real value at the time of potential enforcement and meets the qualitative requirements making it possible to recover the debt by way of enforcement. The quality of property collateral is evaluated in terms of liquidity and market value, while the quality of personal collateral is assessed in terms of the financial standing of the collateral provider.

The most frequently used collateral types include:

- property collateral. i.e. mortgage, , registered pledge, transfer of ownership rights, assignment of rights to the creditor, security deposit or blockade of funds on bank account,
- personal collateral, i.e. guarantee (e.g. BGK guarantees de minimis and guarantees issued within COSME programme for exposures of SME and micro- companies), surety, , aval, loan repayment insurance.

The assessment of collateral includes the evaluation of the possibility to establish the collateral and assessment of legal state of the subject of collateral, in particular analysis of any encumbrances in favour of other creditors (verification of land and mortgage registers, entries in the pledge register, etc.). It is essential that the validity period of collateral is longer than the maturity period of the product backed by it, so that mBank has enough time to perform all the legal acts necessary to satisfy its claims.

Moreover, in Bank's internal regulations, mBank indicates a separate group of properties which are not recommended as collateral due to their specific qualities making it impossible for mBank to satisfy its claims due to quick loss of value by the property or difficulties with its disposal.

EU CR3 – Credit risk mitigation techniques – overview, addressing disclosure requirements of art. 453 letter g) of CRR Regulation, presenting the carrying amount of exposures net of allowances /impairments divided into unsecured and secured exposures, including collateral categories:

		a)	b)	c)	d)	e)
		Exposures unsecured – Carrying amount	Exposures secured – Carrying amount	Exposures secured by collateral	Exposures secured by financial guarantees	Exposures secured by credit derivatives
1	Total loans	40 183 106	13 520 251	13 287 363	232 887	n/a
2	Total debt securities	46 914 500	3 038 346	0	3 038 347	n/a
3	**Total exposures**	**88 413 261**	**16 558 597**	**13 287 362**	**3 271 234**	**n/a**
4	Of which defaulted	796 435	332 766	332 766	0	n/a

7.3. Market or credit risk concentration

Taking into account the reduction of the concentration risk arising from the exposure to a single currency (or indexed to a single currency), mBank monitors - on a monthly basis the currency structure of the portfolio.

mBank reduces exposures to a single entity/group of affiliated entities by setting a General Limit (approved by the appropriate decision-making body) for exposures to a customer/group of affiliated customers.

On a daily basis, mBank monitors exposures in terms of identification of large exposures and exceeding of concentration limit of exposures defined in line with CRR Regulation.

mBank maintains a list of entities for which there is a risk a default (Watch List) and analyses (on a quarterly basis) concentration risk of exposures exposed to the default risk.

In order to control and reduce concentration risk arising from exposures to entities representing the same sector, mBank sets the limits for sectors in which mBank's exposure exceeds 5% of the total amount of exposures.

mBank controls risk arising from concentration of exposures to entities representing the same geographical region as well as individual countries by setting and monitoring country or regional limits.

Within control of concentration risk arising from exposures secured with the same type of collateral or by the same provider, mBank sets and monitors limits for mortgage-backed exposures. mBank also analyses its concentration in such collaterals as corporate personal collaterals.

On a quarterly basis, mBank analyses the Group's credit portfolio in terms of concentration, taking into account the largest exposures to customers/groups of affiliated customers.

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 exposure with value loss.

The geographic distribution of the exposures and distribution of exposures by sector

EU CRB-B – Total and average net amount of exposures, addressing disclosure requirements of art. 442 letter c) of CRR Regulation which presents the distribution of the net exposure of mBank Group by exposure class for credit and counterparty credit risk portfolio.

It includes the allocation into exposures for standardized and IRB Approach.

		a)	b)
		Net value of exposures at the end of 2020	Average net exposures over 2020
1	Central governments or central banks	0	0
2	Institutions	4 041 360	6 615 830
3	Corporates	48 856 240	50 275 486
4	Of which: Specialised lending	10 454 283	10 252 059
5	Of which: SMEs	12 748 207	12 795 159
6	Retail	64 753 516	63 253 447
7	Secured by real estate property	34 987 143	38 399 676
8	SMEs	2 580 111	26 288 972
9	Non-SMEs	32 407 032	7 589 417
10	Qualifying revolving	0	4 716 615
11	Other retail	29 766 373	29 806 814
12	SMEs	13 207 388	12 888 295
13	Non-SMEs	16 558 985	16 918 519
14	Equity	0	0
15	**Total IRB approach**	**117 651 116**	**120 144 762**
16	Central governments or central banks	56 321 601	52 406 560
17	Regional governments or local authorities	182 790	270 534
18	Public sector entities	73 511	119 276
19	Multilateral development banks	2 791 921	2 421 446
20	International organisations	0	0
21	Institutions	643 566	593 224
22	Corporates	13 727 101	14 165 004
23	Of which: SMEs	2 189 229	1 922 816
24	Retail	5 946 784	4 401 122
25	Of which: SMEs	16 573	16 581
26	Secured by mortgages on immovable property	11 063 715	10 690 643
27	Of which: SMEs	16 280	15 605
28	Exposures in default	694 608	571 081
29	Items associated with particularly high risk	94 721	87 395
30	Covered bonds	0	0
31	Claims on institutions and corporates with a short-term credit assessment	0	0
32	Collective investments undertakings	0	0
33	Equity exposures	211 159	284 242
34	Other exposures	69 843	63 707
35	**Total standardised approach**	**91 821 320**	**86 074 234**
36	**Total**	**209 472 436**	**206 218 996**

EU CRB-C – Geographical breakdown of exposures, addressing disclosure requirements of art. 442 letter d) of CRR Regulation which presents net exposure of mBank Group by material countries. It includes the allocation into exposures for standardized and IRB Approach.

		Poland (PL)	Czech Republic (CZ)	Slovakia (SK)	Germany (DE)	Great Britain (GB)	Luxemburg (LU)	Other countries	Total
1	Central governments or central banks	0	0	0	0	0	0	0	0
2	Institutions	243 359	5 295	5 280	1 864 322	2 000	1 067 793	853 311	4 041 360
3	Corporates	48 102 575	10 877	42 144	447 884	63	0	252 697	48 856 240
4	Retail	64 704 324	66	33	8 803	3 089	9 130	28 071	64 753 516
5	Equity	0	0	0	0	0	0	0	0
6	**Total IRB approach**	**113 050 258**	**16 238**	**47 457**	**2 321 009**	**5 152**	**1 076 923**	**1 134 079**	**117 651 116**
7	Central governments or central banks	49 494 215	6 680 157	0	0	32 467	0	114 762	56 321 601
8	Regional governments or local authorities	182 790	0	0	0	0	0	0	182 790
9	Public sector entities	73 511	0	0	0	0	0	0	73 511
10	Multilateral development banks	0	0	2 791 921	0	0	0	0	2 791 921
11	International organisations	0	0	0	0	0	0	0	0
12	Institutions	262 609	7 913	49 617	0	5 187	270 814	47 426	643 566
13	Corporates	12 635 568	11 531	284 738	62 228	41	313	732 682	13 727 101
14	Retail	1 457 477	3 097 390	0	23	1 391 851	5	38	5 946 784
15	Secured by mortgages on immovable property	7 630 449	2 593 317	322	425	837 429	548	1 225	11 063 715
16	Exposures in default	669 861	17 171	12	2	7 444	5	113	694 608
17	Items associated with particularly high risk	94 721	0	0	0	0	0	0	94 721
18	Covered bonds	0	0	0	0	0	0	0	0
19	Claims on institutions and corporates with a short-term credit assessment	0	0	0	0	0	0	0	0
20	Collective investments undertakings	0	0	0	0	0	0	0	0
21	Equity exposures	131 543	0	0	0	0	0	79 616	211 159
22	Other exposures	69 843	0	0	0	0	0	0	69 843
23	**Total standardised approach**	**72 702 587**	**12 407 479**	**3 126 610**	**62 678**	**2 274 419**	**271 685**	**975 862**	**91 821 320**
24	**Total**	**185 752 845**	**12 423 717**	**3 174 067**	**2 383 687**	**2 279 571**	**1 348 608**	**2 109 941**	**209 472 436**

Group's exposures are located in Europe, therefore the table above does not present geographical areas. Materiality of countries was determined based on its share in the credit portfolio and with application of materiality threshold above 1% in the net value of the portfolio. Countries below the threshold were included in 'other countries' category.

EU CRB-D – Concentration of exposures by industry, addressing disclosure requirements of art. 442 letter e) of CRR Regulation which presents net exposure of mBank Group by industries and exposure classes for credit and counterparty credit risk portfolio. It includes the allocation into exposures for standardized and AIRB Approach.

		a)	b)	c)	d)	e)	f)	g)	h)	i)	j)	k)	l)
		AGRICULTURE, FORESTRY AND FISHING	MINING AND QUARRYING	MANUFACTURING	ELECTRICITY, GAS, STEAM AND AIR CONDITIONING SUPPLY	WATER SUPPLY; SEWERAGE, WASTE MANAGEMENT AND REMEDIATION ACTIVITIES	CONSTRUCTION	WHOLESALE AND RETAIL TRADE; REPAIR OF MOTOR VEHICLES AND MOTORCYCLES	TRANSPORTATION AND STORAGE	ACCOMMODATION AND FOOD SERVICE ACTIVITIES	INFORMATION AND COMMU-NICATION	FINANCIAL AND INSURANCE ACTIVITIES	REAL ESTATE ACTIVITIES
1	Central governments or central banks	0	0	0	0	0	0	0	0	0	0	0	0
2	Institutions	0	0	0	0	0	0	0	0	0	0	3 869 127	0
3	Corporates	112 850	215 436	13 753 192	1 376 659	612 571	8 137 055	10 244 194	2 239 874	218 434	1 769 487	386 907	5 560 774
4	Retail	133 274	36 798	1 748 078	24 230	112 300	1 668 047	3 402 900	1 136 935	635 565	933 331	357 614	866 348
5	Equity	0	0	0	0	0	0	0	0	0	0	0	0
6	**Total IRB approach**	**246 124**	**252 234**	**15 501 270**	**1 400 889**	**724 871**	**9 805 102**	**13 647 094**	**3 376 809**	**853 999**	**2 702 818**	**4 613 648**	**6 427 122**
7	Central governments or central banks	0	0	0	0	0	0	0	0	0	0	10 842 731	0
8	Regional governments or local authorities	0	0	0	0	0	0	0	0	0	0	0	0
9	Public sector entities	0	0	0	0	0	0	0	77	0	0	0	0
10	Multilateral development banks	0	0	0	0	0	0	0	0	0	0	2 791 921	0
11	International organisations	0	0	0	0	0	0	0	0	0	0	0	0
12	Institutions	0	0	0	0	0	0	0	0	0	0	608 877	0
13	Corporates	108 310	61	3 180 976	696 220	90 034	257 021	3 241 807	281 201	38 039	764 961	2 338 297	371 520
14	Retail	30	2	252	2	9	279	700	200	55	208	100	34
15	Secured by mortgages on immovable property	300	0	5 197	0	0	62 955	21 196	2 400	146 250	3 858	4 911	487 296
16	Exposures in default	0	0	96 501	1 228	0	88 785	2 249	68	239 897	214	58 944	69 800
17	Items associated with particularly high risk	0	0	0	0	0	0	0	0	0	23 156	24 264	0
18	Covered bonds	0	0	0	0	0	0	0	0	0	0	0	0
19	Claims on institutions and corporates with a short-term credit assessment	0	0	0	0	0	0	0	0	0	0	0	0
20	Collective investments undertakings	0	0	0	0	0	0	0	0	0	0	0	0
21	Equity exposures	0	0	0	0	0	6 602	0	0	0	776	63 622	0
22	Other exposures	0	0	0	0	0	0	0	0	0	0	7 120	0
23	**Total standardised approach**	**108 640**	**63**	**3 282 926**	**697 450**	**90 043**	**415 642**	**3 265 952**	**283 946**	**424 241**	**793 173**	**16 740 787**	**928 650**
24	**Total**	**354 764**	**252 297**	**18 784 196**	**2 098 339**	**814 914**	**10 220 744**	**16 913 046**	**3 660 755**	**1 278 240**	**3 495 991**	**21 354 435**	**7 355 772**

		m)	n)	o)	p)	q)	r)	s)	t)	u)	w)	
		PROFESSIONAL, SCIENTIFIC AND TECHNICAL ACTIVITIES	ADMINISTRATIVE AND SUPPORT SERVICE ACTIVITIES	PUBLIC ADMINISTRATION AND DEFENCE; COMPULSORY SOCIAL SECURITY	EDUCATION	HUMAN HEALTH AND SOCIAL WORK ACTIVITIES	ARTS, ENTERTAINMENT AND RECREATION	OTHER SERVICE ACTIVITIES	ACTIVITIES OF HOUSEHOLDS AS EMPLOYERS; UNDIFFER-ENTIATED GOODS- AND SERVICES-PRODUCING ACTIVITIES OF HOUSEHOLDS FOR OWN USE	ACTIVITIES OF EXTRATERRI-TORIAL ORGANISATIONS AND BODIES	OTHER	TOTAL
1	Central governments or central banks	0	0	0	0	0	0	0	0	0	0	0
2	Institutions	0	0	0	0	0	0	0	172 233	0	0	4 041 360
3	Corporates	3 077 159	667 854	0	19 009	88 556	333 479	27 923	14 557	0	270	48 856 240
4	Retail	2 292 527	314 116	1 578	231 141	1 047 746	132 801	46 610 982	0	0	3 067 205	64 753 516
5	Equity	0	0	0	0	0	0	0	0	0	0	0
6	**Total IRB approach**	**5 369 686**	**981 970**	**1 578**	**250 150**	**1 136 302**	**466 280**	**46 638 905**	**186 790**	**0**	**3 067 475**	**117 651 116**
7	Central governments or central banks	1 564 719	0	42 379 043	0	0	0	0	365 624	0	1 169 484	56 321 601
8	Regional governments or local authorities	494	0	182 296	0	0	0	0	0	0	0	182 790
9	Public sector entities	0	0	9	28 919	37 254	5 810	1 384	58	0	0	73 511
10	Multilateral development banks	0	0	0	0	0	0	0	0	0	0	2 791 921
11	International organisations	0	0	0	0	0	0	0	0	0	0	0
12	Institutions	5 446	0	0	0	0	0	0	0	0	29 243	643 566
13	Corporates	887 628	410 699	0	30 542	108 787	212 960	639 971	67 446	0	621	13 727 101
14	Retail	301	104	0	44	43	28	3 300 151	0	0	2 644 242	5 946 784
15	Secured by mortgages on immovable property	113	0	0	0	2 841	0	3 411 238	2	0	6 915 158	11 063 715
16	Exposures in default	42 259	2	488	6 793	272	3 217	56 824	6	0	27 061	694 608
17	Items associated with particularly high risk	47 301	0	0	0	0	0	0	0	0	0	94 721
18	Covered bonds	0	0	0	0	0	0	0	0	0	0	0
19	Claims on institutions and corporates with a short-term credit assessment	0	0	0	0	0	0	0	0	0	0	0
20	Collective investments undertakings	0	0	0	0	0	0	0	0	0	0	0
21	Equity exposures	62 891	76 068	0	0	0	0	0	1 191	0	9	211 159
22	Other exposures	0	0	0	0	0	0	59 967	0	0	2 756	69 843
23	**Total standardised approach**	**2 611 152**	**486 873**	**42 561 836**	**66 298**	**149 197**	**222 015**	**7 469 535**	**434 327**	**0**	**10 788 574**	**91 821 320**
24	**Total**	**7 980 838**	**1 468 843**	**42 563 414**	**316 448**	**1 285 499**	**688 295**	**54 108 440**	**621 117**	**0**	**13 856 049**	**209 472 436**

EU CRB-E – Maturity of exposures, addressing disclosure requirements of art. 442 letter f) of CRR Regulation which presents a breakdown of net exposures by residual maturity and exposure classes for credit and counterparty credit risk portfolio. It includes the allocation into exposures for standardized and AIRB Approach.

		a)	b)	c)	d)	e)	f)
		Net exposure value					
		On demand	<= 1 year	> 1 year <= 5 years	> 5 years	No stated maturity	Total
1	Central governments or central banks	0	0	0	0	0	0
2	Institutions	2 826 720	398 010	441 890	159 528	215 212	4 041 360
3	Corporates	5 549 154	13 987 854	19 427 736	9 631 001	260 495	48 856 240
4	Retail	4 212 251	6 323 650	10 337 313	38 152 660	5 727 642	64 753 516
5	Equity	0	0	0	0	0	0
6	**Total IRB approach**	**12 588 125**	**20 709 514**	**30 206 939**	**47 943 189**	**6 203 349**	**117 651 116**
7	Central governments or central banks	0	13 473 704	25 967 239	7 243 381	9 637 277	56 321 601
8	Regional governments or local authorities	19 987	24 247	100 126	38 411	19	182 790
9	Public sector entities	26 498	35	10 595	36 228	155	73 511
10	Multilateral development banks	0	1 099 612	1 342 329	349 980	0	2 791 921
11	International organisations	0	0	0	0	0	0
12	Institutions	48 589	5 573	720	0	588 684	643 566
13	Corporates	1 515 487	6 743 057	3 432 310	1 373 045	663 202	13 727 101
14	Retail	290 019	172 132	297 814	4 759 828	426 991	5 946 784
15	Secured by mortgages on immovable property	1 142	7 624	592 607	10 458 060	4 282	11 063 715
16	Exposures in default	750	52 465	353 595	204 644	83 154	694 608
17	Items associated with particularly high risk	0	0	0	0	94 721	94 721
18	Covered bonds	0	0	0	0	0	0
19	Claims on institutions and corporates with a short-term credit assessment	0	0	0	0	0	0
20	Collective investments undertakings	0	0	0	0	0	0
21	Equity exposures	0	0	0	0	211 159	211 159
22	Other exposures	0	124	0	0	69 719	69 843
23	**Total standardised approach**	**1 902 472**	**21 578 573**	**32 097 335**	**24 463 577**	**11 779 363**	**91 821 320**
24	**Total**	**14 490 597**	**42 288 087**	**62 304 274**	**72 406 766**	**17 982 712**	**209 472 436**

8. Credit risk adjustments

8.1. Overdue and impaired exposures – definitions used

The following qualitative description addresses the requirements of **the EU CRB-A table – Additional disclosed information related to the credit quality of assets.**

mBank applies a uniform default definition in all areas of the credit risk management, i.e. for the purpose of calculating expected credit losses and capital requirement. The default definition is based on the definition included in CRR Regulation.

The customer is reclassified to the default category in the 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.

Corporate portfolio - Impairment triggers

The list of definite loss events in corporate portfolio:

1. The number of days past due is above 90 days (14 days in the case of banks) and the overdue amount exceeds PLN 3,000 and PLN 500 for Private Banking.
2. mBank has sold exposures with a significant economic loss related to the decrease of the debtor creditworthiness.
3. mBank performed enforced restructuring of the exposure, which resulted in the change of the loan/transaction service schedule due to the lack of possibility of the obligor to meet his obligations under loan/transaction agreement, as initially stipulated, which resulted in:

   a) reduction of financial liabilities by remitting part of these obligations, or

   b) postponing the repayment of the substantial part of the principal, interest or (if it refers to) commission; provided that the lack of approval for restructuring would cause more than 90 calendar days delay in repayment of substantial part of the obligation.

4. Filing by the debtor or filing by mBank, 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 mBank.
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 mBank, the parent or subsidiary entity of mBank.
6. Termination of part or whole credit agreement by mBank or the beginning of restructuring/collection procedures.
7. Client's fraud.
8. mBank expects a loss on a client's exposure.

In addition mBank 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 mBank. Credit analyst in this case assesses additionally whether the event impacted adversely the obligor's creditworthiness.

Retail portfolio - Impairment triggers

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

The list of definite loss events in retail portfolio:

1. The main impairment trigger is delay in repayment. Impairment trigger is identified, when the total of all customer's exposures past due more than 30 days exceeds PLN 500 (or CZK 3000 or EUR 120 in Bank's foreign branches in Czech Republic and Slovakia respectively) and the eldest delay exceeds 90 days.
2. Enforced restructuring of debt.
3. Bankruptcy of debtor.
4. Recognition of the contract as fraudulent.
5. Sale of the exposure with considerable economic loss.
6. Uncollectable status of debt.
7. Payout of low downpayment insurance.

Restructuring definition

Restructuring activities are understood as actions aimed at bringing back the regular servicing of receivables or debt repayment by the debtor, in particular by extending the terms of payments or extending the payment deadline (an annex to the existing contract or repayment agreement), providing a repair product, carrying out restructuring proceedings, joining the debt by a third party, taking over debt by a third party, conversion of receivables into shares or stocks, taking over the asset (including the debt collateral) in exchange for the release from debt.

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

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

Major changes include:

- change in the method of calculating days past due;
- introducing new materiality threshold (relative and absolute) for overdue credit obligations in accordance with the Regulation of the Minister of Finance, Investment and Development of October 3, 2019 (paragraph 2), for the purpose of identifying material overdue. Overdue is considered significant if both of the following conditions are simultaneously met:

  1. the sum of all amounts past due that are related to any credit obligation of the obligor to the institution will exceed:

  a. PLN 400 - in the case of retail exposures,

  b. PLN 2,000 - for exposures other than retail exposures,

  2. the amount of overdue credit obligations of the debtor in relation to the total amount of all the bank's balance sheet exposures to this debtor will exceed 1%;
- guidelines on forced restructuring. The materiality threshold from which the Bank considers a reduced financial liability to be defaulted is 1%;
- introducing a quarantine (trial period), the time during which the Bank assesses the behavior and financial situation of the debtor. The quarantine period is calculated from the moment when the event causing the trigger of default has ceased to apply. The duration of the quarantine is 12 months in the case of a forced restructuring, and 3 months in the case of other triggers. Proper handling of obligations by the debtor during the trial period is the basis for reclassifying him to the non-default status;
- consistent application of the definition of default - the EBA guidelines oblige institutions to implement appropriate processes ensuring that the default by one obligor is consistently identified across the entire capital group;
- detailed rules for the treatment of joint credit obligations - the bank uses the definition of default at the level of the obligor in the retail area, therefore it is obliged to apply the provisions of par. 95 - 105, on the basis of which it should define in its internal rules and procedures the rules for the treatment of joint credit obligations and for the transfer of default status between exposures.

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

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

8.2. Quantitative information

The following subscriptions address the requirements of the **EU CRB-A table – Additional disclosed information related to the credit quality of assets.**

How exposures are classified to stages

mBank, 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 credit-impairment was found during its lifetime in portfolio,
- POCI (purchased or originated credit-impaired asset) – assets identified as credit-impaired at initial recognition.

In mBank 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 (described in chapter 8.1).

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

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

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

Significant deterioration of credit quality (classification to stage 2)

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

Qualitative criteria are:

- More than 30 days past due, involving materiality threshold - the number of days for which the longest overdue amount of the exposure concerned is greater than or equal to 31 days, at the same time, the amount of capital or an off-balance-sheet commitment is greater than or equal to PLN 500 in case of retail exposure (or CZK 3000 or EUR 120 in mBank's foreign branches in Czech Republic and Slovakia respectively) and greater than or equal to PLN 3 000 in case of corporate exposure.
- Occurrence of the Forborne flag (the client status shows that he or she is experiencing difficulties in repaying the loan commitment, as defined by mBank).
- Occurrence of the Watch flag (the Bank's internal process designed to identify corporate clients who are subject to increased monitoring in terms of changes in credit quality, in accordance with the Watch List classification rules adopted by mBank).

The quantitative criterion of the Transfer Logic is based on a significant deterioration in credit quality, which is assessed on the basis of a relative long-term change in Probability of Default (PD), specified for the exposure at the reporting date, relative to the long-term PD specified on initial recognition.

Low credit risk criteria

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

Calculation of expected credit losses

Valuation 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. If on the reporting date the exposure credit risk did not increase significantly since the initial recognition, expected credit losses are calculated in 12-month horizon (12m ECL). If the exposure credit risk increased significantly since the initial recognition (exposure is in the stage 2), the Bank calculates expected credit losses in the life-time horizon (Lt ECL).

In the case of non-financial guarantees, the Group applied an approach that the expected credit losses are always included in lifetime horizon (Lt ECL).

The individual approach concerns all balance sheet and off-balance sheet credit exposures with an impairment in the corporate loan portfolio and Private Banking loan portfolio, which is registered in corporate systems, as well as selected credit exposures with an impairment in the retail microfirms loan portfolio (used in the case of exposures with mortgage collateral with a debt balance over PLN 300 thousand PLN and arrears over 1 year).

The expected credit losses are calculated as a difference between the gross carrying amount of the asset and the present value of the estimated future cash flows discounted with the effective interest rate. The method of calculating the expected recoveries takes place in scenarios and depends on the Bank's chosen strategy for the client. In the case of restructuring strategy, considered scenarios are developed for exposures and assume a significant share of recoveries from the customer's own payments. In the case of vindication strategy, the scenarios are developed for each recovery source (collateral) separately. Bank identifies scenarios per exposure/recovery source, minimum two are considered obligatory, provided one of them reflects a partial loss on exposure/recovery source. The 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.

Use of macroeconomics scenarios in ECL estimation

mBank is required to set an expected credit loss in a way which meets the expectations for various forward-looking macroeconomic scenarios. In the 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 (except for the first quarter of 2020 where modification of the weight of macroeconomic scenarios, consisting in assigning a 100% weight to the pessimistic scenario was made. This reflected the deterioration of the economic situation in the country resulting from the COVID-19),

2. divided by the expected loss determined under baseline scenario (reference estimate).

Simulation calculations, whose results are used to calculate NLF, are carried out on the basis of the same input data on exposure characteristics, but involve different risk parameter vectors, if the macroeconomic expectations defined in the scenarios are such as to affect the value of these parameters. Additionally, the inclusion of forward-looking information takes place in the models of all three credit risk parameters estimated in the lifetime horizon (LtPD, LtEAD, LtLGD). In the estimates the Bank uses, among others, generally available macroeconomic and financial indicators (employment in the enterprise sector, employment rate, level of export/import, salaries, profitability of bonds, monetary financial institutions receivables from households), expectations regarding interest rates and exchange rates, as well as changes in property prices.

In the 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.

Fair Value for credit assets

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

- ***Fair value valuation of non-impaired credit assets***

The valuation for non-impaired exposure is based on its discounted estimated future cash flows.
Future cash flows are determined taking into account:

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

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

- ***Fair value valuation of impaired financial assets***

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

COVID-19 impact on credit risk costs

Due to the deterioration of the economic situation in the country resulting from the COVID-19 epidemic, the Group has taken additional actions aimed at including this information in the expected credit losses which resulted increasing of the cost of credit risk in both the corporate and retail exposures portfolio. Expected credit losses increased by PLN 330.3 million in the portfolio measured at amortized cost and by PLN 10.3 million in the portfolio at fair value through profit or loss.

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Non-performing and forborne exposures

In accordance with the EBA guidelines on management of non-performing and forborne exposures, which came into force from 30th June 2019, Banks are obliged to monitor and manage the NPL portfolio. Banks should strive to maintain the value of the NPL portfolio below the threshold set by the regulator at 5%. As of December 31, 2020, the NPL ratio for mBank Group (ratio calculated according to EBA guidelines) increased to 4.4% from 4.0% as of December 31, 2019. The increase in the NPL ratio was largely influenced by changes to the implementing technical standards amending Regulation (EU) No 680/2014 on supervisory reporting (EBA / ITS / 2019/02) according to which there was excluded from the scope of the calculation of the ratio a position "Cash balances at central banks and other demand deposits", which at the moment of change amounted to approx. PLN 12 billion, which decreased the denominator of the NPL ratio. However, the increase in the ratio was partially mitigated by the realization of debt-collection sales processes

Impaired and overdue exposures

EU CR1-A – Credit quality of exposures by exposure class and instrument, addressing disclosure requirements of art. 442 letter g) and h) of CRR Regulation which presents a breakdown of the defaulted and non-defaulted exposures by exposure classes for credit risk and counterparty credit risk. The information is provided separately for exposures under the standardised approach and the IRB approach.

		a)	b)	c)	d)	e)	f)	g)
		Gross carrying values of		Specific credit risk adjustment	General credit risk adjustment	Accumulated write-offs	Credit risk adjust-ment charges of the period	Net values
		Defaulted exposures	Non-defaulted exposures					
1	**Central governments or central banks**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
2	**Institutions**	**0**	**4 042 521**	**1 161**	**0**	**0**	**0**	**4 041 360**
3	**Corporates**	**1 066 340**	**49 057 575**	**1 267 675**	**0**	**91 122**	**(96 504)**	**48 856 240**
4	*Of which: Specialised lending*	0	10 732 514	278 231	0	0	(13 369)	10 454 283
5	*Of which: SMEs*	188 928	12 765 421	206 142	0	70 436	(6 681)	12 748 207
6	**Retail**	**2 451 941**	**64 389 182**	**2 087 607**	**0**	**353 376**	**(103 869)**	**64 753 516**
7	*Secured by real estate property*	927 424	34 578 808	519 089	0	29 695	(54 708)	34 987 143
8	*SMEs*	134 255	2 518 292	72 436	0	4 840	(9 524)	2 580 111
9	*Non-SMEs*	793 169	32 060 516	446 653	0	24 855	(45 184)	32 407 032
10	*Qualifying revolving*	0	0	0	0	0	0	0
11	*Other retail*	1 524 517	29 810 374	1 568 518	0	323 682	(49 161)	29 766 373
12	*SMEs*	652 374	13 223 038	668 024	0	83 249	(10 318)	13 207 388
13	*Non-SMEs*	872 143	16 587 336	900 494	0	240 433	(38 843)	16 558 985
14	**Equity**	0	0	0	0	0	0	0
15	**Total IRB approach**	**3 518 281**	**117 489 278**	**3 356 443**	**0**	**444 498**	**(200 373)**	**117 651 116**

		a)	b)	c)	d)	e)	f)	g)
		Gross carrying values of		Specific credit risk adjustment	General credit risk adjustment	Accumulated write-offs	Credit risk adjust-ment charges of the period	Net values
		Defaulted exposures	Non-defaulted exposures					
16	Central governments or central banks	0	56 321 601	1	0	0	0	56 321 601
17	Regional governments or local authorities	0	182 925	135	0	0	0	182 790
18	Public sector entities	0	73 535	24	0	0	0	73 511
19	Multilateral development banks	0	2 791 921	0	0	0	0	2 791 921
20	International organisations	0	0	0	0	0	0	0
21	Institutions	0	644 521	955	0	0	0	643 566
22	Corporates	0	13 802 380	75 279	0	21 493	(21)	13 727 101
23	Of which: SMEs	0	2 204 989	15 760	0	21 353	0	2 189 229
24	Retail	0	5 997 847	51 063	0	226	(33)	5 946 784
25	Of which: SMEs	0	23 310	6 738	0	4	(2)	16 573
26	Secured by mortgages on immovable property	0	11 063 765	52	0	0	0	11 063 715
27	Of which: SMEs	0	16 280	0	0	0	0	16 280
28	Exposures in default	1 800 910	0	1 106 303	0	7 072	(72 807)	694 608
29	Items associated with particularly high risk	0	94 721	0	0	0	0	94 721
30	Covered bonds	0	0	0	0	0	0	0
31	Claims on institutions and corporates with a short-term credit assessment	0	0	0	0	0	0	0
32	Collective investments undertakings	0	0	0	0	0	0	0
33	Equity exposures	55 000	169 078	12 919	0	0	0	211 159
34	Other exposures	0	69 843	0	0	0	0	69 843
35	***Total standardised approach***	1 855 910	91 212 137	1 246 731	0	28 791	(72 861)	91 821 320
36	**Total**	5 374 191	208 701 415	4 603 174	0	473 289	(273 234)	209 472 436
37	Of which: Loans	5 193 339	125 191 517	4 405 200	0	473 289	(273 234)	125 979 656
38	Of which: Debt securities	0	50 172 415	0	0	0	0	50 172 415
39	Of which: Off-balance-sheet exposures	125 854	32 065 881	184 597	0	0	0	32 007 138

EU CR1-B - Credit quality of exposures by industry, addressing disclosure requirements of art. 442 letter g) of CRR Regulation which presents a breakdown of the defaulted and non-defaulted exposures by industry for credit and counterparty credit risk.

		a)	b)	c)	d)	e)	f)	g)
		Non-defaulted exposures		Specific credit risk adjustment	General credit risk adjustment	Accumulated write-offs	Credit risk adjustment charges	Net values
		Defaulted exposures	Non-defaulted exposures					
1	Agriculture, Forestry And Fishing	4 832	356 668	6 736	0	0	(237)	354 764
2	Mining And Quarrying	102 210	252 856	102 769	0	0	(2 996)	252 297
3	Manufacturing	1 052 335	18 627 091	895 230	0	4 477	(40 204)	18 784 196
4	Electricity, Gas, Steam And Air Conditioning Supply	4 469	2 099 635	5 765	0	0	(8)	2 098 339
5	Water Supply; Sewerage, Waste Management And Remediation Activities	11 357	814 029	10 472	0	0	(80)	814 914
6	Construction	455 297	10 212 586	447 139	0	16	(20 012)	10 220 744
7	Wholesale And Retail Trade; Repair Of Motor Vehicles And Motorcycles	557 107	16 886 325	530 386	0	1 162	(29 267)	16 913 046
8	Transportation And Storage	168 793	3 631 341	139 379	0	0	(1 565)	3 660 755
9	Accommodation And Food Service Activities	300 467	1 052 943	75 170	0	0	(5 650)	1 278 240
10	Information And Communication	92 275	3 505 763	102 047	0	294	(10 327)	3 495 991
11	Financial And Insurance Activities	130 375	21 300 588	76 528	0	52	(1 279)	21 354 435
12	Real Estate Activities	165 351	7 486 693	296 272	0	0	(12 757)	7 355 772
13	Professional, Scientific And Technical Activities	294 325	7 912 191	225 678	0	0	(6 484)	7 980 838
14	Administrative And Support Service Activities	17 226	1 473 955	22 338	0	13 299	(521)	1 468 843
15	Public Administration And Defence; Compulsory Social Security	1 180	42 563 007	773	0	0	0	42 563 414
16	Education	38 691	310 196	32 439	0	153	(1 464)	316 448
17	Human Health And Social Work Activities	12 393	1 292 857	19 751	0	0	(165)	1 285 499
18	Arts, Entertainment And Recreation	17 182	693 335	22 222	0	0	(566)	688 295
19	Other Service Activities	1 883 458	53 771 980	1 547 002	0	389 672	(139 625	54 108 440
20	Activities Of Households As Employers; Undifferentiated Goods- And Services-Producing Activities Of Households For Own Use	7	621 335	225	0	0	0	621 117
21	Activities Of Extraterritorial Organisations And Bodies	0	0	0	0	0	0	0
22	Other	64 861	13 836 041	44 853	0	64 164	(27)	13 856 049
23	Total	**5 374 191**	**208 701 415**	**4 603 174**	**0**	**473 289**	**(273 234)**	**209 472 436**

EU CR1-C – Credit quality of exposures by geography, addressing disclosure requirements of art. 442 letter g) of CRR Regulation which presents a breakdown of the defaulted and non-defaulted exposures by significant countries for credit and counterparty credit risk.

Group's exposures are located in Europe, therefore the table above does not present geographical areas. Materiality of countries was determined based on its share in the credit portfolio and with application of materiality threshold above 1% in the net value of the portfolio. Countries below the threshold were included in 'other countries' category.

		a)	b)	c)	d)	e)	f)	g)
		Gross Carrying values		Specific credit risk adjustment	General credit risk adjustment	Accumulated write-offs	Credit risk adjustment charges Defaulted expo-sures	Gross Carrying values
		Defaulted exposures	Non-defaulted exposures					
1	Poland (PL)	4 868 900	184 968 093	4 084 152	0	466 039	(218 005)	185 752 845
2	Czech Republic (CZ)	121 123	12 424 053	121 459	0	4 453	(29 059)	12 423 717
3	Slovakia (SK)	12	3 175 098	1 043	0	0	0	3 174 067
4	Germany (DE)	176	2 384 793	1 282	0	48	(126)	2 383 687
5	Great Britain (GB)	58 388	2 278 982	57 799	0	2 615	(22 764)	2 279 571
6	Luxemburg (LU)	1 254	1 348 261	907	0	132	(76)	1 348 608
7	Other	324 338	2 122 135	336 532	0	2	(3 204)	2 109 941
8	Total	**5 374 191**	**208 701 415**	**4 603 174**	**0**	**473 289**	**(273 234)**	**209 472 436**

Template 3: Credit quality of performing and non-performing exposures by past due days - addressing disclosure requirements (replacing EU CR1 – Ageing of past due exposures) of art 442 of CRR Regulation.

		a)	b)	c)	d)	e)	f)	g)	h)
		Gross carrying amount/nominal amount							
		Performing exposures			Non-performing exposures				
			Not past due or past due ≤ 30 days	Past due > 30 days ≤ 90 days		Unlikely to pay that are not past due or are past due ≤ 90 days	Past due > 90 days ≤ 180 days	Past due > 180 days ≤ 1 year	Past due > 1 year ≤ 2 years
1	**Loans and advances**	**114 830 857**	**114 246 854**	**584 003**	**5 261 372**	**1 839 436**	**260 114**	**597 403**	**810 405**
2	*Central banks*	6 301 724	6 301 724	0	0	0	0	0	0
3	*General governments*	171 537	171 537	0	1 068	0	0	0	0
4	*Credit institutions*	797 461	797 461	0	0	0	0	0	0
5	*Other financial corporations*	1 285 382	1 285 381	1	3 561	0	1	0	0
6	*Non-financial corporations*	42 514 004	42 216 264	297 740	2 860 604	1 348 191	111 025	293 383	267 246
7	*Of which SMEs*	18 989 511	18 709 855	279 656	1 325 122	367 190	88 454	94 118	199 366
8	*Households*	63 760 749	63 474 487	286 262	2 396 139	491 245	149 088	304 020	543 159
9	**Debt securities**	**51 884 989**	**51 884 989**	**0**	**180 368**	**180 368**	**0**	**0**	**0**
10	*Central banks*	184 996	184 996	0	0	0	0	0	0
11	*General governments*	44 481 819	44 481 819	0	0	0	0	0	0
12	*Credit institutions*	4 964 219	4 964 219	0	0	0	0	0	0
13	*Other financial corporations*	1 351 669	1 351 669	0	180 368	180 368	0	0	0
14	*Non-financial corporations*	902 286	902 286	0	0	0	0	0	0
15	**Off-balance-sheet exposures**	**39 286 048**			**183 857**				
16	*Central banks*	0			0				
17	*General governments*	46 950			0				
18	*Credit institutions*	3 688 594			0				
19	*Other financial corporations*	181 174			0				
20	*Non-financial corporations*	24 969 158			170 551				
21	*Households*	10 400 172			13 306				
22	**Total**	**206 001 894**	**166 131 843**	**584 003**	**5 625 597**	**2 019 804**	**260 114**	**597 403**	**810 405**

		i)	j)	k)	l)
		Gross carrying amount/nominal amount			
		Non-performing exposures			
		Past due > 2 years ≤ 5 years	Past due > 5 years ≤ 7 years	Past due > 7 years	Of which defaulted
1	**Loans and advances**	**892 952**	**266 584**	**594 478**	**18 717**
2	*Central banks*	0	0	0	0
3	*General governments*	1 068	0	0	0
4	*Credit institutions*	0	0	0	0
5	*Other financial corporations*	3 560	0	0	0
6	*Non-financial corporations*	332 494	96 132	412 133	7 924
7	*Of which SMEs*	199 606	60 196	316 192	7 774
8	*Households*	555 830	170 452	182 345	10 793
9	**Debt securities**	**0**	**0**	**0**	**0**
10	*Central banks*	0	0	0	0
11	*General governments*	0	0	0	0
12	*Credit institutions*	0	0	0	0
13	*Other financial corporations*	0	0	0	0
14	*Non-financial corporations*	0	0	0	0
15	**Off-balance-sheet exposures**				**93 054**
16	*Central banks*				0
17	*General governments*				0
18	*Credit institutions*				0
19	*Other financial corporations*				0
20	*Non-financial corporations*				93 054
21	*Households*				0
22	**Total**	**892 952**	**266 584**	**594 478**	**111 771**

Template 4: Performing and non-performing exposures and related provisions - addressing disclosure requirements (replacing EU CR1 D – Ageing of past due exposures) of art 442 of CRR Regulation.

		a)	b)	c)	d)	e)	f)	g)	h)	i)
		Gross carrying amount/nominal amount						Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions		
		Performing exposures			Non-performing exposures			Performing exposures – accumulated impairment and provisions		
			Of which stage 1	Of which stage 2		Of which stage 2	Of which stage 3		Of which stage 1	Of which stage 2
1	**Loans and advances**	**114 830 857**	**114 246 854**	**584 003**	**5 261 373**	**18 717**	**5 054 414**	**(738 819)**	**(303 838)**	**(434 981)**
2	*Central banks*	6 301 724	6 301 724	0	0	0	0	0	0	0
3	*General governments*	171 537	171 537	0	1 069	0	1 069	(129)	(128)	(1)
4	*Credit institutions*	797 461	797 461	0	0	0	0	(449)	(449)	0
5	*Other financial corporations*	1 285 382	1 285 381	1	3 560	0	3 560	(2 743)	(2 635)	(108)
6	*Non-financial corporations*	42 514 004	42 216 264	297 740	2 860 604	7 924	2 853 799	(302 821)	(143 274)	(159 547)
7	*Of which SMEs*	18 989 511	18 709 855	279 656	1 325 124	7 774	1 318 320	(136 331)	(63 549)	(72 782)
8	*Households*	63 760 749	63 474 487	286 262	2 396 140	10 793	2 195 986	(432 677)	(157 352)	(275 325)
9	**Debt securities**	**51 884 989**	**51 884 989**	**0**	**180 368**	**0**	**2 821**	**(7 638)**	**(4 498)**	**(3 140)**
10	*Central banks*	184 996	184 996	0	0	0	0	0	0)	0
11	*General governments*	44 481 819	44 481 819	0	0	0	0	(87)	(87)	0
12	*Credit institutions*	4 964 219	4 964 219	0	0	0	0	(424)	(424)	0
13	*Other financial corporations*	1 351 669	1 351 669	0	180 368	0	2 821	(1 469)	(1 469)	0
14	*Non-financial corporations*	902 286	902 286	0	0	0	0	(5 658)	(2 518)	(3 140)
15	**Off-balance-sheet exposures**	**39 286 048**	**39 286 048**	**0**	**183 857**	**93 054**	**183 857**	**(91 329)**	**(48 698)**	**(42 631)**
16	*Central banks*	0	0	0	0	0	0	0)	0	0
17	*General governments*	46 950	46 950	0	0	0	0	(15)	(14)	(1)
18	*Credit institutions*	3 688 594	3 688 594	0	0	0	0	(17 196)	(17 196)	0
19	*Other financial corporations*	181 174	181 174	0	0	0	0	(1 093)	(945)	(148)
20	*Non-financial corporations*	24 969 158	24 969 158	0	170 551	93 054	170 551	(34 300)	(12 986)	(21 314)
21	*Households*	10 400 172	10 400 172	0	13 306	0	13 306	(38 725)	(17 557)	(21 168)
22	**Total**	**206 001 894**	**205 417 891**	**584 003**	**5 625 598**	**111 771**	**5 241 092**	**(837 786)**	**(357 034)**	**(480 752)**

		j)	k)	l)	m)	n)	o)
		Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions					
		Non-performing exposures – accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions			Accumulated partial write-off	Collateral and financial guarantees received	
			Of which stage 2	Of which stage 3		On performing exposures	On non-performing exposures
1	**Loans and advances**	**(3 077 214)**	**(941)**	**(2 899 448)**	**0**	**54 008 221**	**1 060 633**
2	*Central banks*	0	0	0	0	0	0
3	*General governments*	(581)	0	(581)	0	2 164	0
4	*Credit institutions*	0	0	0	0	6 474	0
5	*Other financial corporations*	(3 479)	0	(3 479)	0	153 141	81
6	*Non-financial corporations*	(1 616 048)	(159)	(1 576 386)	0	14 557 104	511 490
7	*Of which SMEs*	(824 807)	(156)	(797 823)	0	7 805 886	330 997
8	*Households*	(1 457 106)	(782)	(1 319 002)	0	39 289 338	549 062
9	**Debt securities**	**(88 914)**	**0**	**(141)**	**0**	**10 827**	**0**
10	*Central banks*	0	0	0	0	0	0
11	*General governments*	0	0	0	0	0	0
12	*Credit institutions*	0	0	0	0	0	0
13	*Other financial corporations*	(88 914)	0	(141)	0	0	0
14	*Non-financial corporations*	0	0	(0)	0	10 827	0
15	**Off-balance-sheet exposures**	**(114 332)**	**0)**	**(114 332)**		**0**	**0**
16	*Central banks*	0	0	0		0	0
17	*General governments*	0	0	0		13 567	0
18	*Credit institutions*	0	0	0		481 368	0
19	*Other financial corporations*	0	0	0		74 745	0
20	*Non-financial corporations*	(112 129)	0	(112 129)		6 773 291	36 263
21	*Households*	(2 203)	0	(2 203)		424 321	659
22	**Total**	**(3 280 460)**	**(941)**	**(3 013 921)**	**0**	**54 019 048**	**1 060 633**

Template 1: Credit quality of forborne exposures - addressing disclosure requirements (replacing EU CR1-E – Non-performing and forborne exposures) of art 442 of CRR Regulation.

	a)	b)	c)	d)	e)	f)	g)	h)
	Gross carrying amount/nominal amount of exposures with forbearance measures				Accumulated impairment, accumulated negative changes in fair value due to credit		Collateral received and financial guarantees received on forborne exposures	
	Performing forborne	Non-performing forborne			On performing forborne exposures	On nonperforming forborne exposures		Of which collateral and financial guarantees received on nonperforming exposures with forbearance measures
			Of which: defaulted	Of which: impaired				
Loans and advances	**1 225 993**	**1 086 841**	**1 072 422**	**1 055 351**	**(36 109)**	**(469 416)**	**1 068 732**	**472 949**
Central banks	0	0	0	0	0	0	0	0
General governments	0	0	0	0	0	0	0	0
Credit institutions	0	0	0	0	0	0	0	0
Other financial corporations	0	45	45	45	0	(45)	0	0
Non-financial corporations	638 990	715 834	709 030	702 997	(21 704)	(314 375)	459 935	285 291
Loans and advances	**587 003**	**370 962**	**363 347**	**352 309**	**(14 405)**	**(154 996)**	**608 797**	**187 658**
Debt securities	**0**	**180 368**	**180 368**	**2 821**	**0**	**(88 914)**	**0**	**0**
Loan commitments given	**66 107**	**4 686**	**4 686**	**4 686**	**(2 421)**	**(608)**	**0**	**0**
Total	**1 292 100**	**1 271 895**	**1 257 476**	**1 062 858**	**(38 530)**	**(558 938)**	**1 068 732**	**472 949**

Reconciliation of changes in the specific and general credit risk adjustments

EU CR2-A – Changes in the stock of general and specific credit risk adjustments, addressing disclosure requirements of art. 442 letter i) of CRR Regulation which presents changes in stock of general and specific credit risk adjustments held against loans and debt securities that are defaulted or impaired.

		a)	b)
		Accumulated specific credit risk adjustment	Accumulated general credit risk adjustment
1	**Opening balance 30.06.2020**	**3 668 090**	**0**
2	Increases due to amounts set aside for estimated loan losses during the period	686 379	0
3	Decreases due to amounts reversed for estimated loan losses during the period	(213 309)	0
4	Decreases due to amounts taken against accumulated credit risk adjustments	(535 049)	0
5	Transfers between credit risk adjustments	110	0
6	Impact of exchange rate differences	15 125	0
7	Business combinations, including acquisitions and disposals of subsidiaries	0	0
8	Other adjustments	0	0
9	**Closing balance 31.12.2020**	**3 621 346**	**0**
10	Recoveries on credit risk adjustments recorded directly to the statement of profit or loss	0	0
11	Specific credit risk adjustments directly recorded to the statement of profit or loss	0	0

EU CR2-B –Changes in the stock of defaulted and impaired loans and debt securities, the table below is supplementary to the previous one and presents reconciliation of defaulted exposures.

		a)
		Gross carrying value defaulted exposures
1	**Opening balance 30.06.2020**	**5 801 048**
2	Loans and debt securities that have defaulted or impaired since the last reporting period	946 882
3	Returned to non-defaulted status	(236 889)
4	Amounts written off	(582 911)
5	Other changes	(165 029)
6	**Closing balance 31.12.2020**	**5 763 101**

Information on collateral obtained by taking possession and execution processes

Information on collateral obtained by taking possession and execution processes as at 31 December 2020 is presented below.

Template 9: Collateral obtained by taking possession and execution processes

		b	b
		Collateral obtained by taking possession	
		Value at initial recognition	Accumulated negative changes
1	Property, plant and equipment (PP&E)	0	0
2	Other than PP&E	55 000	(38 777)
3	*Residential immovable property*	0	0
4	*Commercial Immovable property*	0	0
5	*Movable property (auto, shipping, etc.)*	0	0
6	*Equity and debt instruments*	55 000	(38 777)
7	*Other*	0	0
8	**Total**	**55 000**	**(38 777)**

9. Operational risk

mBank understands operational risk as the risk of loss resulting from inadequate or faulty internal processes, systems, errors or actions of mBank employees or external events.

mBank manages operational risk to increase the security of the mBank's operations. mBank focuses its activities on increasing the awareness of operational risk and building an organizational culture that allows to develop appropriate risk mitigation mechanisms.

Operational risk is complex in nature, which may have a significant impact on a mBank's operations and standing. Apart from the external environment and events, its source is the bank itself. The external and internal factors that affect operational risk change rapidly what can be observed among others in below areas:

- fast technological development of processes,
- increasing cyber risk,
- dynamic changes in the external environment, including the legal environment related to the foreign currency loan portfolio.

Therefore, the importance of operational risk in mBank is constantly increasing.

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

mBank Group conducts activities to protect mBank and its subsidiaries against the effects of operational risk materialization. Therefore:

- in mBank a proactive operational risk control and management system at every level of the organizational hierarchy has been established,
- tools, techniques for managing and controlling operational risk in organizational units of mBank and mBank Group subsidiaries are actively used,
- methods and tools for controlling and managing operational risk are coordinated across mBank Group.

mBank operates in a number of major business areas nationwide, and through its foreign branches, also outside of Poland. mBank offers a wide and diverse range of financial products to its customers from various market segments. Bank's customers include both major corporations operating in Poland and large, medium-size, small and micro-enterprises, as well as individual customers in Poland and abroad.

Based on CRR Regulation for the purpose of collecting operational loss data, the operations are classified into the following business lines:

- Corporate finance,
- Trading and sales,
- Commercial banking,
- Retail banking,
- Payment and settlement,
- Agency services (custody services).
- Asset management,
- Retail brokerage services.

This diverse range of products addressed to a very wide spectrum of customers makes the bank naturally exposed to operational risks which may and actually do derive from a variety of sources.

The vast majority of Bank Group's operational losses refers to the lines: retail banking and commercial banking.

Losses are also monitored by risk categories:

- Internal fraud,
- External fraud,
- Malicious Damage,
- Employee practices and workplace safety,
- Clients, products and business practices,
- Disasters and public safety,
- Technology and interface failures,
- Execution, delivery and process management.

In terms of such division of losses, mBank Group incurs the highest losses in categories of operational risk: customers, products and business practices.

Using the database available in mBank Group, the data on operational risk losses are recorded taking into consideration causes of their occurrence and analysed in terms of the necessary corrective actions.

10. Liquidity risk

Liquidity risk is understood as the risk of losing the ability to fund assets and timely execute payments arising from mBank Group's balance sheet and off-balance sheet items on terms and conditions convenient for mBank Group and at a market price.

The purpose of liquidity risk management is to ensure and maintain mBank Group's ability to meet both current and future obligations. mBank Group accomplishes this goal by diversifying stable sources of funding in relation to customer groups (from which it obtains deposits), products and currencies, maintaining the liquidity buffer, while optimizing the balance sheet in terms of profitability. mBank Group's long-term activities in this area are implemented taking into account the conditions as to the possibility of obtaining funding and profitability of the business. To this end, mBank Group is preparing a funding strategy, which is an element of long-term liquidity management. It is to provide, among others effective diversification of sources and funding period. The strategy is based on business plans, describes the main sources of funding and factors affecting mBank Group's ability to obtain appropriate funding.

In 2020, in connection with COVID-19, mBank Group implemented a process of increased monitoring of the liquidity situation and the possibility of potential symptoms of an emergency. The liquidity level was monitored and kept at a safe level. This year was exceptional in terms of economic conditions, which resulted in a significant inflow of customer deposits and a decrease in demand for loans.

Risk management organization

The organization of liquidity risk management in mBank Group has a hierarchical structure. mBank's Supervisory Board approves and supervises the implementation of the Liquidity Risk Management Strategy adopted by mBank's Management Board.

mBank Group established the liquidity adequacy assessment process (ILAAP), the purpose of which is to define the framework of the liquidity risk management process ensuring the maintenance of a sufficient level of liquidity in relation to the established risk appetite, allowing for the survival of defined stress conditions in a defined time horizon.

Strategic liquidity risk management is the responsibility of mBank's Management Board, which delegates part of its responsibilities to appropriate committees, i.e. the Balance Sheet Management Committee, mBank Group Asset and Liability Committee and the Financial Market Risk Committee.

The roles and tasks in the area of liquidity risk management were organized according to the three defense lines model. The following entities participate in this process.

- **Treasury Department** - first line of defense, provides funds for settlements on the bank's accounts, maintains certain values of risk parameters and measures within the granted liquidity limits, maintains a portfolio of securities as a buffer in the event of a stress situation materializing, ensures long-term funding in the form of issuance of debt securities and provides funding for companies from the mBank capital group.
- **Financial Resources Management Department** - first line of defense is responsible for operational management of long term liquidity.
- **Financial Markets Settlement and Services Department** – first line of defense, is responsible for the operational supervision of the correctness of cash flows on the bank's accounts and performs functions in the settlement of securities transactions.
- **Balance Risk Management Department** - second line of defense, is responsible for control and ongoing monitoring of the Bank's liquidity risk level. Monitors the level of financial liquidity on a daily basis.
- **Internal Audit Department** – third line of defense, makes independent assessments of first and second line of defense.
- **Validation Unit** – in the scope of models validation for liquidity risk use.

Centralization level of Liquidity risk management

mBank is the parent company in mBank Group. Therefore, as part of consolidated supervision and liquidity risk management at the Group level, mBank's Management Board sets the rules for intra-group funding and sets liquidity limits for individual entities of the Group. Nevertheless, the management boards of individual subsidiaries are responsible for managing liquidity risk in their companies. They are also responsible for complying with intra-group limits accepted by them.

Measuring, limiting and reporting liquidity risk

mBank has a process of cyclical reporting of liquidity risk. It includes both the delivery of a standard daily management information package for entities dealing with liquidity risk management and persons controlling the liquidity risk management process at the operational level and for the purposes of making strategic decisions regarding liquidity risk.

The following measures are reported daily:

- regulatory measures,
- level of liquidity gap for mBank, mBank Group and subsidiaries significant from the point of view of liquidity risk along with the use of limits imposed on them in:
  - base scenario within one year and above one year time horizons,
  - stress scenarios,
- SLRR (Stress Liquidity Reserve Requirement), i.e. the requirement of a stress reserve calculated as the difference between the base scenario and the minimum of the stress scenarios and SLRP (Stress Liquidity Reserve Portfolio) - a portfolio of liquid assets that serve as a buffer for the survival of defined crisis conditions. The value of the liquidity reserve under stress (SLRP) should exceed the reserve requirement (SLRR) over a survival horizon of 1 month,
- intraday liquidity,
- other internal measures of liquidity risk.
- early warning indicators (EWI). The liquidity risk monitoring system is supported by a set of early warning indicators (EWI), consisting of indicators monitoring the level of use of regulatory and internal limits, indicators monitoring significant changes in market factors, changes in the balance sheet structure, as well as market perception of the Bank.

The following measures are reported monthly:

- regulatory and internal liquidity measures for members of the Bank's Management Board,
- regulatory and internal liquidity measures for the Financial Markets Risk Committee (KRF),
- regulatory measures, internal liquidity measures and forecasts of liquidity measures including business development forecasts for the mBank Group Asset and Liability Management Committee (ALCO) and Balance Sheet Committee (BSM).

The following measures are reported quarterly:

- regulatory and internal liquidity measures for mBank's Supervisory Board.

The basic measure reflecting mBank Groups's liquidity position is the mismatch gap resulting from the future cash flows, taking into account behavioral modeling for selected items. It includes all assets, liabilities and off-balance sheet items of mBank Group for all currencies within set time horizons.

For the purposes of ongoing liquidity monitoring, mBank Group calculates the values of the actual, cumulative cash flow mismatch gap. The adjusted gap is calculated on the basis of contractual flows.

Primarily, the subject to adjustment are the cash flows resulting from the portfolio of deposits of non-banking customers, the portfolio of overdraft facilities and cash flows of the portfolio of term loans. When calculating liquidity measures, mBank Group takes into account the potential possibilities of obtaining funds from liquidation or pledging of securities comprising the Liquidity Reserves.

Stress tests

mBank Group regularly conducts liquidity risk stress tests. Tests are carried out on each reporting day. The results are included in the daily report sent to persons involved in the liquidity risk management process, as well as to bodies and committees operating in mBank Group.

Stress test results inform mBank's Management Board and management about the impact of adverse and unexpected conditions associated with various types of risk on mBank Groups's liquidity position, and also indicate the balancing capacity necessary to limit the adverse effects of market shocks.

In order to determine mBank Groups's resistance to adverse, significant events that may lead to loss of liquidity, scenario analyzes are carried out covering extreme assumptions regarding the functioning of financial markets and / or behavioral phenomena concerning clients.

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

Stress tests are used in mBank Group to manage liquidity risk on an ongoing basis. An integrated stress test is carried out annually taking into account the impact of materialization of other types of risk on the liquidity position and an in-depth liquidity analysis covering the scenario of credit risk materialization at mBank and mBank Group level.

In addition to the set of liquidity stress tests, reverse scenario is carried out annually to identify the most significant risk factors and to determine the liquidity risk appetite and severity of liquidity risk stress scenarios.

Currently, the material risk factors for mBank Group's are:

- volatility of deposit base, taking into account the division into major business,

- increase in potential drawing of unused off-balance sheet commitments,
- sensitivity to changes in the valuation of derivative transactions resulting in the need to top up collateral.

On a monthly basis, mBank Group performs stress scenarios based on forecasted liquidity risk measures. The first scenario assumes the inability to execute the planned issuances of debt securities, the second scenario additionally assumes the materialization of the outflow of identified large deposits.

Contingency plan

mBank Group has a Liquidity Contingency Plan, which defines the strategy and procedure to be followed in the case of liquidity shortages in the event of a liquidity threat by mBank Group in order to neutralize this threat.

The provisions of the Contingency Plan specify the division of tasks between mBank's organizational units, in the scope of:

- ongoing assessment of mBank and mBank Group liquidity,
- analysis and identification of the risk of an emergency situation related to the threat of liquidity loss,
- the procedure to be followed in a situation when this risk materializes.

Description of the emergency procedure includes:

- general rules of conduct in case various emergency scenarios materialize, including:
  a) scope of duties and responsibilities,
  b) authorization to make a decision regarding the initiation and termination of emergency procedure,
  c) determining the time needed to start actions,
  d) decision-making paths,
- outline - when and how to act in the event of a disruption in Groups's ability to fund operations at reasonable costs,
- defined sources of funding in the event of deterioration of liquidity,
- identifying a set of alternative funding sources potentially available in an emergency,
- clarifying the rules for the internal exchange of information on Group's current liquidity situation during emergency proceedings,
- developing communication rules with external entities and internal stakeholders to limit reputational risk.

In addition, mBank conducts tests of the Contingency Plan for mBank Group and based on its results changes are made to the provisions of the Plan. The results of the Contingency Plan test are reported and analyzed at the level of the KRF Committee and the Bank's Management Board.

Other information and quantitative data

Execution of the strategy of ensuring liquidity of the Bank consists in active management of balance sheet structure of future cash flows and keeping liquidity reserves adequate to the liquidity needs, resulting from the activity and structure of the balance sheet of mBank Group, obligations to subsidiaries and the current market situation as well as the demand for liquid assets, resulting from the conducted stress tests.

mBank 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.

The Liquidity Reserve in the form of securities includes:

- Polish Government debt securities in PLN and EUR,
- Polish Treasury bills,
- bills issued by the National Bank of Poland in PLN,
- Czech Republic's Government debt securities in CZK,
- bills issued by Czech National Bank in CZK,
- debt securities issued by European Investment Bank in PLN.

The amount of mBank's liquidity reserve in the years 2020 - 2019 is presented in the table below:

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

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

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

In order to support the process of liquidity risk management, a system of early warnings indicators and recovery indicators was developed in the Bank. It is composed of indicators monitoring the level of regulatory and internal limits and additionally, indicators monitoring significant changes of market factors, as well as changes in mBank'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 mBank 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 mBank as follows:

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

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

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

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

The above values should be interpreted as liquidity surpluses/shortages in the aforementioned time buckets. The growth rate of term deposits and current accounts (PLN 20.4 billion, the exchange rate as at 31 December 2020 was used in calculation), which exceeded the growth rate of lending activities (PLN 3.2 billion, the exchange rate as at 31 December 2020 was used in calculation), had a positive impact on the level of the liquidity gapLAB cash flows gaps mismatch in terms up to 1 month and up to 1 year within 2020 and values of regulatory measures M3 and M4 as well as LCR are presented in the following table:

	31.12.2020	31.12.2019
LAB Base Case 1M	29 682	16 536
LAB Base Case 1Y	30 168	14 925
M3 (mBank level)	4.11	4.30
M4 (mBank level)	1.52	1.38
LCR	218%	190%

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

As at 31 December 2020, the Group's high-quality liquid assets (HQLA) used to calculate the LCR ratio consist only of level 1 assets, including primarily Treasury bonds in PLN.

As at 31 December 2020 the impact of the adverse market scenario on derivatives, financing transactions and other contracts accounted for 0.6% of the total unweighted value of outflows recognized in the LCR.

mBank Group identifies three significant currencies in accordance with art. 4 clause 5 of the EU Commission Delegated Regulation 2015/61 and art. 415 paragraph 2 of Regulation (EU) No 575/2013: PLN, CZK and EUR, of which the LCR ratio was above 100% for PLN and CZK. The CZK and EUR currencies are associated with running two foreign branches in the Czech Republic and Slovakia. The currency mismatch is limited at the level of the actual liquidity gap in individual currencies.

In the below table quantitative data regarding LCR are (in PLN million).

Quantitative information of LCR									
		Total unweighted value (average)				Total weighted value (average)			
Quarter ending on:		31.03.2020	30.06.2020	30.09.2020	31.12.2020	31.03.2020	30.06.2020	30.09.2020	31.12.2020
Number of data points used in the calculation of averages		12	12	12	12	12	12	12	12
HIGH-QUALITY LIQUID ASSETS									
1	**Total high-quality liquid assets (HQLA)**					**31 203**	**35 868**	**42 471**	**48 610**
CASH - OUTFLOWS									
2	Retail deposits and deposits from small business customers, of which:	78 766	83 659	88 894	94 182	5 723	6 078	6 486	6 906
3	*Stable deposits*	*59 583*	*63 327*	*67 226*	*71 303*	*2 979*	*3 166*	*3 362*	*3 571*
4	*Less stable deposits*	*19 183*	*20 332*	*21 668*	*22 879*	*2 744*	*2 912*	*3 124*	*3 335*
5	Unsecured wholesale funding	28 009	29 422	31 846	33 295	11 876	12 537	13 729	14 533
6	*Operational deposits (all counterparties) and deposits in networks of cooperative banks*	*11 464*	*10 528*	*9 748*	*8 619*	*2 718*	*2 496*	*2 310*	*2 085*
7	*Non-operational deposits (all counterparties)*	*16 256*	*18 586*	*21 637*	*24 247*	*8 869*	*9 733*	*10 958*	*12 019*
8	*Unsecured debt*	*289*	*308*	*461*	*429*	*289*	*308*	*461*	*429*
9	*Secured wholesale funding*					0	0	0	0
10	Additional requirements	10 552	11 929	15 101	18 092	1 301	1 797	2 523	3 157
11	*Outflows related to derivative exposures and other collateral requirements*	*544*	*884*	*1 176*	*1 362*	*544*	*884*	*1 176*	*1 379*
12	*Outflows related to loss of funding on debt products*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*
13	*Credit and liquidity facilities*	*10 008*	*11 045*	*13 925*	*16 730*	*757*	*913*	*1 347*	*1 778*
14	Other contractual funding obligations	735	541	520	619	519	339	328	426

15	Other contingent funding obligations	23 107	22 411	19 896	17 447	2 203	2 081	1 704	1 299
16	**TOTAL CASH OUTFLOWS**					**21 622**	**22 832**	**24 770**	**26 321**
CASH – INFLOWS									
17	Secured lending (e.g. reverse repos)	0	0	0	0	0	0	0	0
18	Inflows from fully performing exposures	9 578	9 213	8 377	7 131	6 791	6 839	6 398	5 363
19	Other cash inflows	242	221	163	114	161	142	99	75
EU-19a	(Difference between total weighted inflows and total weighted outflows arising from transactions in third countries where there are transfer restrictions or which are denom-inated in non-convertible currencies)					0	0	0	0
EU-19b	(Excess inflows from a related specialised credit institution)					0	0	0	0
20	**TOTAL CASH INFLOWS**	**9 820**	**9 434**	**8 540**	**7 245**	**6 952**	**6 981**	**6 497**	**5 438**
EU-20a	***Fully exempt inflows***	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
EU-20b	***Inflows subject to 90% cap***	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
EU-20c	***Inflows subject to 75% cap***	**9 820**	**9 434**	**8 540**	**7 245**	**6 952**	**6 981**	**6 497**	**5 438**
TOTAL ADJUSTED VALUE									
21	**LIQUIDITY BUFFER**					**31 203**	**35 868**	**42 471**	**48 610**
22	**TOTAL NET CASH OUTFLOWS**					**14 670**	**15 851**	**18 273**	**20 883**
23	**LIQUIDITY COVERAGE RATIO**					**213%**	**226%**	**232%**	**233%**

11. Transitional arrangements regarding IFRS 9

The Bank decided, for the purpose of capital adequacy calculation, including calculation of own funds, based on the Regulation (EU) 2017/2395 of the European Parliament and of the Council of 12 December 2017 (Regulation) amending Regulation (EU) No 575/2013 in light of Article 1 paragraph 9 of the Regulation, not to apply the transitional arrangements that would mitigate the impact on capital resulting from the introduction of IFRS9.

Information on own funds, capital ratios and leverage ratio, presented in the document already reflect the full impact of IFRS 9.

12. Remuneration Policy for employees having material impact on the risk profile

mBank S.A.,subject to CRR Regulation and the Banking Law, is obliged to announce qualitative and quantitative information regarding the remuneration policy in a generally accessible manner.

Information on the process of determining the policy of variable components of remuneration

mBank has in place the "Remuneration policy for employees having a material impact on the risk profile of mBank S.A." (hereinafter referred to as the "Remuneration Policy"), which was adopted for the first time during the meeting of the Supervisory Board in December 2011. Since then, the Remuneration Policy has been subject to annual verification. The Policy applicable in 2020 was approved by Resolution of the Supervisory Board No. 195/19 of 12 December 2019, and then amended by Resolution of the Supervisory Board No. 49/20 of 17 December 2020.

Remuneration Policy is compliant with:

1) EBA (European Banking Authority) guidelines on sound remuneration policies under Articles 74 (3) and 75 (2) of Directive 2013/36/EU and disclosures under Article 450 of Regulation (EU) No. 575/2013 – EBA/GL/2015/22 of 27 June 2016,
2) Polish Banking Law Act of 29 August 1997 implementing Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC,
3) Regulation of the Minister of Development and Finance of 6 March 2017 on the Risk Management System, Internal Control System, Remuneration Policy, and Detailed Method for Banks' Internal Capital Assessment.

The aim of the Remuneration Policy is to support sound and effective risk management, ensure that decisions made do not expose the Bank to excessive risk, i.e. risk exceeding the general level Bank's risk appetite accepted by the Supervisory Board, support the implementation of the strategy and limit conflicts of interest.

The "Risk Takers Identification Policy of mBank S.A." (hereinafter referred to as the "Identification Policy"), approved by the Management Board, the Remuneration Committee and the Supervisory Board of the Bank, stipulates the rules of identifying persons whose professional activities have material impact on mBank's risk profile, and meets the following requirements arising from:

1) Commission Delegated Regulation (EU) No. 604/2014 of 4 March 2014 supplementing Directive 2013/36/EU of the European Parliament and of the Council with regard to regulatory technical standards with respect to qualitative and appropriate quantitative criteria to identify categories of staff whose professional activities have material impact on an institution's risk profile,
2) Regulation of the Minister of Development and Finance of 6 March 2017 on the Risk Management System, Internal Control System, Remuneration Policy and Detailed Method for Banks' Internal Capital Assessment.

The Identification policy, similarly to the Remuneration policy, has been subject to annual verification.

Remuneration Committee of the Supervisory Board

In March 2012, the Remuneration Committee of the Supervisory Board was established and has been operating in the Bank since then. The Committee supports the Supervisory Board in fulfilling its statutory obligations and conducting its activities resulting from the law. The Remuneration Committee is composed of the members of mBank's Supervisory Board. As at the end of 2020, the Committee was composed of:

1. Sabine Schmittroth – Committee Chairwoman
2. Joerg Hessenmueller – Committee Member
3. Tomasz Bieske – Committee Member
4. Mirosław Godlewski – Committee Member

Pursuant to the applicable Rules of the Remuneration Committee, its main tasks include:

I) With respect to mBank:
   1) issuing opinions on the remuneration policy (and proposed changes in this respect) applicable in mBank and submitting its opinion to the Supervisory Board,
   2) monitoring the remuneration policy applicable in mBank and assisting the Bank's bodies in matters regarding the development and implementation of this policy,
   3) verifying on an annual basis the Remuneration Policy and the "Risk Takers identification policy" adopted by the Supervisory Board, and proposing potential modifications in these policies,

4) verifying the bonus pool of mBank Group calculated on the basis of EP index (Economic Profit),
5) assessing on an annual basis the appropriateness of the Remuneration policy and procedures applicable in mBank Group in line with the existing regulatory requirements; submitting the assessment results to the Supervisory Board,
6) issuing recommendations to the Supervisory Board on general guidelines for the Management Board on the remuneration level and structure of the top managerial staff, including in particular the head of the compliance unit and the head of the internal audit unit, whose remuneration should not differ from the remuneration of other persons holding key positions in the Bank; monitoring the level and structure of remuneration, in particular risk takers' remuneration,
7) determining on an annual basis the components of mBank Group's results applied to the risk takers who are not Management Board members (i.e. the status of the Group's results for the risk takers of mBank Group who are not Management Board members),
8) verifying the remuneration paid to risk takers. The amounts of bonuses and basic remuneration paid to risk takers are reported to the Remuneration Committee every year within 60 calendar days following the approval of the Consolidated Financial Statements of mBank Group for a given year by the Annual General Meeting,
9) issuing opinions and monitoring the variable remuneration of the persons holding managerial positions in the area of risk management, compliance and internal audit.

II) With respect to the Management Board members of mBank:
   1) considering matters concerning the rules and amounts of remuneration of the Management Board members, including:
      a) approving management contracts,
      b) determining the amounts of remuneration and severance pay,

      and issuing recommendations in this respect to the Supervisory Board.
   2) approving and setting the MBO goals (Management By Objective) and results for the Management Board members,
   3) preparing on an annual basis the score cards of the risk takers who are Management Board members of mBank,
   4) verifying the Bonus Pool for the Management Board members and recommending its division among the Management Board members to the Supervisory Board,
   5) issuing opinions for the Supervisory Board on reducing, suspending or returning the payment in whole or in part or on decreasing the amount of the deferred and non-deferred bonus of the Management Board members in accordance with the provisions of the "Remuneration Policy,
   6) issuing opinions for the Supervisory Board on suspending the payment in whole or in part or decreasing the amount of severance pay for members of the Management Board under the provisions of the management contract,
   7) determining on an annual basis the situation of mBank Group in relation to Article 142 (2) of the Banking Law (i.e. solvency / liquidity status of mBank Group) for the purposes connected with determination of bonuses for the Management Board members, recommending to the Supervisory Board a suspension in whole or a decrease in the amount of the aforementioned bonus,
   8) presenting opinions concerning approval for the Management Board members to engage in competitive activity or to sit on management or supervisory boards of companies outside mBank Group,
   9) making other decisions or carrying out other activities defined in or arising from the "Remuneration or the contracts concluded with the Management Board members.

In 2020, the Remuneration Committee of the Supervisory Board held five meetings, whereas the Supervisory Board, being a governing body supervising remuneration in the Bank, held eight meetings.

Process of determining the policy of variable remuneration components

The annual process of verifying and introducing appropriate amendments to Remuneration and Identification Policies is coordinated by the Director of the Corporate Governance Department (organisational unit reporting directly to the President of the Management Board of mBank) supported by a team of employees responsible for HR, risk management, legal issues and compliance (in issues related to the selection of criteria indicating the positions having material impact on the risk profile, compliance of applicable policies with regulatory requirements and market practices in this scope.)

The policies of the risk takers remuneration and identification of positions having material impact on the risk profile of the Bank are assessed and modified by the Supervisory Board based on the recommendation of the Management Board, taking into account the opinion of the Remuneration Committee

The most relevant information concerning the determination of remuneration in 2020

The total remuneration of the Management Board members and other employees having material impact on the risk profile of the Bank has been divided into a fixed part (annual basic remuneration and fixed benefits) and a variable part. The variable remuneration is composed of a bonus granted to a member of the Management Board or other employees having material impact on the risk profile of the Bank for a given calendar year. The variable remuneration is determined in a clear and verifiable manner, ensuring effective implementation of the Remuneration Policy. The maximum level of the variable remuneration components of the persons who are subject to the Remuneration Policy cannot exceed 100% of the basic remuneration (in the case of the Management Board members) or the fixed remuneration (in the case of other employees) paid for a given calendar year.

A part of the variable remuneration is paid in the form of subscription warrants issued and executed pursuant to the rules and within the deadlines set forth in the Incentive Programme and the Incentive Programme Rules.

<u>*Members of the Management Board:*</u>

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 a 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 the base amounts calculated for each Management Board member. The base amount is calculated as a multiple of the basic salary, which depends on the Economic Profit (EP); EP is calculated for a period of 3 years pursuant to the rules specified in the Risk Takers Remuneration Policy.

MBO is set by a member of the Management Board and the Remuneration Committee of the Supervisory Board. In MBO:

1) team quantitative objectives (at the level of mBank Group) account for 25% to 55% of the objectives (the cost to income ratio, capacity to pay out dividends, the NII – Net Interest Income ratio, gross profit),
2) individual quantitative objectives account for up to 50% of the objectives (objectives determined depending on the responsibility of a given Management Board Member),
3) individual qualitative objectives account for up to 45% of the objectives.

The bonus consists of a non-deferred part (40% of the bonus) and a 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 awarded. 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 Annual General Meeting date.

The deferred part, both the cash portion and the subscription warrant portion, is paid in the subsequent calendar years, starting from the year following the year for which the bonus is awarded, in five equal annual tranches. In each tranche, the cash portion is paid once the Consolidated Financial Statements of mBank Group for the previous calendar year have been approved, and the subscription warrant portion is paid not earlier than after the lapse of 12 months from the date on which the Consolidated Financial Statements are approved.

In 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 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, in accordance with the rules set out above.

Employees who are not Management Board Members:

The Management Board of mBank assesses the performance of an employee on an annual basis as well as in longer time intervals and in the case when it finds that the employee met the annual/long-term business and development MBO objective (Management By Objective), upon having taken into account the value of the total remuneration of the employee, it can decide to determine the bonus amount. The decision on the bonus amount is made at the sole discretion of the Management Board of the Bank, which in accordance with its independent assessment and decision confirms the accomplishment of MBO, taking into account the situation in financial markets in the last/previous financial periods. The bonus amount can reach the amount of the annual fixed remuneration of the employee (total of the basic remuneration paid to the employee every month in the year for which the bonus and fixed benefits are awarded).

MBO is determined by the Management Board of mBank (the objectives result from the objectives determined for the Management Board of mBank - the rule of cascading objectives down through management levels) for the next calendar year until 31 December of the year preceding the calendar year. In accordance with the rules of determining the business and development objectives MBO for mBank, approved, among others, by the Remuneration Committee of the Supervisory Board:

1/ team quantitative objectives (at the level of mBank Group) account for to 10% of the objectives (depending on the area, they include: the cost to income ratio, economic profit, net profit of the business line, the NII ratio; their weights depend on the impact an individual manager has on them),

2/ individual quantitative and qualitative objectives account for 65% to 90% of the objectives (objectives determined depending on the responsibility in a given position, the objectives cascaded by the Management Board Member supervising this position). In particular, objectives related to management efficiency have weights of up to 10%.

If the amount of the variable remuneration component determined by the Management Board does not exceed:

1) one-third of the total annual remuneration (basic remuneration plus bonus) or

2) is not higher than PLN 200,000,

the Management Board of the Bank may decide not to defer the variable remuneration for the following years and pay the variable remuneration in whole in the form of non-deferred cash instead. The aforesaid limit for the employees who are not Management Board Members was introduced taking into account the provisions of Directive 2019/878/EU (CRD V)..

If the amount of the variable remuneration exceeds the assumed limits, 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 awarded. 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 Annual General Meeting date.

The deferred part, both the cash portion and the subscription warrant portion, is paid in the subsequent calendar years, starting from the year following the year for which the bonus is awarded, in three equal annual tranches. In each tranche, the cash portion is paid once the consolidated financial statements of mBank Group for the previous calendar year have been approved, and the subscription warrant portion is paid not earlier than after the lapse of 12 months from the date on which the consolidated financial statements are approved.

In 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 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, in accordance with the rules set out above.

The costs resulting from the deferred tranches in the form of shares are settled in accordance with the International Financial Reporting Standards.

Information on the performance assessment criteria which form the basis for the entitlement to remuneration components

The Supervisory Board of mBank, based on recommendation of the Remuneration Committee of the Supervisory Board in the case of Management Board Members, and the Management Board in the case of employees who are not Management Board Members may decide to withhold in whole or reduce the amount of a deferred tranche if it concludes that in a time horizon longer than one calendar year (i.e., a period of at least 3 years), a Risk Taker had a direct and negative impact on the financial result or the market position of the Bank or mBank Group in the period under assessment, or directly contributed to significant financial losses, where at least one of the score card components has not been met or any of the premises stipulated in Article 142 of the Banking Law Act, in particular in section (2) of this article, has occurred.

The Management Board of mBank may take a decision on suspending in whole or decreasing the amount of the discretionary bonus for a given calendar year, as well as the amount of the discretionary bonus or a deferred tranche not paid out yet, in a situation when there is a balance sheet loss or a threat of its occurrence or when the Bank is threatened by insolvency (Article 142 of the Banking Law Act, in particular section (2) of this article). Suspending in whole or decreasing the discretionary bonus as well as any deferred tranche by the Management Board of mBank can also apply to the discretionary bonus and/or the deferred tranche paid out to the employee upon termination or expiry of the employment agreement.

Moreover, a Risk Taker may be obliged, under the rules and within the time limit determined under a decision of the Supervisory Board of mBank / the Management Board of mBank, to return the bonus awarded and paid for a given calendar year (i.e. the non-deferred part and all deferred parts), if he/she has violated the 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, or has contributed to financial sanctions being imposed on the Bank by supervisory bodies under a final and non-appealable decision.

The decision on 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 awarded for the year in which the event occurred is paid.

Aggregated quantitative information concerning the remuneration paid to the holders of positions having impact on the risk profile, divided by business lines used in managing the Bank

Remuneration costs in 2019 (in PLN)	
Corporate and Investment Banking Area	25 573 598
Retail Banking Area	23 851 211
Head of Operations and IT	7 735 021
Finance Area	9 309 427
Risk Management Area	11 078 173
General Area	14 222 374
mBank	**91 769 804**

Aggregated quantitative data regarding the remuneration paid to holders of managerial positions in the Bank

Number of persons		Management Board Members	Other Risk Takers
		8	70
Fixed remuneration paid in 2020		15 399	31 159
Variable remuneration for 2020[1]		-	-
Non-deferred part	Cash	-	-
	Financial instrument - number of shares	-	-
	Financial instrument - amount of the component[2]	-	-
Deferred part	Cash	-	-
	Financial instrument - number of shares	-	-
	Financial instrument - amount of the component[2]	-	-
Variable remuneration awarded for the previous years - paid in 2020[3]	Cash	3 394	10 743
	Financial instrument - number of shares	6 282 shares	6 230 shares
	Financial instrument - amount of the component[2]	2 726	2 701
Variable remuneration awarded for the previous years - deferred[3]	Cash	5 139	2 695
	Financial instrument - number of shares	18 707 shares	14 040 shares
	Financial instrument - amount of the component[2]	7 367	5 297
Amount of deferred remuneration awarded in 2019, paid and reduced due to the adjustment made on account of results		-	-
Amount of variable remuneration lost due to termination of a contract / employment agreement		-	-
Payments related to commencement and termination of the employment relationship - severance pay	Number of persons	1	-
	Value	310	-
	Highest payment	310	-
Number of persons who received total remuneration in the amount of at least EUR 1 million (remuneration in the range between EUR 1M – 1.5M)		1	-

Deferred variable remuneration paid in 2020 to former Risk Takers[4]	Cash	521	1 949
	Financial instrument - number of shares	1 239 shares	1 874 shares
	Financial instrument - amount of the component[2]	521	789
Former Risk Takers'[4] variable remuneration deferred to the next years	Cash	146	320
	Financial instrument - number of shares	299 shares	1 040 shares
	Financial instrument - amount of the component[2]	146	448

[1]As at the date of publishing this report, the variable remuneration for 2020 for the employees indicated in the table above has not yet been approved by competent authorities of the Bank. This document will be modified by including in it information on the variable remuneration for 2020 awarded in 2021, after the Annual General Meeting approves the financial statements for 2020.
[2]As per the value on the award date.
[3]Together with the variable remuneration paid to the Risk Takers after terminating their employment.
[4] Former Risk takers are understood as employees who terminated their contract / employment agreement with the Bank or who changed their position within the Bank to one that does not impact on the Bank's risk profile.

13. Remuneration policy for employees having material impact on the risk profile - update of the information after the approval of the variable part of remuneration, regarding 2020 year, by the competent authorities of mBank

Aggregated quantitative data regarding the remuneration paid to holders of managerial positions in the Bank

Number of persons		Management Board Members	Other Risk Takers
		8	70
Fixed remuneration paid in 2020		15 399	31 159
Variable remuneration for 2020		4 000	11 228
Non-deferred part	Cash	0	0
	Financial instrument - number of shares	8 078	33 980
	Financial instrument - amount of the component[1]	1 600	6 737
Deferred part	Cash	0	0
	Financial instrument - number of shares	12 111	22 675
	Financial instrument - amount of the component[1]	2 400	4 491
Variable remuneration awarded for the previous years - paid in 2020[2]	Cash	3 394	10 743
	Financial instrument - number of shares	6 282 shares	6 230 shares
	Financial instrument - amount of the component[1]	2 726	2 701
Variable remuneration awarded for the previous years - deferred[2]	Cash	5 139	2 695
	Financial instrument - number of shares	18 707 shares	14 040 shares
	Financial instrument - amount of the component[2]	7 367	5 297
Amount of deferred remuneration awarded in 2019, paid and reduced due to the adjustment made on account of results		-	-
Amount of variable remuneration lost due to termination of a contract / employment agreement		-	-
Payments related to commencement and termination of the employment relationship - severance pay	Number of persons	1	0
	Value	310	0
	Highest payment	310	0
Number of persons who received total remuneration in the amount of at least EUR 1 million (remuneration in the range between EUR 1M – 1.5M)		1	0

Deferred variable remuneration paid in 2020 to former Risk Takers[3]	Cash	521	1 949
	Financial instrument - number of shares	1 239 shares	1 874 shares
	Financial instrument - amount of the component[2]	521	789
Former Risk Takers'[3] variable remuneration deferred to the next years	Cash	146	320
	Financial instrument - number of shares	299 shares	1 040 shares
	Financial instrument - amount of the component[2]	146	448

[1]As per the value on the award date.
[2]Together with the variable remuneration paid to the Risk Takers after terminating their employment.
[3] Former Risk takers are understood as employees who terminated their contract / employment agreement with the Bank or who changed their position within the Bank to one that does not impact on the Bank's risk profile.

14. Impact of the Covid 19 pandemic on the operation of mBank S.A. Group

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

The tools used by mBank Group are in line with "Banks' position with regard to the unification of the rules of offering support tools to clients of the banking sector" developed by the Polish Banks Association.

This position is a non-statutory moratorium within the meaning of the European Banking Authority's guidelines on statutory and non-statutory loan repayment mechanisms (EBA/GL/2020/02), that banks apply in connection with the COVID-19 crisis. They were notified by the Polish Financial Supervision Authority to the European Banking Authority. The moratorium covers aid instruments granted from 13 March 2020 to 30 September 2020.

The detailed description of the mBank Group approach to forbearance classification in relation to aid activities under COVID-19 and detailed information on the aid activities applied in the Group as a result of the outbreak of the COVID-19 pandemic in the area of Retail Banking and Corporate Banking are described in the Consolidated Financial Statements of mBank S.A. Group for 2020 - Note 4.

14.1 Quantitative information – response to the COVID-19 crisis.

Template 1: Information on loans and advances subject to legislative and non-legislative moratoria.

		a	b	c	d	e	f	g
		Gross carrying amount						
			Performing			Non-performing		
				Of which: exposures with forbearance measures	Of which: Instruments with significant increase in credit risk since initial recognition but not credit-impaired (Stage 2)		Of which: exposures with forbearance measures	Of which: Unlikely to pay that are not past-due or past-due <= 90 days
1	**Loans and advances subject to moratorium**	**15 479 419**	**14 878 093**	**2 163 513**	**6 030 158**	**601 326**	**65 790**	**64 267**
2	of which: Households	6 701 855	6 623 890	820 987	3 348 974	77 965	5 978	4 498
3	*of which: Collateralised by residential immovable property*	5 248 694	5 202 972	805 760	2 613 357	45 722	5 591	4 298
4	of which: Non-financial corporations	8 777 564	8 254 203	1 342 526	2 681 184	523 361	59 812	59 769
5	*of which: Small and Medium-sized Enterprises*	4 173 555	4 032 306	1 293 258	1 135 020	141 249	59 812	59 769
6	*of which: Collateralised by commercial immovable property*	3 658 762	3 573 891	1 191 888	947 010	84 871	59 769	59 769

Template 1: Information on loans and advances subject to legislative and non-legislative moratoria.

		h	i	j	k	l	m	n	o
			Accumulated impairment, accumulated negative changes in fair value due to credit risk						Gross carrying amount
			Performing			Inflows to non-performing exposures			
				Of which: exposures with forbearance measures	Of which: Instruments with significant increase in credit risk since initial recogni-tion but not credit-impaired (Stage 2)		Of which: exposures with forbearance measures	Of which: Unlikely to pay that are not past-due or past-due <= 90 days	Inflows to non-performing exposures
1	**Loans and advances subject to moratorium**	(271 065)	(177 280)	(18 228)	(148 693)	(93 786)	12353	(13 956)	54 215
2	of which: Households	(101 631)	(72 596)	(2 940)	(64 413)	(29 036)	(1 160)	(4 020)	49 787
3	*of which: Collateralised by residential immovable property*	(26 535)	(17 549)	(2 434)	(16 451)	(8 986)	(928)	(1 572)	24 446
4	of which: Non-financial corporations	(169 434)	(104 684)	(15 288)	(84 280)	(64 750)	13 513	(9 936)	4 428
5	*of which: Small and Medium-sized Enterprises*	(59 067)	(41 013)	(14 355)	(30 899)	(18 054)	13 513	10 535	4 428
6	*of which: Collateralised by commercial immovable property*	(31 839)	(32 027)	(14 132)	(23 409)	188	13 577	13 414	908

Template 2: Breakdown of loans and advances subject to legislative and non-legislative moratoria by residual maturity of moratoria.

		a	b	c	d	e	f	g	h	i
			Gross carrying amount							
						Residual maturity of moratoria				
		Number of obligors		Of which: legislative moratoria	Of which: expired	<= 3 months	> 3 months <= 6 months	> 6 months <= 9 months	> 9 months <= 12 months	> 1 year
1	Loans and advances for which moratorium was offered	**115 730**	**15 547 035**							
2	Loans and advances subject to moratorium (granted)	**75 244**	**15 479 419**	**83 747**	**14 206 476**	**240 786**	**1 032 157**	**0**	**0**	**0**
3	of which: Households		6 701 855	83 747	6 529 247	161 562	11 046	0	0	0
4	*of which: Collateralised by residential immovable property*		5 248 694	74 394	5 125 203	113 065	10 426	0	0	0
5	of which: Non-financial corporations		8 777 564	0	7 677 229	79 224	1 021 111	0	0	0
6	*of which: Small and Medium-sized Enterprises*		4 173 555	0	3 953 325	79 224	141 006	0	0	0
7	*of which: Collateralised by commercial immovable property*		3 658 762	0	3 585 951	69 486	3 325	0	0	0

Template 3: Information on newly originated loans and advances provided under newly applicable public guarantee schemes introduced in response to COVID-19 crisis

		a	b	c	d
		Gross carrying amount		Maximum amount of the guarantee that can be considered	Gross carrying amount
			Public guarantees received	Inflows to non-performing exposures	Wpływy do ekspozycji nieobsługi-wanych
1	**Newly originated loans and advances subject to public guarantee schemes**	**515 234**	**0**	**411 897**	**251 598**
2	of which: Households	0			0
3	of which: Collateralised by residential immova-ble property	0			0
4	of which: Non-financial corporations	515 234	0	411 897	251 598
5	of which: Small and Medium-sized Enterprises	131 932			0
6	of which: Collateralised by commercial immova-ble property	46 695			0

First and last name	Position	Signature
Cezary Stypułkowski	President of the Management Board, Chief Executive Officer	(signed electronically)
Andreas Böger	Vice-President of the Management Board, Chief Financial Officer	(signed electronically)
Krzysztof Dąbrowski	Vice-President of the Management Board, Head of Operations and IT	(signed electronically)
Cezary Kocik	Vice-President of the Management Board, Head of Retail Banking	(signed electronically)
Marek Lusztyn	Vice-President of the Management Board, Chief Risk Officer	(signed electronically)
Adam Pers	Vice President of the Management Board, Head of Corporate & Investment Banking	(signed electronically)