# mBank S.A. Group

## IFRS Condensed Consolidated Financial Statements for the third quarter of 2020

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

**Contents**

## Selected financial data

The selected financial data presented below are supplementary information to the condensed consolidated financial statements of mBank S.A. Group for the third quarter of 2020.

| SELECTED FINANCIAL DATA FOR THE GROUP | in PLN '000 | | in EUR '000 | |
|---|---|---|---|---|
| | Period from 01.01.2020 to 30.09.2020 | Period from 01.01.2019 to 30.09.2019 - restated | Period from 01.01.2020 to 30.09.2020 | Period from 01.01.2019 to 30.09.2019 - restated |
| I. Interest income | 3 625 118 | 3 795 517 | 816 100 | 880 917 |
| II. Fee and commission income | 1 633 429 | 1 469 092 | 367 724 | 340 967 |
| III. Net trading income | 142 501 | 105 413 | 32 080 | 24 466 |
| IV. Operating profit | 1 020 941 | 1 606 435 | 229 838 | 372 844 |
| V. Profit before income tax | 617 329 | 1 269 157 | 138 975 | 294 564 |
| VI. Net profit attributable to Owners of mBank S.A. | 278 513 | 894 098 | 62 700 | 207 515 |
| VII. Net profit attributable to non-controlling interests | (66) | (64) | (15) | (15) |
| VIII. Net cash flows from operating activities | 5 729 407 | 5 068 179 | 1 289 826 | 1 176 294 |
| IX. Net cash flows from investing activities | (279 834) | (338 425) | (62 997) | (78 546) |
| X. Net cash flows from financing activities | (4 384 906) | (2 697 974) | (987 147) | (626 183) |
| XI. Total net increase / decrease in cash and cash equivalents | 1 064 667 | 2 031 780 | 239 682 | 471 564 |
| XII. Basic earnings per share (in PLN/EUR) | 6.58 | 21.12 | 1.48 | 4.90 |
| XIII. Diluted earnings per share (in PLN/EUR) | 6.57 | 21.11 | 1.48 | 4.90 |
| XIV. Declared or paid dividend per share (in PLN/EUR) | - | - | - | - |

| SELECTED FINANCIAL DATA FOR THE GROUP | in PLN '000 | | in EUR '000 | |
|---|---|---|---|---|
| | 30.09.2020 | 31.12.2019 | 30.09.2020 | 31.12.2019 |
| I. Total assets | 182 146 757 | 158 720 583 | 40 237 421 | 37 271 477 |
| II. Amounts due to other banks | 1 774 184 | 1 166 871 | 391 929 | 274 010 |
| III. Amounts due to customers | 141 118 549 | 116 661 138 | 31 174 019 | 27 394 890 |
| IV. Equity attributable to Owners of mBank S.A. | 16 967 701 | 16 151 303 | 3 748 277 | 3 792 721 |
| V. Non-controlling interests | 1 942 | 2 002 | 429 | 470 |
| VI. Share capital | 169 461 | 169 401 | 37 435 | 39 779 |
| VII. Number of shares | 42 365 259 | 42 350 367 | 42 365 259 | 42 350 367 |
| VIII. Book value per share (in PLN/EUR) | 400.51 | 381.37 | 88.48 | 89.56 |
| IX. Total capital ratio | 19.53 | 19.46 | 19.53 | 19.46 |

| SELECTED FINANCIAL DATA FOR THE BANK | in PLN '000 | | in EUR '000 | |
|---|---|---|---|---|
| | Period from 01.01.2020 to 30.09.2020 | Period from 01.01.2019 to 30.09.2019 - restated | Period from 01.01.2020 to 30.09.2020 | Period from 01.01.2019 to 30.09.2019 - restated |
| I. Interest income | 3 187 040 | 3 334 310 | 717 479 | 773 873 |
| II. Fee and commission income | 1 519 372 | 1 353 162 | 342 047 | 314 061 |
| III. Net trading income | 147 593 | 107 376 | 33 227 | 24 921 |
| IV. Operating profit | 933 622 | 1 733 743 | 210 181 | 402 391 |
| V. Profit before income tax | 579 058 | 1 215 186 | 130 360 | 282 037 |
| VI. Net profit | 263 629 | 874 540 | 59 349 | 202 975 |
| VII. Net cash flows from operating activities | 2 260 081 | 2 740 218 | 508 798 | 635 988 |
| VIII. Net cash flows from investing activities | (217 237) | 94 082 | (48 905) | 21 836 |
| IX. Net cash flows from financing activities | (970 664) | (896 761) | (218 520) | (208 133) |
| X. Total net increase / decrease in cash and cash equivalents | 1 072 180 | 1 937 539 | 241 373 | 449 691 |
| XI. Basic earnings per share (in PLN/EUR) | 6.22 | 20.66 | 1.40 | 4.79 |
| XII. Diluted earnings per share (in PLN/EUR) | 6.22 | 20.65 | 1.40 | 4.79 |
| XIII. Declared or paid dividend per share (in PLN/EUR) | - | - | - | - |

| SELECTED FINANCIAL DATA FOR THE BANK | in PLN '000 | | in EUR '000 | |
|---|---|---|---|---|
| | 30.09.2020 | 31.12.2019 | 30.09.2020 | 31.12.2019 |
| I. Total assets | 173 841 152 | 149 228 273 | 38 402 658 | 35 042 450 |
| II. Amounts due to other banks | 1 809 763 | 1 180 782 | 399 789 | 277 277 |
| III. Amounts due to customers | 144 066 081 | 121 936 987 | 31 825 148 | 28 633 788 |
| IV. Equity | 16 680 990 | 16 115 007 | 3 684 941 | 3 784 198 |
| V. Share capital | 169 461 | 169 401 | 37 435 | 39 779 |
| VI. Number of shares | 42 365 259 | 42 350 367 | 42 365 259 | 42 350 367 |
| VII. Book value per share (in PLN/EUR) | 393.74 | 380.52 | 86.98 | 89.36 |
| VIII. Total capital ratio | 22.56 | 22.84 | 22.56 | 22.84 |

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

- for items of the statement of financial position – exchange rate announced by the National Bank of Poland as at 30 September: EUR 1 = 4.5268, 31 December 2019: EUR 1 = 4.2585.
- for items of the income statement – exchange rate calculated as the arithmetic mean of exchange rates announced by the National Bank of Poland as at the end of each month of the three quarters of 2020 and 2019: EUR 1 = PLN 4.4420 and EUR 1 = PLN 4.3086 respectively.

## Introduction

The profit before tax generated by mBank Group in Q3 2020 stood at PLN 255.0 million which represents an increase by 16.7% quarter to quarter. Net profit attributable to the owners of mBank reached PLN 100.6 million. Both income and costs decreased quarter on quarter in Q3 2020.

The main factors determining the Group's financial results in Q3 2020 were as follows:

- **Decrease of total income** to PLN 1,410.7 million, i.e. -4,0% quarter on quarter, driven mainly by lower net interest income; at the same time, net fee and commission income and net trading income noted an increase.

- **Decrease in overhead costs** (including depreciation) to PLN 566.7 million vs. the previous quarter thanks to lower staff-related expenses and depreciation.

- **Lower cost of risk** (sum of impairment on financial assets not measured at fair value through profit or loss and gains or losses from non-trading loans and advances mandatorily measured at fair value through profit or loss) to PLN 268.8 million, i.e. 98 basis points compared to 128 basis points in the previous quarter.

- **Result on provisions for legal risk related to foreign currency loans** set up in Q3 2020 at PLN 186.9 million vs. PLN 189.0 million in Q2 2020.

- **Decrease in tax on the Group's balance sheet items** on a quarterly basis to PLN 133.4 million.

- **Continued organic growth and business expansion** as demonstrated by:

    - **increase in the individual customer base** to 5,676.8 thousand (+4.9 thousand clients compared to the end of June 2020);

    - **increase in the number of corporate customers** to 28,420 clients (+695 clients compared to the end of June 2020).

At the end of Q3 2020, net loans and advances stood at PLN 109,658.3 million which represents a quarter-on-quarter increase by PLN 885.5 million, i.e. 0.8%. Net of reverse repo/buy sell back transactions and FX effect, the value of loans and advances increased by 1.0%. The volume of loans and advances granted to individual clients increased by PLN 1,838.2 million quarter on quarter, i.e. 2,9% and stood at PLN 65,114.8 million. Gross loans and advances to corporate clients declined to PLN 47,970.4 million, i.e. by PLN 763,7 million or -1.6% quarter on quarter (net of reverse repo/buy sell back transactions and FX effect, the value of loans and advances to corporate clients decreased by -1.4%).

In Q3 2020 amounts due to customers rose by PLN 1,496.0 million, i.e. 1.1%. Amounts due to individual customers were up by PLN 2,526.3 million, i.e. 2,8% quarter on quarter and stood at PLN 92,303.3 million while amounts due to corporate customers declined by PLN 838.4 million, i.e. -1.7% on a quarterly basis and amounted at PLN 48,239.3 million. Consequently, the loan to deposit ratio (loans and advances to customers/amount due to customers) of mBank Group was stable compared with the end of June 2020 and stood at 77.7%.

The changes in the Group's results translated into the following profitability ratios:

- Gross ROE of 6.1% (5.3% in Q2 2020);
- Net ROE of 2.4% (2.1% in Q2 2020).

The liquidity and capital position of the Group remains very strong. The Group's capital and liquidity ratios are high, exceeding the minimum thresholds set by the regulator. As at 30 September 2020, LCR (at the consolidated level) was 236% and mBank's NSFR was 137%, much above the required minima. mBank Group's capital ratios increased slightly in Q3 2020 compared to the end of June 2020. The total risk exposure amount increased by PLN 1.6 billion while own funds also increased (resulting from the inclusion of 50% of the profit of H1 2020). The Total Capital Ratio stood at 19.5% and the Core Tier 1 ratio at 16.7%.

In Q3 2020 mBank Group maintained the restrictions on social contacts. The majority of our employees were working from home. The Group's business continuity went on uninterrupted and customer service was offered both at branches and remotely. Since the beginning of the pandemic we use restrictive security measures in all our outlets, adequate to the currently valid rules for the red zones – no matter in which zone the outlet is located. We encourage our clients to the remote service – mobile and online. Most of the activities at mBank do not require the visit in the branch. Clients can also use the 24-hour contact centre.

More information on the impact of COVID-19 pandemic on the Group's operations can be found in Note 3 "Major estimates and judgments made in connection with the application of accounting policy principles".

**Awards and distinctions**

mBank received two distinctions in the 15th edition of the contest „The Best Annual Report", organised by the Institute of Accountancy and Taxes (IRiP). We won the title "The Best of the Best" for the best annual report in the category of financial institutions for the eighth time in a row. Moreover, for the second time we also won a distinction for the best statement on application of corporate governance principles, which proves high usability of our disclosures for the shareholders and analysts.

Leszek Włodarski, IT vice-director at mBank, came second in the IT Manager of Tomorrow Awards 2020 contest. He presented the challenges faced and solutions implemented during the transformation of the central IT system in the context of the organisational culture fostered at mBank. The contest is a platform for IT specialists from various industries to present their achievements in boosting efficiency in their organisations. The jury evaluated how the contestants managed to keep a balance between three components: new technologies, efficient working methods and organisational culture.

mBank S.A. won the first prize in the HR Dream contest organised by Pracuj.pl. The jury appreciated the "Log into Development" project combining two initiatives: "Development Fridays" and "Let Development In" and named it the most interesting and effective HR initiative.

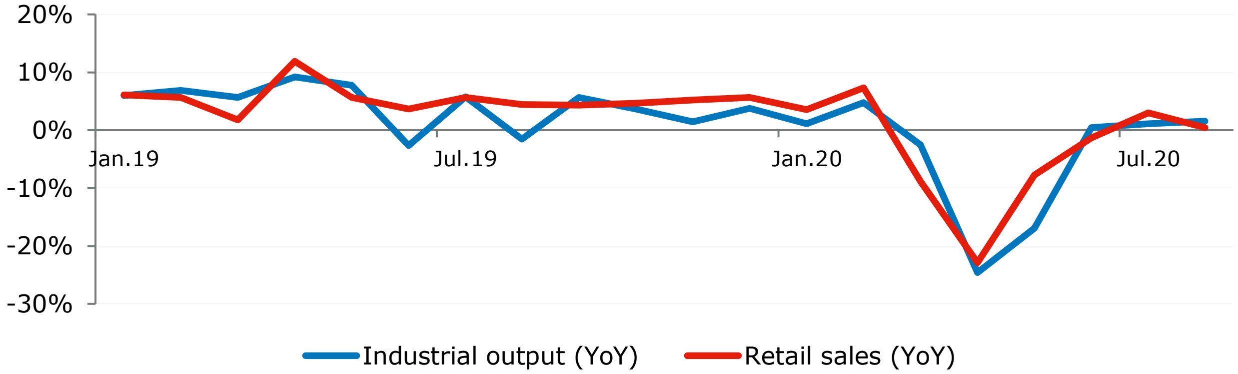
In the "Digital Revolutions!" contest, mBank was the one who granted awards to the participants. The contest is part of the "Digital Revolutions" campaign launched in June 2020 to support online expansion of micro-, small and medium-sized enterprises. From over 550 applications the jury of experts selected the best ideas with a potential to turn into a thriving e-commerce business. We granted two first degree awards (PLN 100,000 each) and ten second degree awards (PLN 10,000 each). The contest was organised in partnership with MasterCard, while the campaign is supported by eIzba. Congratulations to the winners.

For more information about awards and distinctions, go to the Press Office section of mBank's website www.media.mbank.pl.

## Economy and the banking sector in Q3 2020

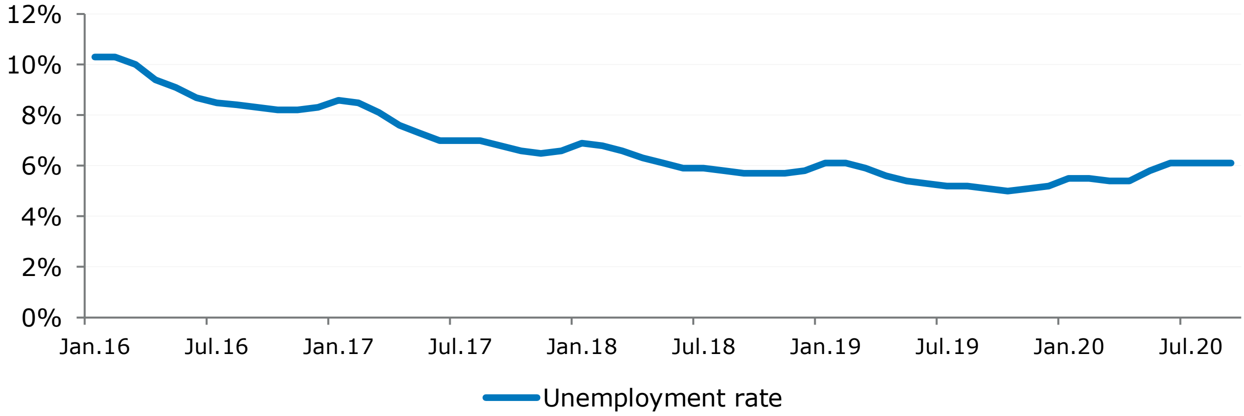
### Economic rebound still depending on the epidemic situation

The lifting of epidemic restrictions, release of pent-up demand, and fixing of broken supply chains contributed to a quick GDP recovery in Q3 2020. Retail sales and industrial production were back on the growth trajectory compared with the previous year. The recovery was hampered by certain categories of services (hotels, transport, and entertainment). The recession has hit certain sectors rather than the economy as a whole. We estimate the Q3 GDP growth to be only slightly below zero.




The recent rapid increase in the number of new infections in September and October has brought back tighter restrictions. We do not expect another lockdown like the one imposed in the spring, but even the current restrictions are having severe consequences for both consumers and businesses, forcing them to cut (investment) spending. According to the International Monetary Fund, restrictions and social distancing have similar effects on consumer spending. Consumers curb spending even without official movement restrictions or being banned from leaving home. Their decisions are driven by fear caused by record-high numbers of new cases and overwhelmed hospitals. The economy may sink even deeper into contraction in the final quarter. The slump will probably continue into the next year, translating into a worse outlook for 2021, despite the potential boost from the Next Generation EU package.

The economic fallout of the second wave of coronavirus will be less severe. The economy has entered it better geared-up. First, the government has prepared new legislative solutions and laws allowing for faster decision making and greater flexibility in fighting the pandemic. Second, businesses and consumers are better dealing with everyday difficulties caused by the restrictions (which, in addition, are less severe than in the spring), whereas the likelihood of another disruption of supply chains and an abrupt decrease in foreign demand is considerably lower. Third, the pandemic has given rise to anti-cyclical fiscal measures. The acceptance for higher debt levels has increased, while central banks are able to keep yields low thanks to quantitative easing programmes. Fourth, the economies are entering the second wave of infections pretty unscathed and were able to keep unemployment under control.

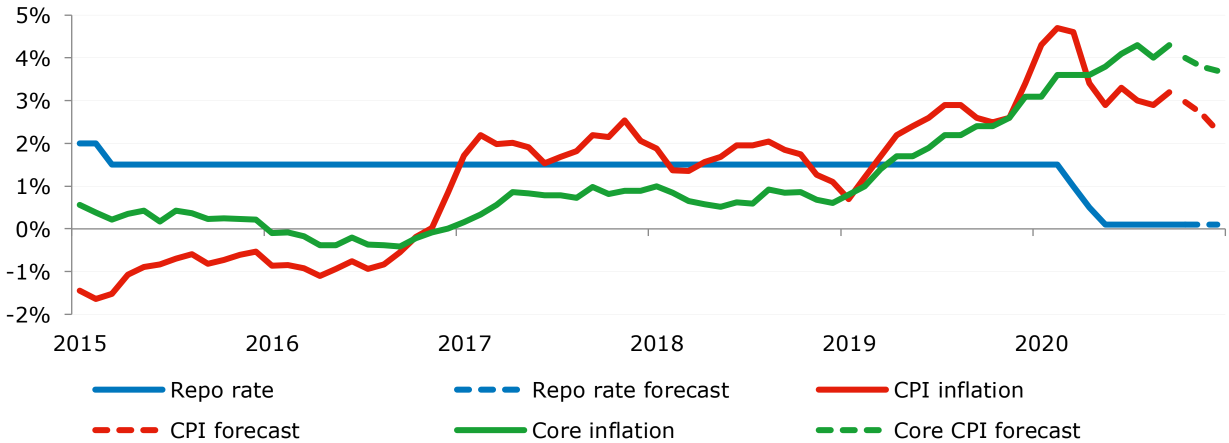



According to available information on the activities of the Polish Development Fund (PFR), the liquidity support provided to companies in various forms was worth ca. PLN 142 billion. The PFR alone paid out PLN 60 billion (as at 23 September; meanwhile, the support programme for small and medium-sized enterprises has come to an end). It is worth emphasizing that the initial value of the PFR's anti-crisis shield was PLN 100 billion, which means that the PFR still has the necessary resources to further help the economy (with the current strong demand, it will easily place new bonds). As the recession continues to be focused on certain sectors of the economy and another strict lockdown is unlikely, the available funding should be sufficient. In addition, we assume that this time the Polish Development Fund will take a more selective approach to granting subsidies. The liquidity position of companies is currently far better than in the spring as demonstrated by a significant increase in deposits (for more information, see the monetary aggregates section).

**Inflation exceeds the target; core inflation hits record high. The falls will miss the forecast.**

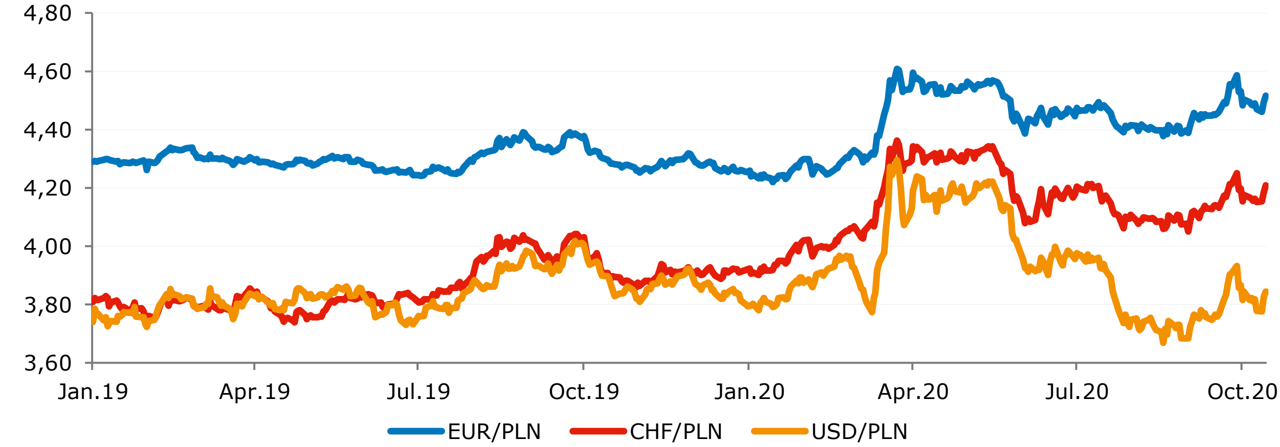
Inflation rocketed in Q1 fuelled by high food prices, dynamic economic activity, a strong labour market, and an increase in regulated prices. It slowed down in Q2 and Q3 on low oil prices. However, core inflation remains high (4.3%). This was caused, among others, by disrupted collection of prices and the methodology developed at the EU level to impute missing data. There are at least three variants of the imputation methodology for countries to select from. The extra charges relating to the epidemic being passed on to consumers have become an important element of the new reality. The relatively good standing of households has encouraged companies to include these extra costs in prices, which were paid by consumers in the wake of economic reopening and restoration of consumer demand.

The demand build-up is likely to slow down significantly in the coming months. The typical economic effects connected with the demand gap will make themselves felt (these include current demand falling below a level that can be met when an economy is at full production capacity). The reaction from core inflation has so far been modest (the extra epidemic charges were the only factor to have lost its impact; no new charges were introduced, but the existing ones were not lifted either). Due to the industry-specific nature of the current recession, analysing inflation from the point of view of the demand gap may not be completely right. It is also possible that core inflation (above all, in services) is very sticky and difficult to reverse. The highly unusual mix of economic shocks defies conventional explanations. We still think that inflation will slow down, but the effect will be mainly statistical: we will be dealing with a base effect caused by the abnormally high level of inflation in 2020. We no longer expect the price growth to fall considerably below the target of 2.5%. However, in our opinion, the current level of inflation has no impact on the monetary policy.

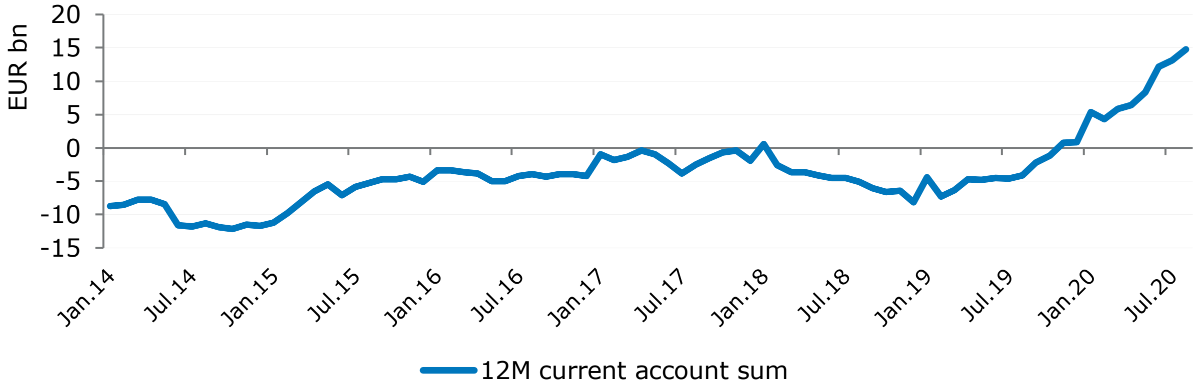



The response from the National Bank of Poland to recent economic developments was relatively quick. The central bank cut interest rates by a total of 140 bps in March, April, and May. It also launched extraordinary measures involving the purchase of Treasury (and Treasury-backed) bonds and promised a discount credit programme similar to the TLTRO programme introduced by the ECB (which so far has met with virtually no interest). Meanwhile, the burden of supporting the economy has shifted towards fiscal policy. The bar is set high for the Monetary Policy Council (RPP) if it wishes to slash interest rates below zero. This would require a return of strong declines in economic activity. Certain measures making up the arsenal of the central bank, such as quantitative easing, can be perceived as more effective in the environment of zero interest rates and greater coordination with fiscal policy. We expect the RPP to keep close track of the economic revival. A premature withdrawal of the stimulus would strengthen the zloty and considerably worsen the outlook for a rise in exports, especially when the new global order has just started to emerge. We assume that the tolerance for a weaker zloty has grown considerably. The exchange rate and structural operations (intended to keep a rein on bond yields) will constitute the first line of defence against the negative effects of rising infection numbers and new epidemic restrictions.

**Financial markets – driven by global risks and high liquidity**




The value of the Polish złoty fell rapidly amid the outbreak of the pandemic, but then rose again helped by the global economic improvement, monetary and fiscal stimulus, and decreasing number of COVID-19 infections. However, the second wave of the pandemic poses new threats to the Polish currency. The złoty will be highly volatile and will remain under pressure to depreciate until the epidemic is contained and the market players develop a new, stable outlook on the growth potential of the Polish economy. In addition, the pressure will build up as a result of the RPP's preference to keep the złoty weak and amid the environment of low interest rates. We do not expect the złoty to depreciate permanently, given the still favourable growth outlook for 2021-2024 and the current account surplus (see the chart below), which reached a record high in August. The surplus is likely to grow even further, helped by another slowdown in consumer and investment demand.




**Slower lending and record-high household deposits**

The earlier trends still continued in Q1. In Q2, some of them were reinforced, while others basically reversed. Q3 was largely a continuation of the previous quarter. All signs are that we are facing a return of a temporary acceleration in household deposits and further reduction in lending. Companies are likely to spend a (small) part of funds deposited so far as a result of a drop in demand (risks posed by the second wave of the COVID-10 pandemic).

**Which trends were reinforced?**

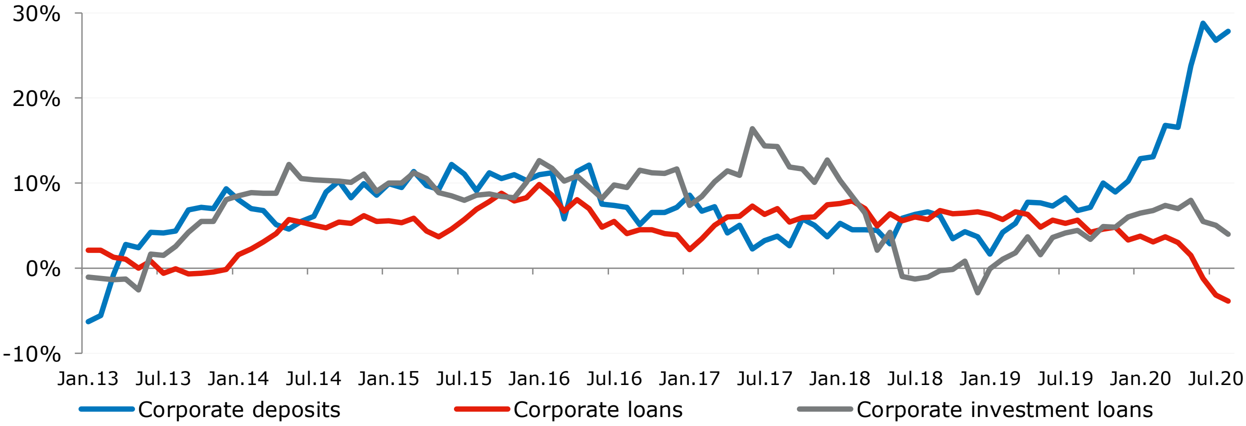
Mostly, the downward trend in loans to households and corporate loans. A slowdown in economic activity will favour a further decrease in these categories. Although there have been feeble signs of reduced demand for mortgage loans, the example of other low-interest countries (the Netherlands, Norway, Denmark) shows that the reduction may be only temporary and that demand for real properties will be back to normal relatively fast. In this context the threat that the coronavirus-related restrictions will be brought back and the expected (temporary) drop in GDP are becoming a major risk factor.

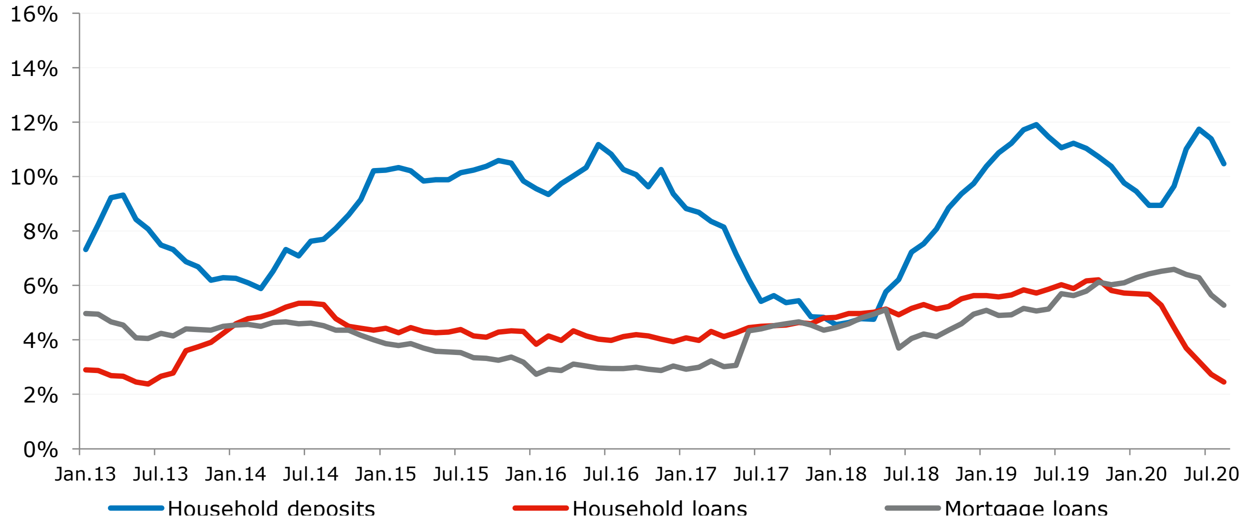
Investment loans for companies are still on the rise, yet their annual growth has been dwindling. Over the last few months companies tended to continue investment projects rather than launch new ones (adding to this were orders enabling companies to remain operational during the pandemic, but these include mainly operating expenses). Solid liquidity support from the Polish Development Fund (PFR) and widespread cost-cutting started in Q2 suggest that the trend will soon be shifting. Judging from the early stage of the public investment programme (with investment projects not expected to accumulate until 2021) and local government investments, investment is unlikely to be back on an upward trajectory earlier than in 2021. In accordance with the available research papers new corporate income tax solutions (the so-called Estonian CIT) have little effect on investment, despite contributing positively to firms' survival during a crisis. Lingering uncertainty about how the pandemic will evolve may generate increased demand for liquidity among companies and make investors extra cautious. On the other hand, the necessary restructuring and preparations for functioning in the new reality should positively affect investments. It seems that in the short term cuts will prevail, while in the long term development will be the way to go. The scenario for the forthcoming months has worsened as the COVID situation continues to be serious.

**What has changed?**

The current recession is exceptional, mainly as far as deposits are concerned. Deposits skyrocketed in both the corporate segment (helped mainly by the government's aid programmes) and the household segment (supported by aid programmes, enabling households to retain most of their income from gainful employment, and reduced consumer spending during the pandemic).

The economic improvement and return to relative normality seen in Q3 curbed the rise in deposits. Nevertheless, we expect that in an increasingly turbulent environment companies (and households, as demonstrated by surveys of purchasing preferences) will choose to accumulate liquidity, and consequently, deposits will rise. We expect the depletion of term deposits of households to continue (households are likely to shift funds from bank deposits to capital markets). The base-case scenario assumes further rise in household deposits, which can be relatively quick throughout the rest of the year (additional reduction in consumer spending due to COVID-related restrictions and anxiety). In the corporate sector some part of funds from the PFR will likely be spent at times of lower growth in income (reduced demand). Let us not forget, however, that the current recession is largely industry-specific and thus affects only certain companies. The drop in corporate deposits is likely to be small-scale. In April/May 2021 companies will start making repayments to the PFR. With the repayments spread over 24 months and most of the aid being non-returnable, the burden on companies will be relatively light. The natural rise in corporate deposits triggered by economic improvement will be far greater than the reduction resulting from repayments to the PFR. The repayments will curb growth in deposits but are unlikely to reverse the upward trend.



## Financial position of mBank Group in Q3 2020

### Profit and Loss Account of mBank Group

The profit before tax generated by mBank Group in Q3 2020 stood at PLN 255.0 million, up by 16.7% quarter on quarter. Net profit attributable to the owners of mBank increased by 15.7% compared to Q2 2020 to PLN 100.6 million.

| PLN M | Q2 2020 | Q3 2020 | Change in PLN M | Change in % |
|---|---|---|---|---|
| Interest income | 1,210.6 | 1,079.5 | -131.1 | -10.8% |
| Interest expense | -204.0 | -119.2 | 84.8 | -41.6% |
| **Net interest income** | **1,006.6** | **960.3** | **-46.3** | **-4.6%** |
| Fee and commission income | 535.5 | 553.5 | 18.0 | 3.4% |
| Fee and commission expense | -172.6 | -180.3 | -7.8 | 4.5% |
| **Net fee and commission income** | **362.9** | **373.2** | **10.3** | **2.8%** |
| **Core income** | **1,369.5** | **1,333.5** | **-36.1** | **-2.6%** |
| Dividend income | 4.2 | 0.3 | -3.9 | -92.6% |
| Net trading income | 39.5 | 58.2 | 18.6 | 47.1% |
| Other income | 30.1 | 21.4 | -8.7 | -28.9% |
| Other operating income | 74.9 | 49.1 | -25.8 | -34.4% |
| Other operating expenses | -48.8 | -51.8 | -3.0 | 6.2% |
| **Total income** | **1,469.5** | **1,410.7** | **-58.8** | **-4.0%** |
| Net impairment losses and fair value change on loans and advances | -352.2 | -268.8 | 83.4 | -23.7% |
| Result on provisions for legal risk related to foreign currency loans | -189.0 | -186.9 | 2.1 | -1.1% |
| Overhead costs and depreciation | -571.5 | -566.7 | 4.8 | -0.8% |
| Taxes on the Group balance sheet items | -138.4 | -133.4 | 5.1 | -3.6% |
| **Profit before income tax** | **218.4** | **255.0** | **36.5** | **16.7%** |
| Income tax expense | -131.5 | -154.3 | -22.9 | 17.4% |
| **Net profit attributable to:** | **86.9** | **100.6** | **13.7** | **15.7%** |
| **- Owners of mBank S.A.** | **87.0** | **100.6** | **13.6** | **15.7%** |
| - non-controlling interests | -0.1 | 0.0 | 0.0 | -94.2% |
| | | | | |
| ROA net | 0.2% | 0.2% | | |
| ROE gross | 5.3% | 6.1% | | |
| ROE net | 2.1% | 2.4% | | |
| Cost / Income ratio | 38.9% | 40.2% | | |
| Net interest margin | 2.34% | 2.15% | | |
| Common Equity Tier 1 ratio | 16.4% | 16.7% | | |
| Total capital ratio | 19.3% | 19.5% | | |

**Core income** – calculated as the sum of net interest income and net fee and commission income.
**Other income** – calculated as the sum of gains less losses from financial assets and liabilities not measured at fair value through profit or loss and investments in subsidiaries and associates and gains or losses from non-trading financial assets (including equity instruments and debt securities) mandatorily measured at fair value through profit or loss (except for loans and advances).
**Total income** - calculated as the sum of net interest income, net fee and commission income, dividend income, net trading income, other income, other operating income and other operating expenses.
**Total overhead costs (including deprecation)** - calculated as the sum of total overhead costs and depreciation.
**Net impairment losses and fair value change on loans and advances** – the sum of impairment or reversal of impairment on financial assets not measured at fair value through profit or loss and gains or losses from non-trading loans and advances mandatorily measured at fair value through profit or loss.
**Net ROA** - calculated by dividing net profit attributable to Owners of the Bank by the average total assets. The average total assets are calculated on the basis of the balances as at the end of each month. Net profit attributable to Owners of the Bank is annualized based on the number of days in the analysed period (an annualization factor is calculated by dividing a number of days in the year by a number of days in the analysed period).

**Gross ROE** - calculated by dividing profit before income tax by the average equity attributable to Owners of the Bank net of the year's results. The average equity is calculated on the basis of the balances as at the end of each month. Profit before income tax is annualized based on the number of days in the analysed period (an annualization factor is calculated by dividing a number of days in the year by a number of days in the analysed period).
**Net ROE** - calculated by dividing net profit attributable to Owners of the Bank by the average equity attributable to Owners of the Bank, net of the year's results. The average equity is calculated on the basis of the balances as at the end of each month. Net profit attributable to Owners of the Bank is annualized based on the number of days in the analysed period (an annualization factor is calculated by dividing a number of days in the year by a number of days in the analysed period).
**Cost/Income ratio** - calculated by dividing overhead costs and depreciation by total income (excluding tax on Group's balance sheet items).
**Net interest margin** - calculated by dividing net interest income by average interest earning assets. Interest earning assets are a sum of cash and balances with the Central Bank, loans and advances to banks, debt securities (in all valuation methods) and loans and advances to customers (net; in all valuation methods). The average interest earning assets are calculated on the basis of the balances as at the end of each month. Net interest income is annualized based on the number of days in the analysed period (an annualization factor is calculated by dividing a number of days in the year by a number of days in the analysed period).

## Income of mBank Group

Total income generated by mBank Group decreased quarter on quarter and amounted to PLN 1,410.7 million. Core income, including net interest income and net fee and commission income, declined quarter on quarter (by -2.6%) due to lower net interest income and reached PLN 1,333.5 million.

**Net interest income** remained mBank Group's largest income source in Q3 2020 and noted a decrease on a quarterly basis (PLN -46.3 million, i.e. -4.6%). Lower net interest income resulted from the series of rate cuts in March, April and May 2020 by 140 bps in total. Interest income declined by PLN 131.1 million, i.e. -10.8% compared to the previous quarter, and amounted to PLN 1,079.5 million. Interest income from loans and advances decreased by PLN 118.7 million or -12.6% compared to the previous quarter. Other line items of interest income also noted a small decrease. At the same time, interest expenses decreased by 84.8 million or -41.6% on a quarterly basis, mainly thanks to lower cost of deposits by PLN 67.3 million, i.e. -60.1%.

mBank Group's **net interest margin** decreased quarter on quarter and stood at 2.15% in Q3 2020 compared to 2.34% in the previous quarter.

**Net fee and commission income**, the second largest income contributor, increased compared with the previous quarter (+PLN 10.3 million, i.e. +2.8%) to PLN 373.2 million.

**Fee and commission income** increased by PLN 18.0 million or 3.4% quarter on quarter. The highest increase was noted in commissions from bank accounts (by PLN 10.8 million or 22.1% compared to the previous quarter). In Q2 2020 this line item was decreased due to closing of inactive bank accounts of retail clients. Commissions for foreign currencies exchange increased by PLN 6.7 million, i.e. 8.9%. At the same time, payment cards-related fees declined by PLN 10.5 million or -9.3%, which results from higher settlements with payment card operators in the previous quarter.

Fee and commission expenses amounted to PLN 180.3 million in Q3 2020 which represents an increase by PLN 7.8 million, i.e. 4.5% compared to the previous quarter, mainly due to higher payment-cards-related fees.

**Net trading income** increased by PLN 18.6 million or 47.1% and amounted to PLN 58.2 million. The increase was mainly reported in FX result thanks to high volatility of FX rates noted in Q3 2020.

**Other income** (calculated as the sum of gains less losses from financial assets and liabilities not measured at fair value through profit or loss and investments in subsidiaries and associates and gains or losses from non-trading financial assets - including equity instruments and debt securities - mandatorily measured at fair value through profit or loss) declined by PLN 8.7 million on a quarterly basis.

**Other operating income net of other operating expenses** stood at PLN -2.7 million, down compared to Q2 2020, when some provisions for future commitments were released.

## Costs of mBank Group

In Q3 2020 mBank Group continued the strict cost discipline aimed at improving the efficiency measured by cost/income ratio. In Q3 2020, total overhead costs of mBank Group (including depreciation) stood at PLN 566.7 million, slightly down quarter on quarter (-PLN 4.8 million or -0.8%).

| PLN M | Q2 2020 | Q3 2020 | Change in PLN M | Change in % |
|---|---|---|---|---|
| **Staff-related expenses** | **-259.2** | **-229.0** | **30.2** | **-11.6%** |
| **Material costs, including:** | **-153.9** | **-183.9** | **-30.0** | **19.5%** |
| *- administration and real estate services costs* | *-60.7* | *-63.1* | *-2.4* | *4.0%* |
| *- IT costs* | *-47.7* | *-47.7* | *-0.1* | *0.2%* |
| *- marketing costs* | *-23.7* | *-30.8* | *-7.1* | *30.0%* |
| *- consulting costs* | *-19.3* | *-37.9* | *-18.6* | *96.2%* |
| *- other material costs* | *-2.5* | *-4.4* | *-1.8* | *72.8%* |
| **Taxes and fees** | **-6.6** | **-6.9** | **-0.3** | **4.9%** |
| **Contributions and transfer to the Bank Guarantee Fund** | **-32.8** | **-33.7** | **-0.9** | **2.8%** |
| **Contributions to the Social Benefits Fund** | **-2.7** | **-4.9** | **-2.2** | **83.1%** |
| **Depreciation** | **-116.4** | **-108.3** | **8.1** | **-7.0%** |
| **Total overhead costs and depreciation** | **-571.5** | **-566.7** | **4.8** | **-0.8%** |
| Cost / Income ratio | 38.9% | 40.2% | - | - |
| Employment (FTE) | 6,827 | 6,754 | -73 | -1,1% |

In Q3 2020, staff-related expenses decreased by PLN 30.2 million or -11.6% compared to the previous quarter, which was driven by lower variable staff costs. The headcount in mBank Group declined by 73 FTEs due to decrease of the number of FTEs at the Bank and subsidiaries (mainly in mFinanse).

In Q3 2020, material costs increased by PLN 30.0 million or 19.5% quarter on quarter. Consulting costs and marketing costs increased in the period under review. Depreciation declined by PLN 8.1 million or -7.0% compared to the previous quarter to PLN 108.3 million.

Cost efficiency measured by the Cost/Income ratio deteriorated slightly and stood at 40.2% in Q3 2020 compared to 38.9% in Q2 2020. The normalised Cost/Income ratio in January-September 2020 (including ¾ of the contribution to the resolution fund) reached 42.5%.

## Net impairment losses and fair value change on loans and advances

In Q3 2020, net impairment losses and fair value change on loans and advances of mBank Group (calculated as the sum of two items: impairment or reversal of impairment on financial assets not measured at fair value through profit or loss and gains or losses from non-trading loans and advances mandatorily measured at fair value through profit or loss) stood at PLN 268.8 million. It was lower by PLN 83.4 million or 23.7% compared to the previous quarter. Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss is related to the part of the portfolio of loans and advances measured at amortised cost, while gains or losses from non-trading loans and advances mandatorily measured at fair value through profit or loss are related to the credit risk of the portfolio of loans and advances measured with the use of that method.

| PLN M | Q2 2020 | Q3 2020 | Change in PLN M | Change in % |
|---|---|---|---|---|
| Retail Banking | -174.9 | -159.5 | 15.5 | -8.9% |
| Corporates and Financial Markets | -177.5 | -109.6 | 67.9 | -38.2% |
| Other | 0.3 | 0.3 | 0.0 | 0.3% |
| **Total net impairment losses and fair value change on loans and advances** | **-352.2** | **-268.8** | **83.4** | **-23.7%** |

Impairment on and change in the fair value of loans and advances in the Retail Banking segment declined by PLN 15.5 million and stood at PLN 159.5 million. The decrease resulted from maintaining the high quality of the retail loan portfolio.

Impairment on and change in the fair value of loans and advances in the Corporate and Financial Markets area amounted to PLN 109.6 million, which represents a decrease by PLN 67.9 million quarter on quarter. The decrease was driven by lower provisions for individual exposures of corporate clients.

### Consolidated statement of financial position

The balance sheet total of mBank Group stood at PLN 182,146.8 million at the end of Q3 2020 and was only slightly smaller compared with the previous quarter, by -0.4%.

**Assets of mBank Group**

| PLN M | 30.09.2019 | 30.06.2020 | 30.09.2020 | QoQ change | YoY change |
|---|---|---|---|---|---|
| Cash and balances with Central Bank | 8,454.5 | 11,141.3 | 6,683.9 | -40.0% | -20.9% |
| Loans and advances to banks | 4,792.3 | 6,921.4 | 8,991.4 | 29.9% | 87.6% |
| Financial assets held for trading and derivatives held for hedges | 1,970.4 | 3,372.3 | 2,167.5 | -35.7% | 10.0% |
| Net loans and advances to customers | 104,725.6 | 108,772.8 | 109,658.3 | 0.8% | 4.7% |
| Investment securities | 34,756.1 | 48,418.9 | 50,280.3 | 3.8% | 44.7% |
| Intangible assets | 876.6 | 1,063.9 | 1,094.4 | 2.9% | 24.9% |
| Tangible assets | 1,268.7 | 1,162.5 | 1,117.7 | -3.9% | -11.9% |
| Other assets | 1,929.9 | 2,089.8 | 2,153.3 | 3.0% | 11.6% |
| **Total assets** | **158,774.0** | **182,942.8** | **182,146.8** | **-0.4%** | **14.7%** |

**Loans and advances to customers** – the sum of loans and advances to customers recognised in: financial assets measured at amortised cost, non-trading financial assets mandatorily measured at fair value through profit or loss and financial assets held for trading.

**Investment securities** - the sum of debt securities included in financial assets measured at fair value through other comprehensive income, debt securities included in assets measured at amortised cost and non-trading equity and debt securities mandatorily measured at fair value through profit or loss.

Loans and advances to customers were the largest asset category of mBank Group at the end of Q3 2020. Their share in total assets increased slightly to 60.2% from 59.5% at the end of June 2020. At the end of Q3 2020, net loans and advances to customers (a total of loans and advances measured at amortised cost, loans and advances mandatorily measured at fair value through profit or loss, and loans and advances classified as assets held for trading) amounted to PLN 109,658.3 million, which represents a quarter-on-quarter increase by PLN 885.5 million or 0.8%. Net of reverse repo/buy-sell-back transactions and FX effect, the gross value of loans and advances to customers went up by 1.0% quarter on quarter.

Gross loans to corporate customers declined on a quarterly basis by 763.7 million, i.e. -1.6%, and reached PLN 47,970.4 million (net of reverse repo/buy-sell-back transactions and the FX effect, loans and advances to corporate customers fell by -1.4% quarter on quarter). The sales of loans to corporate customers improved by 4.1% to PLN 8,278.6 million compared with Q2 2020 (including new sales, limit increases, and renewals). An improvement of new sales results from a rebound of customers' activity after an interim, reduced demand for new funding amid the economic turmoil caused by the COVID-19 pandemic in Q2 2020. Nevertheless, abundant liquidity on the market, linked to the distribution of aid funds, among others from the Financial Shield of the Polish Development Fund (PFR), relatively reduced clients' demand for the funding from the banks.

The volume of loans to individuals went up by PLN 1,838.2 million or 2.9% against the end of June 2020 to PLN 65,114.8 million. Gross mortgages and housing loans rose by 3.2% quarter on quarter. In Q3 2020, mBank Group sold PLN 2,124.4 million of mortgages and PLN 1,820.7 million of non-mortgage loans. Net of the FX effect, loans to individuals increased by 2.8% quarter on quarter.

At the end of Q3 2020, gross loans and advances to the public sector decreased by PLN 44.1 million, or -12.4% quarter on quarter and stood at PLN 310.3 million.

Investment securities were the second largest asset category at the end of Q3 2020. It stood at PLN 50,280.3 million and accounted for 27.6% of total assets, up by PLN 1,861.3 million or 3.8% quarter on quarter.

**<u>mBank Group's total liabilities and equity</u>**

| PLN M | 30.09.2019 | 30.06.2020 | 30.09.2020 | QoQ change | YoY change |
|---|---|---|---|---|---|
| Amounts due to other banks | 2,458.3 | 2,004.2 | 1,774.2 | -11.5% | -27.8% |
| Amounts due to customers | 115,965.6 | 139,622.5 | 141,118.5 | 1.1% | 21.7% |
| Debt securities in issue | 16,716.9 | 16,408.2 | 13,849.3 | -15.6% | -17.2% |
| Subordinated liabilities | 2,526.2 | 2,564.1 | 2,561.9 | -0.1% | 1.4% |
| Other liabilities | 5,016.4 | 5,431.0 | 5,873.2 | 8.1% | 17.1% |
| **Total Liabilities** | **142,683.3** | **166,030.1** | **165,177.1** | **-0.5%** | **15.8%** |
| **Total Equity** | **16,090.7** | **16,912.7** | **16,969.6** | **0.3%** | **5.5%** |
| **Total Liabilities and Equity** | **158,774.0** | **182,942.8** | **182,146.8** | **-0.4%** | **14.7%** |

In Q3 2020, amounts due to customers, which are mBank Group's principal source of funding, rose by PLN 1,469.0 million or 1.1% quarter on quarter. The pace of new deposits inflow declined compared with what was observed in the H1 2020. The share of amounts due to customers in total liabilities and equity reached 77.5%, which represents a rise compared with the end of June 2020.

Amounts due to corporate customers decreased by PLN 838.4 million or -1.7% compared with Q2 2020 to reach PLN 48,239.3 million at the end of September 2020. The slight decline in this category results mainly from deceleration of state aid funds distributed to counteract the negative economic effects of COVID-19 pandemic. The peak of accumulation of those funds on the corporates' bank accounts took place until July 31, 2020, according to the schedule of distribution of funds for SMEs from the Financial Shield of the Polish Development Fund. In Q3 2020 a shift in corporate clients' accounts could be observed. There was an inflow into current accounts (+PLN 3,588.2 million or +10.8% quarter on quarter), while the volume of term deposits declined (-PLN 4,225.2 million or -39.1%). Moreover, the overall change of amounts due to corporate customers was also attributable to the decrease of repo transactions by -50.1% quarter on quarter.

In the period under review, amounts due to individuals rose by PLN 2,526.3 million or 2.8% and amounted to PLN 92,303.3 million. Alike the corporate deposits, there was an increase on current account (by 6.1%), while term deposits went down (by -16.6%).

Amounts due to the public sector stood at PLN 575.9 million, representing a quarter-on-quarter decrease by PLN 191.9 million (-25.0%).

The share of equity in total liabilities and equity of mBank Group increased slightly quarter on quarter to 9.3% (against 9.2% at the end of June 2020).

The next largest liabilities and equity category as of end of September 2020 (accounting for 7.6%) constituted debt securities in issue. This position declined on a quarterly basis by PLN 2,558.9 million or -15.6% to the level of PLN 13,849.3 million. Decrease of this category results from maturity of notes under the EMTN programme amounting to EUR 464.8 million as well as redemption of PLN 500 million, EUR 30 million covered bonds and PLN 200 million bonds by mBank Hipoteczny in September 2020.

Amounts due to other banks stood at PLN 1,774.2 million at the end of Q3 2020, accounting for 1.0% of total liabilities and equity of mBank Group. Compared with Q2 2020, this category went down by PLN 230.0 million or -11.5%, mainly thanks to the repayment of loan received from other bank worth USD 50 million in September 2020.

### Quality of the loan portfolio of mBank Group

As at September 30, 2020, the amount of non-performing receivables was smaller than in the previous quarter, mainly in the corporate segment. Thanks to the simultaneous rise of receivables, the NPL ratio declined compared to the end June 2020 and amounted to 4.8%.

The coverage ratio for total receivables increased quarter on quarter from 71.7% to 75.0% whereas coverage ratio for non-performing receivables stood at 60.7% compared to 58.8% at the end of June 2020.

| PLN M | 30.06.2020 | 30.09.2020 | QoQ change |
|---|---|---|---|
| Provisions for non-performing loans | 3,237.4 | 3,311.9 | 2.3% |
| Provisions for performing loans | 705.1 | 780.9 | 10.7% |
| **Total provisions** | **3,942.5** | **4,092.8** | **3.8%** |
| **Non-performing receivables** | **5,501.5** | **5,459.3** | **-0.8%** |
| **Performing receivables** | **107,216.8** | **108,288.3** | **1.0%** |
| NPL ratio | 4.9% | 4.8% | |
| Coverage ratio of non-performing receivables | 58.8% | 60.7% | |

**Provisions for non-performing loans** – provisions for loans and advances at amortised cost with impairment (stage 3 and POCI) and fair value change of loans and advances mandatorily at fair value through profit or loss in default

**Provisions for performing loans** – provisions for loans and advances at amortised cost without impairment (stage 1 and 2) and fair value change of non-default loans and advances mandatorily at fair value through profit or loss

**Non-performing receivables** - loans and advances at amortised cost with impairment (stage 3 and POCI) and loans and advances mandatorily at fair value through profit or loss in default

**Performing receivables** - loans and advances at amortised cost without impairment (stage 1 and 2) and non-default loans and advances mandatorily at fair value through profit or loss

**NPL ratio** – loans and advances at amortised cost with impairment (stage 3 and POCI) and loans and advances mandatorily at fair value through profit or loss in default in the whole portfolio.

### Performance of segments and the business lines

The Corporate and Investment Banking segment made the largest contribution to the profit before tax of mBank Group in Q3 2020. The result generated by the Retail Banking segment was affected by the drop of net interest income after the interest rates cuts. Importantly, in Q3 2020 result on provisions for legal risk related to foreign currency loans was set up at PLN 186.9 million vs. PLN 189.0 million in Q2 2020.

| PLN M | Q2 2020 | Q3 2020 | QoQ change | % share in profit before tax |
|---|---|---|---|---|
| Retail Banking | 126.5 | 93.4 | -26.2% | 36.6% |
| Corporate and Investment Banking | 60.1 | 150.0 | 149.6% | 58.8% |
| Financial Markets | 36.8 | 21.6 | -41.4% | 8.5% |
| Other | -5.0 | -10.0 | 99.5% | -3.9% |
| **Profit before tax of mBank Group** | **218.4** | **255.0** | **16.7%** | **100.0%** |

**Retail Banking**

mBank's Retail Banking segment serves 5,676.8 thousand individual clients and microenterprises in Poland, the Czech Republic and Slovakia online, directly through the call centre, via mobile banking and other state-of-the-art technological solutions, as well as in a network of 392 branches. The Bank offers a broad range of products and services including current and savings accounts, accounts for microenterprises, credit products, deposit products, payment cards, investment products, insurance products, brokerage services, and leasing for microenterprises.

**Key highlights**

- Total income of PLN 873.2 million, a decline by -4.9% on quarterly basis.
- Increase in the share of mBank in non-mortgage loans market from 6.5% to 6.6% quarter on quarter.
- Rise of mBank's share in retail deposits market from 7.5% to 7.7% quarterly.
- Quarterly rebound of sales of mortgage loans at PLN 2,124.4 million (i.e. +26.1% quarter on quarter, but a drop by -7.3% year on year), while non-mortgage loans sales stood at PLN 1,820.7 million (an increase by 53.0% quarter on quarter and decline by -24.2% year on year).
- Maintained high share of loggings into client accounts via mobile banking application: 74.1% at the end of September 2020.
- The Brokerage Bureau's share in the WSE turnover in shares increased from 5.7% to 6.8% quarter on quarter, whereas its share in the futures market rose from 15.4% to 20.2%.
- Servicing of the aid package offered to the clients introduced in the aftermath of an outbreak of COVID-19 pandemic. The services, available from home, comprised mainly deferral of principal instalment by individuals and microenterprises.
- mBank actively participated in distribution of the funds from the Financial Shield of the Polish Development Fund (PFR). With mBank's support over 40,000 retail clients received aid totalling nearly PLN 3.3 bn.
- Implementation of a fully electronic process to open a bank account remotely for entrepreneurs. Electronic ID and free mobile app eDO from the Polish Security Printing Works (Polska Wytwórnia Papierów Wartościowych), available for Android and iOS, are sufficient to launch an account. An online process answers the needs of the cyber clients who prefer to complete the formal processes remotely, but safely.
- mBank launched social campaign "Cyfrowe rewolucje" ("Digital Revolution"), aimed at supporting micro- and SME customers in developing their online business. In Q3 2020 we awarded companies participating in contest for cyber revolution, where prizes totalled PLN 300,000. We provided already 6 webinars with experts for cyber business. Entrepreneurs can visit a dedicated website including useful tips and information from the e-commerce practitioners.
- Introduction of open banking during the process of cash loan application. A simplified procedure is based on a possibility to confirm the salary with the use of AIS service under the revised Payment Services Directive (PSD2). AIS (Account Information Services) offers an access to the bank account and allows to collect information on transactions, including salary inflows, directly from the customer's bank account, without delivering physical documents to the branch. The data necessary to make a credit decision is collected after the client's approval.

**Key financial data:**

| PLN M | Q2 2020 | Q3 2020 | Change in PLN M | Change in % |
|---|---|---|---|---|
| Net interest income | 672.8 | 648.7 | -24.2 | -3.6% |
| Net fee and commission income | 194.6 | 195.4 | 0.9 | 0.4% |
| Net trading income | 8.9 | 9.5 | 0.6 | 7.1% |
| Net other operating income | 19.0 | -2.2 | -21.2 | -111.6% |
| Other income | 22.7 | 21.8 | -1.0 | -4.3% |
| **Total income** | **918.0** | **873.2** | **-44.9** | **-4.9%** |
| Net impairment losses and fair value change on loans and advances | -174.9 | -159.5 | 15.5 | -8.9% |
| Gains and losses on provisions against legal risk of FX loans | -189.0 | -186.9 | 2.1 | -1.1% |
| Overhead costs and depreciation | -360.7 | -367.0 | -6.3 | 1.8% |
| Taxes on bank balance sheet items | -66.9 | -66.5 | 0.5 | -0.7% |
| **Profit before tax of Retail Banking** | **126.5** | **93.4** | **-33.1** | **-26.2%** |

**Key business data (mBank and mBank Hipoteczny only):**

| thou. | 30.09.2019 | 30.06.2020 | 30.09.2020 | QoQ change | YoY change |
|---|---|---|---|---|---|
| **Number of retail clients, including:** | **5,538.9** | **5,671.8** | **5,676.8** | **0.1%** | **2.5%** |
| Poland | 4,593.5 | 4,692.9 | 4,681.5 | -0.2% | 1.9% |
| Foreign branches | 945.4 | 978.9 | 995.2 | 1.7% | 5.3% |
| The Czech Republic | 657.1 | 683.2 | 697.0 | 2.0% | 6.1% |
| Slovakia | 288.3 | 295.7 | 298.3 | 0.9% | 3.5% |
| **PLN M** | | | | | |
| **Loans to retail clients, including:** | **58,655.9** | **63,070.6** | **64,682.4** | **2.6%** | **10.3%** |
| Poland | **53,686.1** | **57,496.5** | **58,525.7** | **1.8%** | **9.0%** |
| mortgage loans | 36,918.9 | 40,350.9 | 41,037.7 | 1.7% | 11.2% |
| non-mortgage loans | 16,767.2 | 17,145.6 | 17,488.0 | 2.0% | 4.3% |
| Foreign branches | **4,969.8** | **5,574.1** | **6,156.7** | **10.5%** | **23.9%** |
| The Czech Republic | 3,847.0 | 4,084.8 | 4,415.4 | 8.1% | 14.8% |
| Slovakia | 1,122.8 | 1,489.3 | 1,741.3 | 16.9% | 55.1% |
| **Deposits of retail clients, including:** | **71,956.7** | **89,816.2** | **92,491.0** | **3.0%** | **28.5%** |
| Poland | **61,388.8** | **77,931.9** | **80,021.4** | **2.7%** | **30.4%** |
| Foreign branches | **10,567.9** | **11,884.3** | **12,469.5** | **4.9%** | **18.0%** |
| The Czech Republic | 7,291.3 | 8,095.0 | 8,525.9 | 5.3% | 16.9% |
| Slovakia | 3,276.6 | 3,789.2 | 3,943.6 | 4.1% | 20.4% |
| **Investment funds of mBank's individual clients[1]** | **13,107.5** | **16,436.6** | **18,356.0** | **11.7%** | **40.0%** |
| **thou.** | | | | | |
| **Credit cards, including:** | **394.9** | **392.7** | **390.7** | **-0.5%** | **-1.1%** |
| Poland | 353.5 | 352.8 | 351.3 | -0.4% | -0.6% |
| Foreign branches | 41.4 | 39.9 | 39.3 | -1.4% | -5.1% |
| **Debit cards, including:** | **3,775.5** | **3,942.2** | **4,067.4** | **3.2%** | **7.7%** |
| Poland | 3,171.1 | 3,305.2 | 3,409.5 | 3.2% | 7.5% |
| Foreign branches | 604.5 | 637.0 | 657.8 | 3.3% | 8.8% |

[1] Value of investment funds of mBank's individual clients represents value of open-end investment funds only.

**Corporates and Financial Markets**

The Corporates and Financial Markets segment serves 28,420 corporate clients including large enterprises (K1 - annual sales exceeding PLN 1 billion and non-banking financial institutions), mid-sized enterprises (K2 - annual sales of PLN 50 million – 1 billion) and small enterprises (K3 - annual sales below PLN 50 million), through a network of dedicated 46 branches. mBank Group's offer of products and services for corporate clients focuses on traditional banking products and services (including corporate accounts, domestic and international money transfers, payment cards, cash services, and liquidity management products), corporate finance products, hedging instruments, equity capital market (ECM) services, debt capital market (DCM) instruments, mergers and acquisitions (M&A), leasing and factoring. The segment comprises two areas: Corporate and Investment Banking, and Financial Markets. In line with the resolution of the Supervisory Board of mBank adopted on June 25, 2020, regarding the dismissal of Mr. Frank Bock from the post of Vice-President of the Management Board, Head of Financial Markets of mBank S.A. as of December 31, 2020, there is going to be the reorganization of the financial markets area within other business areas of the bank. It will take place until the end of the year.

**Key highlights**

- Total income of PLN 544.2 million: PLN 476.3 million from Corporate and Investment Banking and PLN 67.9 million from Financial Markets.

- Increase of corporate deposits on the Bank level (excluding repo transactions) by 11.7% year on year and quarterly decline of -2.1%. mBank's market share in deposits from enterprises reached 11.1%.

- Fifth position of mFaktoring on the factoring market in Poland with market share of 8.2%.
- mFaktoring launched a recourse factoring service with the Bank Gospodarstwa Krajowego (BGK) guarantee up to 80% of the financing limit. The service protects them from payment backlogs and is available under the BGK's support package for the Polish enterprises in the time of pandemic.

- Handling aid instruments for its clients aimed at counteracting negative economic consequences of the spread of COVID-19. These instruments comprise such solutions as postponing payment of principal part of credit instalments at mBank and decreasing up to six leasing instalments in mLeasing, available from home.
- Supporting customers in benefiting from the aid instruments offered by the BGK and EU funds, such as de minimis guarantees, liquidity guarantees, using Fund of Agriculture Guarantees and Guarantee Fund for supporting innovative enterprises under the Operating Programme Intelligent Development (FG POIR, Biznesmax Guarantee).
- Participation in distribution of the funds from the Financial Shield of the Polish Development Fund. mBank channelled the aid exceeding PLN 2.8 bn to over 3,500 corporate clients.

- mBank together with local accountants help to open a company. Thanks to cooperation of mBank and a chain of accounting firms under the OSCBR chain, new entrepreneurs can quickly register a company, open a bank account and connect it with an accounting service integrated with the transactional system – all in one visit and with a support of an experienced accountant.

- Launch of a new car financing platform by mLeasing. On mAuto portal, clients can remotely choose a car – new or used, adjust an offer and decide on the funding. SME clients may select leasing or long-term rental, while individuals can purchase with cash. mAuto is another step in cyber transformation of the company and enables clients to get a car at any time and place.

**Key financial data:**

Corporate and Investment Banking:

| PLN M | Q2 2020 | Q3 2020 | Change in PLN M | Change in % |
|---|---|---|---|---|
| Net interest income | 269.4 | 257.2 | -12.2 | -4.5% |
| Net fee and commission income | 177.4 | 187.0 | 9.6 | 5.4% |
| Net trading income | 10.1 | 27.3 | 17.2 | 170.4% |
| Gains less losses from financial assets and liabilities not measured at fair value through profit or loss and investments in subsidiaries and associates | 0.0 | -0.2 | -0.2 | +/- |
| Net other operating income | 10.2 | 4.9 | -5.3 | -51.7% |
| **Total income** | **467.1** | **476.3** | **9.2** | **2.0%** |
| Net impairment losses and fair value change on loans and advances | -178.3 | -109.6 | 68.6 | -38.5% |
| Overhead costs and depreciation | -184.3 | -173.2 | 11.2 | -6.1% |
| Taxes on bank balance sheet items | -44.4 | -43.5 | 0.9 | -2.0% |
| **Profit before tax of Corporate and Investment Banking** | **60.1** | **150.0** | **89.9** | **149.6%** |

Financial Markets:

| PLN M | Q2 2020 | Q3 2020 | Change in PLN M | Change in % |
|---|---|---|---|---|
| Net interest income | 63.0 | 49.2 | -13.9 | -22.0% |
| Net fee and commission income | -4.0 | -2.1 | 2.0 | -48.4% |
| Net trading income | 20.0 | 22.0 | 2.0 | 10.2% |
| Gains less losses from financial assets and liabilities not measured at fair value through profit or loss and investments in subsidiaries and associates | 9.6 | -1.5 | -11.1 | +/- |
| Net other operating income | -0.3 | 0.3 | 0.6 | -184.7% |
| **Total income** | **88.3** | **67.9** | **-20.4** | **-23.1%** |
| Net impairment losses and fair value change on loans and advances | 0.7 | 0.0 | -0.7 | -102.6% |
| Overhead costs and depreciation | -26.5 | -24.4 | 2.1 | -7.8% |
| Taxes on bank balance sheet items | -25.8 | -21.9 | 3.8 | -14.9% |
| **Profit before tax of Financial Markets** | **36.8** | **21.6** | **-15.2** | **-41.4%** |

**Key business data (Bank only):**

| | 30.09.2019 | 30.06.2020 | 30.09.2020 | QoQ change | YoY change |
|---|---|---|---|---|---|
| **Number of corporate clients, including:** | **25,890** | **27,725** | **28,420** | **2.5%** | **9.8%** |
| K1 | 2,331 | 2,384 | 2,381 | -0.1% | 2.1% |
| K2 | 8,077 | 8,553 | 8,712 | 1.9% | 7.9% |
| K3 | 15,482 | 16,788 | 17,327 | 3.2% | 11.9% |
| **PLN M** | | | | | |
| **Loans to corporate clients, including:** | **29,151.5** | **29,279.2** | **28,327.2** | **-3.3%** | **-2.8%** |
| K1 | 7,846.0 | 7,376.6 | 6,823.3 | -7.5% | -13.0% |
| K2 | 18,104.4 | 18,678.6 | 18,273.9 | -2.2% | 0.9% |
| K3 | 2,899.7 | 2,651.1 | 2,713.6 | 2.4% | -6.4% |
| Reverse repo/buy sell back transactions | 193.6 | 403.4 | 335.3 | -16.9% | 73.2% |
| Other | 107.8 | 169.4 | 181.1 | 6.9% | 67.9% |
| **Deposits of corporate clients, including:** | **39,887.6** | **45,647.5** | **44,347.1** | **-2.8%** | **11.2%** |
| K1 | 18,361.2 | 16,285.6 | 14,814.9 | -9.0% | -19.3% |
| K2 | 14,049.4 | 19,018.1 | 19,007.2 | -0.1% | 35.3% |
| K3 | 6,631.5 | 9,180.1 | 9,740.9 | 6.1% | 46.9% |
| Repo transactions | 500.9 | 715.5 | 356.9 | -50.1% | -28.8% |
| Other | 344.7 | 448.1 | 427.3 | -4.6% | 24.0% |

### Summary of results of mBank Group's subsidiaries

In Q3 2020, the profit before tax generated by mBank Group subsidiaries amounted to PLN 22.9 million, which represents an increase of 18.4% against the previous quarter. The main factors influencing results of selected subsidiaries are described in the latter part of the chapter. The table below presents the profit before tax posted by individual subsidiaries in Q3 2020 compared with Q2 2020.

| PLN M | Q2 2020 | Q3 2020 | Change in % |
|---|---|---|---|
| mFinanse | 11,908 | 7,124 | -40.2% |
| mBank Hipoteczny | 1,750 | 1,386 | -20.8% |
| mLeasing[1] | 7,622 | 7,781 | 2.1% |
| mFaktoring | 2,469 | 6,832 | 176.7% |
| Other[2] | -4,397 | -201 | -95.4% |
| **Total** | **19,352** | **22,922** | 18.4% |

[1] *Including: LeaseLink and Asekum.*
[2] *Other subsidiaries include mFinance France, BDH Development, Garbary, Tele-Tech Investment, Future Tech and mElements.*

In Q3 2020 the Group continued simplification of the organizational structure of the Group. After repurchase of selected notes issued by mBank S.A. and mFinance France S.A. under the tender offer commenced on 29 May 2020, on 1 October 2020 the substitution process from mFinance France to mBank as a bond issuer was completed. On 13 October 2020 the Management Board of mBank S.A. adopted the resolution on the liquidation of the subsidiary mFinance France SA. The liquidation of mFinance France will take place after fulfilling all necessary procedures according to relevant provisions of law.

mFinanse

**Open platform for financial products distribution on the agency market**

**The product range includes credit products, accounts and insurance for both individuals and companies**

In Q3 2020, mFinanse was systematically improving its sales and financial results, which were hit by the consequences of the COVID-19 pandemic. In the period under review the subsidiary continued its restructuring projects aimed at maintaining business continuity and saving jobs. A full return to sales volumes will depend on the time needed for the consumer mood to turn positive again. Apart from demand, the scale of sales is also dependent on mBank's credit policy, which was slightly loosened for individual product groups compared with the rules applied in Q2 2020.

In Q3 2020, mFinanse posted an increase in mortgage loans sales by 22.5% quarter on quarter (PLN 791.7 million in Q3 2020 against PLN 646.2 million in Q2 2020). In the period under review, cash loan sales went up markedly to PLN 122.9 million from PLN 53.8 million in Q2 2020 (+128.4%). The profit from selling car loans dedicated to car dealers increased compared with Q2 2020. In Q3 2020, it stood at PLN 68.8 million, compared with PLN 47.4 million in the previous quarter. Similarly, the car leasing segment also reported a hike from PLN 15,5 million in Q2 to PLN 23.7 million in Q3.

In Q3 2020, the subsidiary's pre-tax profit amounted to PLN 7.1 million compared with PLN 11.9 million in Q2 2020.

As regards business continuity, in response to the outbreak of the pandemic mFinanse took measures to protect the health and security of our employees, business partners, and clients. Head office employees were still allowed to work remotely in Q3 2020. Branches, partner outlets as well as kiosks operated in line with the security rules developed on the basis of the guidelines of the Ministry of Health. In the period under review, mFinanse branches worked under a strict sanitary regime.

**The mortgage bank with the longest track record of issuing covered bonds in the Polish capital market**

**Providing stable, long-term and secure funding for the Group using a pooling model in cooperation with mBank**

mBank Hipoteczny (mBH) is the oldest mortgage bank operating on the Polish capital market. Since 2000, mBH has been regularly issuing Polish covered bonds in line with the Polish issuance programme. As at 30 September 2020, the total value of the outstanding mortgage bonds issued by mBank Hipoteczny amounted to approx. PLN 7.5 billion. This accounts for 28.6% of the entire market valued at over PLN 26.1 billion (at the EUR/PLN exchange rate of the National Bank of Poland published on 30 September 2020). The financing and liquidity profile of mBank Group in Q3 2020 did not provide for the need to issue covered bonds by mBank Hipoteczny.

As at the end of Q3 2020, there were four series of unsecured bonds worth a total of PLN 260 million issued by mBH. mBH issues zero-coupon and coupon bonds denominated in PLN with maturities ranging from seven days to one year in the case of zero-coupon bonds and from one year to five years for coupon bonds.

On September 30, 2020, Moody's Investors Service Ltd affirmed the long-term and short-term issuer ratings assigned to mBank Hipoteczny of Baa2 with a stable outlook and Prime-2, respectively. At the same, Moody's Investors Service affirmed counterparty risk assessment of A3(cr)/Prime-2(cr) and counterparty risk rating at A3/Prime-2.

In 2020 mBank Hipoteczny has expanded its loan portfolio using the pooling model in Retail Banking in close cooperation with mBank, i.e. with sales effected by mBank's salesforce. Since January 2020, six pooling transactions totalling PLN 1.1 billion have been completed in the retail portfolio. In Q3 2020, two pooling transactions totalling PLN 719.1 million have been executed. Despite a drop in exposure in the corporate portfolio, this translated into higher gross portfolio value at the end of Q3 2020 (up by 4.1% compared to the end of June 2020).

The subsidiary's pre-tax profit in Q3 2020 amounted to PLN 1.4 million, down by 20.8% compared with the previous quarter. Its operating costs in Q3 2020 shrank by 29.3% quarter on quarter. On the other hand, mBank Hipoteczny recorded an increase in impairment losses, primarily as a result of an update of portfolio provision calculation parameters and due to its higher individual provision. In both cases, this was related to the impact of the COVID-19 pandemic on the value of expected credit losses and to the maturing credit portfolio.

In Q3 2020 we continued to follow the new work rules at mBank Hipoteczny given a threat of spreading of COVID-19. Under the new rules, employees work remotely and, in areas where it is impossible, they take shifts in the office in line with all the security measures. The rules are to ensure security while maintaining continuity of performed processes.

Apart from the re-organisation of work, mBank Hipoteczny also developed support measures for corporate and retail clients. As regards the latter, we enabled suspension of principal or principal and interest instalment repayment by up to six months. We enabled clients to apply for the suspension of loan instalment repayment by filing an online instruction. In the case of corporate clients, applications for support were considered on an individual basis. In Q3 2020, mBank Hipoteczny recorded a lower number of applications filed both in the retail portfolio and in the corporate portfolio. Additionally, since 24 June 2020, mBH has been processing applications for credit holiday in line with Articles 31fa-31fc of the Act on Interest Subsidies for Bank Loans Granted to Provide Financial Liquidity to Entrepreneurs Affected by the Effects of COVID-19 and Amendments to Certain Other Acts (so-called Shield 4.0).

## mLeasing

| |
|---|
| **Financing offer in the form of leasing or rent, and car fleet management** |
| **Leasing as a payment method in e-commerce offered by LeaseLink** |

The total value of contracts signed in Q3 2020 amounted to PLN 1,539.8 million against PLN 896.2 million in Q2 2020, which marks a 71.8% increase quarter on quarter. The value of new movable assets purchased by the subsidiary in Q3 2020 amounted to PLN 1,392.3 million, thus increasing by 55.4% compared with Q2 2020 (PLN 896.2 million). In Q3 2020, the subsidiary financed real estate properties worth PLN 147.5 million, whereas in Q2 2020 it did not finance any real property.

The consolidated pre-tax profit reported by the subsidiary in Q3 2020 stood at PLN 7.8 million, up by 2.1% compared with the previous quarter. The increase was reached despite higher credit risk costs, which amounted to PLN 45.4 million in Q3 2020, compared with PLN 33.2 million in the previous quarter. Provisions were higher due to a potential rise in credit risk caused by the COVID-19 pandemic.

In connection with the pandemic, we changed the way we work at the subsidiary. We implemented remote work and rotating shift work where employees need to be physically present. We offered our clients the possibility of reducing three to six leasing instalments.

## mFaktoring

| |
|---|
| **mFaktoring offers financing of ongoing business operations, receivables management, transfer of insolvency risk, management of debtors' settlement accounts and enforcement of receivables, provides domestic and export factoring with recourse and credit protection as well as import credit guarantees** |
| **The fifth largest player on the Polish factoring market among the members of the Polish Factors Association** |

In Q3 2020, the subsidiary's turnover, i.e. amount of invoices purchased by the subsidiary stood at PLN 6.0 billion. Compared with Q2 2020, when the company reported a substantial decrease in the turnover due to the COVID-19 pandemic, the figure went up by 17.8% in Q3 2020. In September 2020, the subsidiary reported a record-high turnover in the amount of PLN 2.2 million. Since the subsidiary was highly active, it managed to maintain the fifth position on the factoring market in Poland with a market share of 8.2% (according to the Polish Factors Association).

In spite of an increase in turnover, interest and commission income dropped by 5.4% quarter on quarter. The decrease is related to, among others, a lower demand for financing due to the state aid provided to clients to counteract negative effects of the COVID-19 pandemic.

The pre-tax profit of mFaktoring included in Q3 2020, stood at PLN 6.8 million compared with PLN 2.5 million in the previous quarter. The higher figure despite decreased interest and commission income is attributable to, among others, lower provisions for uncollectible receivables.

In three quarters of 2020, mFaktoring acquired 103 new clients with limits totalling PLN 189.5 million. Although new business development was stifled by the restrictions related to the COVID-19 pandemic, Q3 2020 saw an increase in the acquisition of new clients. On 14 September 2020 mFaktoring joined the BGK Programme, which provides for securing factoring transactions with recourse by means of a liquidity guarantee offered to clients whose liquidity has deteriorated.

During the COVID-19 pandemic, the company performs all processes remotely. In response to the needs reported by some clients, mFaktoring offers support measures, in particular, it extends payment periods and the recourse period. The subsidiary has also undertaken a number of activities aimed at strengthening the monitoring of the receivables portfolio. In the period under review, there were no signals of worse payment discipline of the largest recipients in the portfolio.

IFRS Condensed Consolidated Financial Statements for the third quarter of 2020 PLN (000's)

## Consolidated income statement

| | Note | 3rd Quarter (current year) period from 01.07.2020 to 30.09.2020 | 3 Quarters (current year) period from 01.01.2020 to 30.09.2020 | 3rd Quarter (previous year) period from 01.07.2019 to 30.09.2019 - restated | 3 Quarters (previous year) period from 01.01.2019 to 30.09.2019 - restated |
|---|---|---|---|---|---|
| Interest income, including: | 5 | 1 079 525 | 3 625 118 | 1 331 082 | 3 795 517 |
| *Interest income accounted for using the effective interest method* | | *957 005* | *3 270 035* | *1 202 125* | *3 365 776* |
| *Income similar to interest on financial assets at fair value through profit or loss* | | *122 520* | *355 083* | *128 957* | *429 741* |
| Interest expenses | 5 | (119 230) | (592 748) | (266 844) | (803 246) |
| **Net interest income** | | **960 295** | **3 032 370** | **1 064 238** | **2 992 271** |
| Fee and commission income | 6 | 553 516 | 1 633 429 | 516 020 | 1 469 092 |
| Fee and commission expenses | 6 | (180 315) | (534 615) | (184 788) | (543 223) |
| **Net fee and commission income** | | **373 201** | **1 098 814** | **331 232** | **925 869** |
| Dividend income | 7 | 310 | 4 789 | 298 | 3 949 |
| Net trading income, including: | 8 | 58 151 | 142 501 | 38 995 | 105 413 |
| *Foreign exchange result* | | *31 837* | *40 286* | *33 601* | *70 053* |
| *Gains or losses on financial assets and liabilities held for trading* | | *25 454* | *103 080* | *2 905* | *27 616* |
| *Gains or losses from hedge accounting* | | *860* | *(865)* | *2 489* | *7 744* |
| Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss | 9 | 9 388 | (34 318) | 62 455 | 50 837 |
| Gains less losses from financial assets and liabilities not measured at fair value through profit or loss and investments in subsidiaries and associates, including: | 10 | (737) | 1 521 | 8 123 | 22 841 |
| *Gains less losses from debt securities measured at fair value through other comprehensive income* | | *(1 471)* | *(246)* | *8 769* | *27 328* |
| *Gains less losses from investments in subsidiaries and associates* | | *1 185* | *(2 967)* | *(449)* | *(4 921)* |
| *Gains less losses from derecognition* | | *(451)* | *4 734* | *(197)* | *434* |
| Other operating income | 11 | 49 128 | 165 193 | 103 216 | 175 990 |
| Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss | 12 | (256 038) | (969 952) | (219 217) | (546 380) |
| Result on provisions for legal risk related to foreign currency loans | | (186 851) | (388 734) | (66 559) | (94 333) |
| Overhead costs | 13 | (458 452) | (1 552 412) | (450 694) | (1 525 418) |
| Depreciation | | (108 265) | (322 137) | (91 833) | (270 011) |
| Other operating expenses | 14 | (51 806) | (156 694) | (141 880) | (234 593) |
| **Operating profit** | | **388 324** | **1 020 941** | **638 374** | **1 606 435** |
| Taxes on the Group balance sheet items | | (133 365) | (403 612) | (118 392) | (337 278) |
| **Profit before income tax** | | **254 959** | **617 329** | **519 982** | **1 269 157** |
| Income tax expense | | (154 349) | (338 882) | (161 489) | (375 123) |
| **Net profit** | | **100 610** | **278 447** | **358 493** | **894 034** |
| **Net profit attributable to:** | | | | | |
| - Owners of mBank S.A. | | 100 613 | 278 513 | 358 512 | 894 098 |
| - Non-controlling interests | | (3) | (66) | (19) | (64) |

| | | | | | |
|---|---|---|---|---|---|
| **Net profit attributable to Owners of mBank S.A.** | | **100 613** | **278 513** | **358 512** | **894 098** |
| **Weighted average number of ordinary shares** | **15** | **42 355 992** | **42 352 256** | **42 337 854** | **42 337 276** |
| **Earnings per share (in PLN)** | **15** | **2.38** | **6.58** | **8.47** | **21.12** |
| **Weighted average number of ordinary shares for diluted earnings** | **15** | **42 377 975** | **42 374 239** | **42 357 106** | **42 356 528** |
| **Diluted earnings per share (in PLN)** | **15** | **2.37** | **6.57** | **8.46** | **21.11** |

IFRS Condensed Consolidated Financial Statements for the third quarter of 2020 PLN (000's)

## Consolidated statement of comprehensive income

| | 3rd Quarter (current year) period from 01.07.2020 to 30.09.2020 | 3 Quarters (current year) period from 01.01.2020 to 30.09.2020 | 3rd Quarter (previous year) period from 01.07.2019 to 30.09.2019 - restated | 3 Quarters (previous year) period from 01.01.2019 to 30.09.2019 - restated |
|---|---|---|---|---|
| **Net profit** | **100 610** | **278 447** | **358 493** | **894 034** |
| **Other comprehensive income net of tax, including:** | **(44 614)** | **532 695** | **52 849** | **17 499** |
| **Items that may be reclassified subsequently to the income statement** | | | | |
| Exchange differences on translation of foreign operations (net) | (162) | (465) | 335 | 388 |
| Cash flows hedges (net) | (12 875) | 354 360 | 38 991 | 76 654 |
| Debt instruments at fair value through other comprehensive income (net) | (31 577) | 178 800 | 13 523 | (59 541) |
| **Items that will not be reclassified to the income statement** | | | | |
| Actuarial gains and losses relating to post-employment benefits (net) | - | - | - | (2) |
| **Total comprehensive income (net)** | **55 996** | **811 142** | **411 342** | **911 533** |
| **Total comprehensive income (net), attributable to:** | | | | |
| - Owners of mBank S.A. | 55 999 | 811 208 | 411 361 | 911 597 |
| - Non-controlling interests | (3) | (66) | (19) | (64) |

IFRS Condensed Consolidated Financial Statements for the third quarter of 2020 PLN (000's)

## Consolidated statement of financial position

| ASSETS | Note | 30.09.2020 | 31.12.2019 |
|---|---|---|---|
| Cash and balances with the Central Bank | | 6 683 941 | 7 897 010 |
| Financial assets held for trading and hedging derivatives | 16 | 2 353 905 | 2 866 034 |
| Non-trading financial assets mandatorily at fair value through profit or loss, including: | 17 | 1 919 046 | 2 267 922 |
| *Equity instruments* | 17 | *252 397* | *162 616* |
| *Debt securities* | 17 | *71 615* | *133 774* |
| *Loans and advances to customers* | 17 | *1 595 034* | *1 971 532* |
| Financial assets at fair value through other comprehensive income | 18 | 35 484 841 | 22 773 921 |
| Financial assets at amortised cost, including: | 19 | 131 339 607 | 118 779 885 |
| *Debt securities* | 19 | *14 471 422* | *11 234 873* |
| *Loans and advances to banks* | 19 | *8 991 355* | *4 341 758* |
| *Loans and advances to customers* | 19 | *107 876 830* | *103 203 254* |
| Fair value changes of the hedged items in portfolio hedge of interest rate risk | | 1 381 | - |
| Non-current assets and disposal groups classified as held for sale | 20 | 15 261 | 10 651 |
| Intangible assets | 21 | 1 094 258 | 955 440 |
| Tangible assets | 22 | 1 117 654 | 1 262 397 |
| Current income tax assets | | 16 030 | 12 662 |
| Deferred income tax assets | 26 | 820 296 | 937 712 |
| Other assets | | 1 300 537 | 956 949 |
| **TOTAL ASSETS** | | **182 146 757** | **158 720 583** |
| **LIABILITIES AND EQUITY** | | | |
| **LIABILITIES** | | | |
| Financial liabilities held for trading and hedging derivatives | 23 | 1 087 757 | 948 764 |
| Financial liabilities measured at amortised cost, including: | | 159 303 937 | 137 763 369 |
| *Amounts due to banks* | 24 | *1 774 184* | *1 166 871* |
| *Amounts due to customers* | 24 | *141 118 549* | *116 661 138* |
| *Debt securities issued* | | *13 849 349* | *17 435 143* |
| *Subordinated liabilities* | | *2 561 855* | *2 500 217* |
| Fair value changes of the hedged items in portfolio hedge of interest rate risk | | 55 258 | 136 |
| Liabilities held for sale | 20 | 417 | 1 315 |
| Provisions | 25 | 1 142 243 | 739 296 |
| Current income tax liabilities | | 228 882 | 161 534 |
| Deferred income tax liabilities | 26 | 87 | 82 |
| Other liabilities | | 3 358 533 | 2 952 782 |
| **TOTAL LIABILITIES** | | **165 177 114** | **142 567 278** |
| **EQUITY** | | | |
| **Equity attributable to Owners of mBank S.A.** | | **16 967 701** | **16 151 303** |
| **Share capital:** | | **3 586 249** | **3 579 818** |
| Registered share capital | | 169 461 | 169 401 |
| Share premium | | 3 416 788 | 3 410 417 |
| **Retained earnings:** | | **12 672 047** | **12 394 775** |
| Profit from the previous years | | 12 393 534 | 11 384 425 |
| Profit for the current year | | 278 513 | 1 010 350 |
| **Other components of equity** | | **709 405** | **176 710** |
| **Non-controlling interests** | | **1 942** | **2 002** |
| **TOTAL EQUITY** | | **16 969 643** | **16 153 305** |
| **TOTAL LIABILITIES AND EQUITY** | | **182 146 757** | **158 720 583** |

| | | | |
|---|---|---|---|
| **Total capital ratio (in %)** | | **19.53** | **19.46** |
| **Common Equity Tier 1 capital ratio (in %)** | | **16.74** | **16.51** |
| **Book value** | | **16 967 701** | **16 151 303** |
| **Number of shares** | | **42 365 259** | **42 350 367** |
| **Book value per share (in PLN)** | | **400.51** | **381.37** |

IFRS Condensed Consolidated Financial Statements for the third quarter of 2020 PLN (000's)

## Consolidated statement of changes in equity

### Changes in equity from 1 January to 30 September 2020

| | Share capital | | Retained earnings | | | | | Other components of equity | | | | Equity attributable to Owners of mBank S.A., total | Non-controlling interests | Total equity |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Registered share capital | Share premium | Other supplementary capital | Other reserve capital | General banking risk reserve | Profit from the previous years | Profit for the current year attributable to Owners of mBank S.A. | Exchange differences on translation of foreign operations | Valuation of financial assets at fair value through other comprehensive income | Cash flows hedges | Actuarial gains and losses relating to post-employment benefits | | | |
| **Equity as at 1 January 2020** | **169 401** | **3 410 417** | **9 826 282** | **98 316** | **1 153 753** | **1 316 424** | **-** | **(5 435)** | **74 321** | **119 142** | **(11 318)** | **16 151 303** | **2 002** | **16 153 305** |
| **Total comprehensive income** | **-** | **-** | **-** | **-** | **-** | **-** | **278 513** | **(465)** | **178 800** | **354 360** | **-** | **811 208** | **(66)** | **811 142** |
| Issuance of ordinary shares | 60 | - | - | - | - | - | - | - | - | - | - | 60 | - | 60 |
| Other increase or decrease in equity | - | - | - | - | - | (43) | - | - | - | - | - | (43) | 6 | (37) |
| **Stock option program for employees** | **-** | **6 371** | **-** | **(1 198)** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **5 173** | **-** | **5 173** |
| *- value of services provided by the employees* | - | - | - | *5 173* | - | - | - | - | - | - | - | *5 173* | - | *5 173* |
| *- settlement of exercised options* | - | *6 371* | - | *(6 371)* | - | - | - | - | - | - | - | - | - | - |
| **Equity as at 30 September 2020** | **169 461** | **3 416 788** | **9 826 282** | **97 118** | **1 153 753** | **1 316 381** | **278 513** | **(5 900)** | **253 121** | **473 502** | **(11 318)** | **16 967 701** | **1 942** | **16 969 643** |

### Changes in equity from 1 January to 31 December 2019

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

IFRS Condensed Consolidated Financial Statements for the third quarter of 2020 PLN (000's)

## Changes in equity from 1 January to 30 September 2019 - restated

| | Share capital | | Retained earnings | | | | | Other components of equity | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Registered share capital | Share premium | Other supplementary capital | Other reserve capital | General banking risk reserve | Profit from the previous years | Profit for the current year attributable to Owners of mBank S.A. | Exchange differences on translation of foreign operations | Valuation of financial assets at fair value through other comprehensive income | Cash flows hedges | Actuarial gains and losses relating to post-employment benefits | Equity attributable to Owners of mBank S.A., total | Non-controlling interests | Total equity |
| **Equity as at 1 January 2019** | **169 348** | **3 405 338** | **9 826 282** | **93 448** | **1 153 753** | **306 100** | **-** | **(5 467)** | **145 978** | **83 643** | **(9 316)** | **15 169 107** | **2 100** | **15 171 207** |
| **Total comprehensive income** | **-** | **-** | **-** | **-** | **-** | **-** | **894 098** | **388** | **(59 541)** | **76 654** | **(2)** | **911 597** | **(64)** | **911 533** |
| Issuance of ordinary shares | 46 | - | - | - | - | - | - | - | - | - | - | 46 | - | 46 |
| Other increase or decrease in equity | - | - | - | - | - | 34 | - | - | - | - | - | 34 | (16) | 18 |
| **Stock option program for employees** | **-** | **4 336** | **-** | **3 226** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **7 562** | **-** | **7 562** |
| *- value of services provided by the employees* | - | - | - | *7 562* | - | - | - | - | - | - | - | *7 562* | - | *7 562* |
| *- settlement of exercised options* | - | *4 336* | - | *(4 336)* | - | - | - | - | - | - | - | - | - | - |
| **Equity as at 30 September 2019** | **169 394** | **3 409 674** | **9 826 282** | **96 674** | **1 153 753** | **306 134** | **894 098** | **(5 079)** | **86 437** | **160 297** | **(9 318)** | **16 088 346** | **2 020** | **16 090 366** |

IFRS Condensed Consolidated Financial Statements for the third quarter of 2020 PLN (000's)

## Consolidated statement of cash flows

| | Period from 01.01.2020 to 30.09.2020 | Period from 01.01.2019 to 30.09.2019 - restated |
|---|---|---|
| **Profit before income tax** | **617 329** | **1 269 157** |
| ***Adjustments:*** | ***5 112 078*** | ***3 799 022*** |
| Income taxes paid | (257 521) | (601 547) |
| Depreciation, including depreciation of fixed assets provided under operating lease | 349 075 | 306 474 |
| Foreign exchange (gains) losses related to financing activities | 509 345 | 249 352 |
| (Gains) losses on investing activities | (2 240) | (31 373) |
| Dividends received | (4 789) | (3 949) |
| Interest income (income statement) | (3 625 118) | (3 795 517) |
| Interest expense (income statement) | 592 748 | 803 246 |
| Interest received | 4 070 804 | 3 892 098 |
| Interest paid | (674 307) | (806 624) |
| Changes in loans and advances to banks | (1 455 152) | 826 332 |
| Changes in financial assets and liabilities held for trading and hedging derivatives | 267 005 | (46 514) |
| Changes in loans and advances to customers | (4 426 014) | (9 832 415) |
| Changes in financial assets at fair value through other comprehensive income | (12 832 592) | (125 857) |
| Changes in securities at amortised cost | (3 235 680) | (1 296 997) |
| Changes of non-trading equity securities mandatorily at fair value through profit or loss | (27 622) | (127 956) |
| Changes in other assets | (352 892) | 134 306 |
| Changes in amounts due to banks | 811 993 | (89 595) |
| Changes in amounts due to customers | 24 503 187 | 14 030 656 |
| Changes in issued debt securities | 122 548 | 12 209 |
| Changes in provisions | 402 947 | 138 401 |
| Changes in other liabilities | 376 353 | 164 292 |
| **A. Cash flows from operating activities** | **5 729 407** | **5 068 179** |
| Disposal of intangible assets and tangible fixed assets | 72 667 | 51 858 |
| Dividends received | 4 789 | 3 949 |
| Acquisition of shares in subsidiaries | - | (46 192) |
| Purchase of intangible assets and tangible fixed assets | (357 290) | (348 040) |
| **B. Cash flows from investing activities** | **(279 834)** | **(338 425)** |
| Proceeds from other loans and advances | - | 544 735 |
| Proceeds from issue of debt securities | 95 000 | 1 041 036 |
| Issue of ordinary shares | 60 | 46 |
| Repayments of loans and advances from banks | (196 140) | (560 027) |
| Repayments of other loans and advances | - | (1 058 369) |
| Redemption of debt securities | (4 125 805) | (2 510 650) |
| Payments of lease liabilities | (89 856) | (87 985) |
| Interest paid from loans and advances received from banks and from subordinated liabilities | (68 165) | (66 760) |
| **C. Cash flows from financing activities** | **(4 384 906)** | **(2 697 974)** |
| **Net increase / decrease in cash and cash equivalents (A+B+C)** | **1 064 667** | **2 031 780** |
| Effects of exchange rate changes on cash and cash equivalents | 30 298 | 40 594 |
| Cash and cash equivalents at the beginning of the reporting period | 9 609 929 | 10 630 969 |
| **Cash and cash equivalents at the end of the reporting period** | **10 704 894** | **12 703 343** |

IFRS Condensed Consolidated Financial Statements for the third quarter of 2020 PLN (000's)

# mBank S.A. stand-alone financial information

## Income statement

| | Note | 3rd Quarter (current year) period from 01.07.2020 to 30.09.2020 | 3 Quarters (current year) period from 01.01.2020 to 30.09.2020 | 3rd Quarter (previous year) period from 01.07.2019 to 30.09.2019 - restated | 3 Quarters (previous year) period from 01.01.2019 to 30.09.2019 - restated |
|---|---|---|---|---|---|
| Interest income, including: | | 934 930 | 3 187 040 | 1 168 926 | 3 334 310 |
| *Interest income accounted for using the effective interest method* | | *818 475* | *2 844 984* | *1 050 456* | *2 938 116* |
| *Income similar to interest on financial assets at fair value through profit or loss* | | *116 455* | *342 056* | *118 470* | *396 194* |
| Interest expenses | | (99 863) | (499 933) | (227 096) | (684 047) |
| **Net interest income** | | **835 067** | **2 687 107** | **941 830** | **2 650 263** |
| Fee and commission income | | 517 432 | 1 519 372 | 477 132 | 1 353 162 |
| Fee and commission expenses | | (160 536) | (463 445) | (159 556) | (471 900) |
| **Net fee and commission income** | | **356 896** | **1 055 927** | **317 576** | **881 262** |
| Dividend income | | 310 | 31 134 | 18 751 | 320 024 |
| Net trading income, including: | | 58 096 | 147 593 | 41 338 | 107 376 |
| *Foreign exchange result* | | *29 992* | *39 110* | *30 432* | *66 554* |
| *Gains or losses on financial assets and liabilities held for trading* | | *24 927* | *102 248* | *8 990* | *37 395* |
| *Gains or losses from hedge accounting* | | *3 177* | *6 235* | *1 916* | *3 427* |
| Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss | | 10 084 | (32 775) | 66 388 | 54 206 |
| Gains less losses from financial assets and liabilities not measured at fair value through profit or loss and investments in subsidiaries and associates, including: | | (18 825) | (13 489) | 9 648 | 11 748 |
| *Gains less losses from debt securities measured at fair value through other comprehensive income* | | *(1 471)* | *843* | *8 769* | *27 328* |
| *Gains less losses from investments in subsidiaries and associates* | | *32* | *(358)* | *883* | *(112)* |
| *Gains less losses from derecognition* | | *(17 386)* | *(13 974)* | *(4)* | *(15 468)* |
| Other operating income | | 7 865 | 30 909 | 11 446 | 34 876 |
| Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss | | (206 275) | (828 691) | (191 431) | (485 130) |
| Result on provisions for legal risk related to foreign currency loans | | (186 851) | (388 734) | (66 559) | (94 333) |
| Overhead costs | | (410 994) | (1 393 759) | (402 964) | (1 369 428) |
| Depreciation | | (94 476) | (282 803) | (80 875) | (239 520) |
| Other operating expenses | | (23 489) | (78 797) | (70 351) | (137 601) |
| **Operating profit** | | **327 408** | **933 622** | **594 797** | **1 733 743** |
| Taxes on the Group balance sheet items | | (125 551) | (380 265) | (110 090) | (312 842) |
| Share in profits (losses) of entities under the equity method | | 33 965 | 25 701 | 25 257 | (205 715) |
| **Profit before income tax** | | **235 822** | **579 058** | **509 964** | **1 215 186** |
| Income tax expense | | (146 585) | (315 429) | (148 939) | (340 646) |
| **Net profit** | | **89 237** | **263 629** | **361 025** | **874 540** |

| | | | | | |
|---|---|---|---|---|---|
| **Net profit** | | **89 237** | **263 629** | **361 025** | **874 540** |
| **Weighted average number of ordinary shares** | **15** | **42 355 992** | **42 352 256** | **42 337 854** | **42 337 276** |
| **Earnings per share (in PLN)** | **15** | **2.11** | **6.22** | **8.53** | **20.66** |
| **Weighted average number of ordinary shares for diluted earnings** | **15** | **42 377 975** | **42 374 239** | **42 357 106** | **42 356 528** |
| **Diluted earnings per share (in PLN)** | **15** | **2.11** | **6.22** | **8.52** | **20.65** |

IFRS Condensed Consolidated Financial Statements for the third quarter of 2020 PLN (000's)

# mBank S.A. stand-alone financial information

## Statement of comprehensive income

| | 3rd Quarter (current year) period from 01.07.2020 to 30.09.2020 | 3 Quarters (current year) period from 01.01.2020 to 30.09.2020 | 3rd Quarter (previous year) period from 01.07.2019 to 30.09.2019 - restated | 3 Quarters (previous year) period from 01.01.2019 to 30.09.2019 - restated |
|---|---|---|---|---|
| **Net profit** | **89 237** | **263 629** | **361 025** | **874 540** |
| **Other comprehensive income net of tax, including:** | **(134 446)** | **297 121** | **29 446** | **57 562** |
| **Items that may be reclassified subsequently to the income statement** | | | | |
| Exchange differences on translation of foreign operations (net) | (154) | (532) | 313 | 367 |
| Cash flows hedges (net) | (18 859) | 337 896 | 38 991 | 76 654 |
| Share of other comprehensive income of entities under the equity method (net) | 4 384 | 5 666 | (673) | (4 716) |
| Debt instruments at fair value through other comprehensive income (net) | (119 817) | (45 909) | (9 185) | (14 743) |
| **Items that will not be reclassified to the income statement** | | | | |
| Actuarial gains and losses relating to post-employment benefits (net) | - | - | - | - |
| **Total comprehensive income (net)** | **(45 209)** | **560 750** | **390 471** | **932 102** |

IFRS Condensed Consolidated Financial Statements for the third quarter of 2020 PLN (000's)

# mBank S.A. stand-alone financial information

## Statement of financial position

| ASSETS | 30.09.2020 | 31.12.2019 |
|---|---|---|
| Cash and balances with the Central Bank | 6 640 003 | 7 861 776 |
| Financial assets held for trading and derivatives held for hedges | 2 358 111 | 2 921 749 |
| Non-trading financial assets mandatorily at fair value through profit or loss, including: | 1 709 469 | 2 035 189 |
| *Equity instruments* | *178 757* | *87 597* |
| *Debt securities* | *71 615* | *133 774* |
| *Loans and advances to customers* | *1 459 097* | *1 813 818* |
| Financial assets at fair value through other comprehensive income | 46 350 700 | 30 298 647 |
| Financial assets at amortised cost, including: | 111 835 542 | 101 310 293 |
| *Debt securities* | *14 471 422* | *11 234 873* |
| *Loans and advances to credit institutions* | *13 200 191* | *7 337 703* |
| *Loans and advances to customers* | *84 163 929* | *82 737 717* |
| Fair value changes of the hedged items in portfolio hedge of interest rate risk | 1 381 | - |
| Investments in subsidiaries | 2 209 013 | 2 164 112 |
| Non-current assets and disposal groups classified as held for sale | 7 229 | 91 605 |
| Intangible assets | 935 711 | 823 109 |
| Tangible assets | 838 145 | 945 606 |
| Current income tax assets | 14 834 | 11 878 |
| Deferred income tax assets | 198 886 | 273 257 |
| Other assets | 742 128 | 491 052 |
| **TOTAL ASSETS** | **173 841 152** | **149 228 273** |
| **LIABILITIES AND EQUITY** | | |
| **LIABILITIES** | | |
| Financial liabilities held for trading and derivatives held for hedges | 1 133 388 | 987 933 |
| Financial liabilities measured at amortised cost, including: | 151 872 288 | 128 979 983 |
| *Amounts due to banks* | *1 809 763* | *1 180 782* |
| *Amounts due to customers* | *144 066 081* | *121 936 987* |
| *Debt securities issued* | *3 434 589* | *3 361 997* |
| *Subordinated liabilities* | *2 561 855* | *2 500 217* |
| Fair value changes of the hedged items in portfolio hedge of interest rate risk | 55 258 | 136 |
| Provisions | 1 142 685 | 737 167 |
| Current income tax liabilities | 223 715 | 150 859 |
| Deferred income tax liabilities | 87 | 82 |
| Other liabilities | 2 732 741 | 2 257 106 |
| **TOTAL LIABILITIES** | **157 160 162** | **133 113 266** |
| **EQUITY** | | |
| **Share capital:** | **3 586 249** | **3 579 818** |
| Registered share capital | 169 461 | 169 401 |
| Share premium | 3 416 788 | 3 410 417 |
| **Retained earnings:** | **12 626 981** | **12 364 550** |
| - Profit from the previous years | 12 363 352 | 11 383 570 |
| - Profit for the current year | 263 629 | 980 980 |
| **Other components of equity** | **467 760** | **170 639** |
| **TOTAL EQUITY** | **16 680 990** | **16 115 007** |
| **TOTAL LIABILITIES AND EQUITY** | **173 841 152** | **149 228 273** |

| | | |
|---|---|---|
| **Total capital ratio** | **22.56** | **22.84** |
| **Common Equity Tier 1 capital ratio** | **19.26** | **19.42** |
| **Book value** | **16 680 990** | **16 115 007** |
| **Number of shares** | **42 365 259** | **42 350 367** |
| **Book value per share (in PLN)** | **393.74** | **380.52** |

IFRS Condensed Consolidated Financial Statements for the third quarter of 2020 PLN (000's)

## mBank S.A. stand-alone financial information

### Statement of changes in equity

Changes from 1 January to 30 September 2020

| | Share capital | | Retained earnings | | | | | Other components of equity | | | | | Total equity |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Registered share capital | Share premium | Other supplementary capital | Other reserve capital | General banking risk reserve | Profit from previous years | Profit from the current year | Exchange differences on translation of foreign operations | Valuation of financial assets at fair value through other comprehensive income | Cash flow hedges | Share in profits (losses) of entities under the equity method | Actuarial gains and losses relating to post-employment benefits | |
| **Equity as at 1 January 2020** | **169 401** | **3 410 417** | **9 216 652** | **27 320** | **1 115 143** | **2 005 435** | **-** | **(5 151)** | **58 363** | **122 150** | **6 370** | **(11 093)** | **16 115 007** |
| **Total comprehensive income** | **-** | **-** | **-** | **-** | **-** | **-** | **263 629** | **(532)** | **(45 909)** | **337 896** | **5 666** | **-** | **560 750** |
| Issuance of ordinary shares | 60 | - | - | - | - | - | - | - | - | - | - | - | 60 |
| **Stock option program for employees** | **-** | **6 371** | **-** | **(1 198)** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **5 173** |
| *- value of services provided by the employees* | - | - | - | *5 173* | - | - | - | - | - | - | - | - | *5 173* |
| *- settlement of exercised options* | - | *6 371* | - | *(6 371)* | - | - | - | - | - | - | - | - | - |
| **Equity as at 30 September 2020** | **169 461** | **3 416 788** | **9 216 652** | **26 122** | **1 115 143** | **2 005 435** | **263 629** | **(5 683)** | **12 454** | **460 046** | **12 036** | **(11 093)** | **16 680 990** |

Changes from 1 January to 31 December 2019

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

IFRS Condensed Consolidated Financial Statements for the third quarter of 2020 PLN (000's)

## Changes from 1 January to 30 September 2019 - restated

| | Share capital | | Retained earnings | | | | | Other components of equity | | | | | Total equity |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Registered share capital | Share premium | Other supplementary capital | Other reserve capital | General banking risk reserve | Profit from previous years | Profit from the current year | Exchange differences on translation of foreign operations | Valuation of financial assets at fair value through other comprehensive income | Cash flow hedges | Share in profits (losses) of entities under the equity method | Actuarial gains and losses relating to post-employment benefits | |
| **Equity as at 1 January 2019** | **169 348** | **3 405 338** | **9 216 652** | **22 452** | **1 115 143** | **1 024 455** | **-** | **(5 160)** | **104 292** | **83 643** | **3 120** | **(9 113)** | **15 130 170** |
| **Total comprehensive income** | **-** | **-** | **-** | **-** | **-** | **-** | **874 540** | **367** | **(14 743)** | **76 654** | **(4 716)** | **-** | **932 102** |
| Issuance of ordinary shares | 46 | - | - | - | - | - | - | - | - | - | - | - | 46 |
| **Stock option program for employees** | **-** | **4 336** | **-** | **3 226** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **7 562** |
| *- value of services provided by the employees* | - | - | - | *7 562* | - | - | - | - | - | - | - | - | *7 562* |
| *- settlement of exercised options* | | *4 336* | | *(4 336)* | - | - | - | - | - | - | - | - | - |
| **Equity as at 30 September 2019** | **169 394** | **3 409 674** | **9 216 652** | **25 678** | **1 115 143** | **1 024 455** | **874 540** | **(4 793)** | **89 549** | **160 297** | **(1 596)** | **(9 113)** | **16 069 880** |

IFRS Condensed Consolidated Financial Statements for the third quarter of 2020 PLN (000's)

# mBank S.A. stand-alone financial information

## Statement of cash flows

| | Period from 01.01.2020 to 30.09.2020 | Period from 01.01.2019 to 30.09.2019 - restated |
|---|---|---|
| **Profit before income tax** | **579 058** | **1 215 186** |
| ***Adjustments:*** | ***1 681 023*** | ***1 525 032*** |
| Income taxes paid | (233 365) | (471 363) |
| Depreciation, including depreciation of fixed assets provided under operating lease | 290 575 | 239 520 |
| Foreign exchange (gains) losses related to financing activities | 271 379 | 196 117 |
| (Gains) losses on investing activities | (27 790) | 174 649 |
| Dividends received | (31 134) | (320 024) |
| Interest income (income statement) | (3 187 040) | (3 334 310) |
| Interest expense (income statement) | 499 933 | 684 047 |
| Interest received | 3 626 507 | 3 483 815 |
| Interest paid | (608 966) | (733 678) |
| Changes in loans and advances to banks | (2 613 191) | (316 372) |
| Changes in financial assets and liabilities held for trading and hedging derivatives | 301 862 | (110 039) |
| Changes in loans and advances to customers | (4 056 344) | (8 977 621) |
| Changes in financial assets at fair value through other comprehensive income | (13 572 083) | 132 063 |
| Changes in securities at amortised cost | (3 236 549) | (1 269 668) |
| Changes of non-trading equity securities mandatorily at fair value through profit or loss | (29 001) | (128 433) |
| Changes in other assets | (192 609) | 82 410 |
| Changes in amounts due to banks | 833 979 | 28 205 |
| Changes in amounts due to customers | 22 631 353 | 11 699 986 |
| Changes in issued debt securities | 160 854 | 40 120 |
| Changes in provisions | 405 518 | 139 794 |
| Changes in other liabilities | 447 135 | 285 814 |
| **A. Cash flows from operating activities** | **2 260 081** | **2 740 218** |
| Disposal of shares in subsidiaries, net of disposed cash | 650 | - |
| Disposal of intangible assets and tangible fixed assets | 1 885 | 5 551 |
| Dividends received | 31 134 | 320 024 |
| Purchase of intangible assets and tangible fixed assets | (250 906) | (231 493) |
| **B. Cash flows from investing activities** | **(217 237)** | **94 082** |
| Proceeds from other loans and advances | - | 544 735 |
| Proceeds from issue of debt securities | 35 000 | 476 036 |
| Issue of ordinary shares | 60 | 46 |
| Repayments of loans and advances from banks | (196 140) | (560 027) |
| Repayments of other loans and advances | - | (1 058 369) |
| Redemption of debt securities | (178 042) | - |
| Acquisition of shares in subsidiaries - increase of involvement | - | (150 000) |
| Payments of other financial liabilities | (479 271) | - |
| Payments of lease liabilities | (84 106) | (82 422) |
| Interest paid from loans and advances received from banks and from subordinated liabilities | (68 165) | (66 760) |
| **C. Cash flows from financing activities** | **(970 664)** | **(896 761)** |
| **Net increase / decrease in cash and cash equivalents (A+B+C)** | **1 072 180** | **1 937 539** |
| Effects of exchange rate changes on cash and cash equivalents | 30 298 | 40 594 |
| Cash and cash equivalents at the beginning of the reporting period | 9 534 771 | 10 597 670 |
| **Cash and cash equivalents at the end of the reporting period** | **10 637 249** | **12 575 803** |

# Explanatory notes to the consolidated financial statements

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

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

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

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

The head office of the Bank is located at 18 Senatorska St., Warsaw.

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

As at 30 September 2020, mBank S.A. Group covered by the Consolidated Financial Statements comprised the following companies:

**mBank S.A., the parent entity**

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

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

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

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

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

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

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

As at 30 September 2020 the headcount of mBank S.A. amounted to 6 097 FTEs (Full Time Equivalents) and of the Group to 6 754 FTEs (30 September 2019: Bank 6 020 FTEs, Group 6 704 FTEs).

As at 30 September 2020 the employment in mBank S.A. was 7 118 persons and in the Group 9 470 persons (30 September 2019: Bank 7 057 persons, Group 9 253 persons).

The business activities of the Group are conducted in the following business segments presented in detail in Note 4.

**Corporates and Financial Markets Segment, including:**

**Corporate and Investment Banking**

- mBank Hipoteczny S.A., subsidiary (the corporate segment of the company's activity)
- mFaktoring S.A., subsidiary
- mLeasing Sp. z o.o., subsidiary (the corporate segment of the company's activity)
- Asekum Sp. z o.o., subsidiary (the corporate segment of the company's activity)
- Garbary Sp. z o.o., subsidiary
- Tele-Tech Investment Sp. z o.o., subsidiary

**Financial Markets**

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

**Retail Banking Segment**

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

**Other**

- BDH Development Sp. z o.o., subsidiary
- Future Tech Fundusz Inwestycyjny Zamknięty, subsidiary

**Other information concerning companies of the Group**

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

Information concerning the business conducted by the Group's entities is presented under Note 4 "Business Segments" of these condensed consolidated financial statements.

IFRS Condensed Consolidated Financial Statements for the third quarter of 2020 PLN (000's)

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

| Company | 30.09.2020 | | 31.12.2019 | | 30.09.2019 | |
|---|---|---|---|---|---|---|
| | Share in voting rights (directly and indirectly) | Consolidation method | Share in voting rights (directly and indirectly) | Consolidation method | Share in voting rights (directly and indirectly) | Consolidation method |
| mBank Hipoteczny S.A. | 100% | full | 100% | full | 100% | full |
| mLeasing Sp. z o.o. | 100% | full | 100% | full | 100% | full |
| mFinanse S.A. | 100% | full | 100% | full | 100% | full |
| mFaktoring S.A. | 100% | full | 100% | full | 100% | full |
| mFinance France S.A. | 99.998% | full | 99.998% | full | 99.998% | full |
| Future Tech Fundusz Inwestycyjny Zamknięty | 98.04% | full | 98.04% | full | 98.04% | full |
| Tele-Tech Investment Sp. z o.o. | 100% | full | 100% | full | 100% | full |
| BDH Development Sp. z o.o. | 100% | full | 100% | full | 100% | full |
| Garbary Sp. z o.o. | 100% | full | 100% | full | 100% | full |
| Asekum Sp. z o.o. | 100% | full | 100% | full | 100% | full |
| LeaseLink Sp. z o.o. | 100% | full | 100% | full | 100% | full |
| mElements S.A. | 100% | full | - | - | - | - |
| mCentrum Operacji Sp. z o.o. w likwidacji | - | - | - | - | 100% | full |

As at 31 December 2019, the Group classified BDH Development Sp. z o. o. to non-current assets held for sale. In November 2019, mCentrum Operacji Sp. z o. o. has been liquidated. The company's results achieved up to the date of liquidation were included in the Consolidated Financial Statements of the Group for 2019. The above issues have been described respectively in Note 24 and in Note 43 to the Consolidated Financial Statements of mBank S.A. Group for 2019, published on 28 February 2020.

The Management Board of mBank S.A. approved these condensed consolidated financial statements for issue on 28 October 2020.

## 2. Description of relevant accounting policies

### Accounting basis

The Condensed Consolidated Financial Statements of mBank S.A. Group have been prepared for the 9-month period ended 30 September 2020. Comparative data include the period from 1 January 2019 to 30 September 2019 for the condensed consolidated income statement, condensed consolidated statement of comprehensive income, the condensed consolidated statement of cash flows and condensed consolidated statement of changes in equity, additionally for the period from 1 January to 31 December 2019 for the condensed consolidated statement of changes in equity, and in the case of the condensed consolidated statement of financial position, data as at 31 December 2019.

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

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

The preparation of the financial statements in compliance with IFRS requires the application of specific accounting estimates. It also requires the Management Board to use its own judgment when applying the accounting policies adopted by the Group. The issues in relation to which a significant professional judgement is required, more complex issues, or such issues where estimates or judgments are material to the consolidated financial statements are disclosed in Note 3.

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

These condensed consolidated financial statements were prepared under the assumption that all the entities of the Group, except for mFinance France S.A. which has been put into liquidation after the balane sheet date, continues as a going concern in the foreseeable future, i.e. in the period of at least 12 months following the reporting date. As of the date of approving these statements, the Bank Management Board has not identified any events that could indicate that the continuation of the operations by the Group is endangered.

Detailed accounting principles applied to the preparation of these condensed consolidated financial statements are presented in Note 2 to the Consolidated Financial Statements of mBank S.A. Group for 2019, published on 28 February 2020. These principles were applied consistently over all presented periods, except for the change in accounting policies introduced since the beginning of 2020, consisting in the change in the manner of recognizing the FX margin on spot transactions. The change has been described below, in the item "Comparative data".

## New standards, interpretations and amendments to published standards

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

### Standards and interpretations endorsed by the European Union

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

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

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

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

### Standards and interpretations not yet endorsed by the European Union

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

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

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

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

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

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

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

The Group is currently analysing the impact of applying the amendments to the standards on the financial statements in the period of their initial application.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

## Comparative data

- The recognition of FX margin on spot transactions

From January 2020, the Group changed the rules for presenting the FX margin on spot transactions. So far, the FX margin was presented in the Net trading income as part of the Foreign exchange result. After the change, the FX margin is part of the Net fee and commission income and is recognized in the item "Commissions from currency transactions". The change was caused by adjusting the presentation of the FX margin in the income statement to the prevailing market practice. The comparative data for the period from 1 January to 30 September 2019 have been appropriately restated, which resulted in an increase in Fee and commission income and a decrease in the Net trading income by PLN 222 749 thousand.

- Presentation of result on provisions for legal risk related to foreign currency loans

Since the end of 2019 a new line item in the income statement has been separated in which the Group presents the result on provisions for legal risk related to foreign currency loans. Previously the expenses of creating provisions for court cases relating to foreign currency loans were presented in the other operating expenses, and income relating to release of those provisions was presented within other operating income. This change was introduced in order to enable a clearer presentation of issues relevant to the Group's financial results. The comparative data for the period from 1 January to 30 September 2019 have been adjusted accordingly, which resulted in the decrease of other operating expenses by PLN 94 333 thousand. The result on provisions for legal risk related to foreign currency loans for the three quarters of 2019 was negative and amounted to PLN 94 333 thousand.

- The recognition of some transactions of purchase and sale of securities

In the fourth quarter 2019, the Bank adjusted the recognition of transactions in Treasury securities which in the previous years were incorrectly classified as outright buy or sale of securities and should have been classified as buy/sell back ("BSB") or sell/buy back ("SBB") transactions instead. Detailed information on the impact of the adjustments made on the income statement, statement of comprehensive income, statement of financial position and cash flow statement of the Group for 2019 and 2018 was presented in Note 2.30 to the Consolidated Financial Statements of mBank S.A. for 2019, published on 28 February 2020.

Due to the above, in these condensed consolidated financial statements the Group adjusted the comparative data as at and for the period ended 30 September 2019, decreasing retained earnings by PLN 44 873 thousand, as well as increasing the net profit for the three quarters of 2019 by decreasing the tax on selected financial institutions (banking tax) by PLN 44 531 thousand. Moreover, the Group decreased the amount of the provision for the banking tax by PLN 47 039 thousand and increased liabilities to tax authorities in the amount of PLN 47 381 thousand.

The impact of the adjustments on the comparative data presented in these condensed consolidated financial statements for the period from 1 January to 30 September 2019 and as at 30 September 2019 is presented in the following statements.

IFRS Condensed Consolidated Financial Statements for the third quarter of 2020 PLN (000's)

## Restatements in the consolidated income statement

| | Period from 01.01.2019 to 30.09.2019 before restatement | Restatement | Period from 01.01.2019 to 30.09.2019 after restatement |
|---|---|---|---|
| Interest income, including: | 3 795 517 | - | 3 795 517 |
| *Interest income accounted for using the effective interest method* | *3 365 776* | - | *3 365 776* |
| *Income similar to interest on financial assets at fair value through profit or loss* | *429 741* | - | *429 741* |
| Interest expenses | (803 246) | - | (803 246) |
| **Net interest income** | **2 992 271** | **-** | **2 992 271** |
| Fee and commission income | 1 246 343 | 222 749 | 1 469 092 |
| Fee and commission expenses | (543 223) | - | (543 223) |
| **Net fee and commission income** | **703 120** | **222 749** | **925 869** |
| Dividend income | 3 949 | - | 3 949 |
| Net trading income, including: | 328 162 | (222 749) | 105 413 |
| *Foreign exchange result* | *292 802* | *(222 749)* | *70 053* |
| *Gains or losses on financial assets and liabilities held for trading* | *27 616* | - | *27 616* |
| *Gains or losses from hedge accounting* | *7 744* | - | *7 744* |
| Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss | 50 837 | - | 50 837 |
| Gains less losses from financial assets and liabilities not measured at fair value through profit or loss and investments in subsidiaries and associates, including: | 22 841 | - | 22 841 |
| *Gains less losses from debt securities measured at fair value through other comprehensive income* | *27 328* | - | *27 328* |
| *Gains less losses from investments in subsidiaries and associates* | *(4 921)* | - | *(4 921)* |
| *Gains less losses from derecognition* | *434* | - | *434* |
| Other operating income | 175 990 | - | 175 990 |
| Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss | (546 380) | - | (546 380) |
| Result on provisions for legal risk related to foreign currency loans | - | (94 333) | (94 333) |
| Overhead costs | (1 525 418) | - | (1 525 418) |
| Depreciation | (270 011) | - | (270 011) |
| Other operating expenses | (328 926) | 94 333 | (234 593) |
| **Operating profit** | **1 606 435** | **-** | **1 606 435** |
| Tax on the Group's balance sheet items | (381 809) | 44 531 | (337 278) |
| **Profit before income tax** | **1 224 626** | **44 531** | **1 269 157** |
| Income tax expense | (375 123) | - | (375 123) |
| **Net profit** | **849 503** | **44 531** | **894 034** |
| **Net profit attributable to:** | | | |
| - Owners of mBank S.A. | 849 567 | 44 531 | 894 098 |
| - Non-controlling interests | (64) | - | (64) |
| **Earnings per share (in PLN)** | **20.07** | **1.05** | **21.12** |
| **Diluted earnings per share (in PLN)** | **20.06** | **1.05** | **21.11** |

## Restatements in the consolidated statement of comprehensive income

| | Period from 01.01.2019 to 30.09.2019 before restatement | Restatement | Period from 01.01.2019 to 30.09.2019 after restatement |
|---|---|---|---|
| **Net profit** | **849 503** | **44 531** | **894 034** |
| **Other comprehensive income net of tax** | **17 499** | **-** | **17 499** |
| **Total comprehensive income (net)** | **867 002** | **44 531** | **911 533** |
| **Total comprehensive income (net), attributable to:** | | | |
| - Owners of mBank S.A. | 867 066 | 44 531 | 911 597 |
| - Non-controlling interests | (64) | - | (64) |

IFRS Condensed Consolidated Financial Statements for the third quarter of 2020 PLN (000's)

## Restatement in the consolidated statement of financial position

| ASSETS | 30.09.2019 before restatement | Restatement | 30.09.2019 after restatement |
|---|---|---|---|
| **TOTAL ASSETS** | **158 774 045** | **-** | **158 774 045** |

| LIABILITIES | 30.09.2019 before restatement | Restatement | 30.09.2019 after restatement |
|---|---|---|---|
| Provisions | 443 723 | (47 039) | 396 684 |
| Other liabilities | 3 479 913 | 47 381 | 3 527 294 |
| Other items of liabilities | 138 759 701 | - | 138 759 701 |
| **TOTAL LIABILITIES** | **142 683 337** | **342** | **142 683 679** |
| **EQUITY** | | | |
| **Equity attributable to Owners of mBank S.A.** | **16 088 688** | **(342)** | **16 088 346** |
| **Share capital** | **3 579 068** | **-** | **3 579 068** |
| **Retained earnings:** | **12 277 283** | **(342)** | **12 276 941** |
| - Profit from the previous year | 11 427 716 | (44 873) | 11 382 843 |
| - Profit for the current year | 849 567 | 44 531 | 894 098 |
| **Other components of equity** | **232 337** | **-** | **232 337** |
| **Non-controlling interests** | **2 020** | **-** | **2 020** |
| **TOTAL EQUITY** | **16 090 708** | **(342)** | **16 090 366** |
| | | | |
| **TOTAL LIABILITIES AND EQUITY** | **158 774 045** | **-** | **158 774 045** |

## Restatement in the consolidated statement of cash flow

| | Period from 01.01.2019 to 30.09.2019 before restatement | Restatement | Period from 01.01.2019 to 30.09.2019 after restatement |
|---|---|---|---|
| **Profit before income tax** | **1 224 626** | **44 531** | **1 269 157** |
| **Adjustments, including:** | **3 843 553** | **(44 531)** | **3 799 022** |
| Changes in provisions | 185 440 | (47 039) | 138 401 |
| Changes in other liabilities | 161 784 | 2 508 | 164 292 |
| Other adjustments | 3 496 329 | - | 3 496 329 |
| **A. Cash flows from operating activities** | **5 068 179** | **-** | **5 068 179** |
| **B. Cash flows from investing activities** | **(338 425)** | **-** | **(338 425)** |
| **C. Cash flows from financing activities** | **(2 697 974)** | **-** | **(2 697 974)** |
| **Net increase / decrease in cash and cash equivalents (A+B+C)** | **2 031 780** | **-** | **2 031 780** |
| Effects of exchange rate changes on cash and cash equivalents | 40 594 | - | 40 594 |
| Cash and cash equivalents at the beginning of the reporting period | 10 630 969 | - | 10 630 969 |
| **Cash and cash equivalents at the end of the reporting period** | **12 703 343** | **-** | **12 703 343** |

IFRS Condensed Consolidated Financial Statements for the third quarter of 2020 PLN (000's)

## Stand-alone data of the Bank

### Restatements in the income statement

| | Period from 01.01.2019 to 30.09.2019 before restatement | Restatement | Period from 01.01.2019 to 30.09.2019 after restatement |
|---|---|---|---|
| Interest income, including: | 3 334 310 | - | 3 334 310 |
| *Interest income accounted for using the effective interest method* | *2 938 116* | - | *2 938 116* |
| *Income similar to interest on financial assets at fair value through profit or loss* | *396 194* | - | *396 194* |
| Interest expenses | (684 047) | - | (684 047) |
| **Net interest income** | **2 650 263** | **-** | **2 650 263** |
| Fee and commission income | 1 130 413 | 222 749 | 1 353 162 |
| Fee and commission expenses | (471 900) | - | (471 900) |
| **Net fee and commission income** | **658 513** | **222 749** | **881 262** |
| Dividend income | 320 024 | - | 320 024 |
| Net trading income, including: | 330 125 | (222 749) | 107 376 |
| *Foreign exchange result* | *289 303* | *(222 749)* | *66 554* |
| *Gains or losses on financial assets and liabilities held for trading* | *37 395* | - | *37 395* |
| *Gains or losses from hedge accounting* | *3 427* | - | *3 427* |
| Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss | 54 206 | - | 54 206 |
| Gains less losses from financial assets and liabilities not measured at fair value through profit or loss and investments in subsidiaries and associates, including: | 11 748 | - | 11 748 |
| *Gains less losses from debt securities measured at fair value through other comprehensive income* | *27 328* | - | *27 328* |
| *Gains less losses from investments in subsidiaries and associates* | *(112)* | - | *(112)* |
| *Gains less losses from derecognition* | *(15 468)* | - | *(15 468)* |
| Other operating income | 34 876 | - | 34 876 |
| Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss | (485 130) | - | (485 130) |
| Result on provisions for legal risk related to foreign currency loans | - | (94 333) | (94 333) |
| Overhead costs | (1 369 428) | - | (1 369 428) |
| Depreciation | (239 520) | - | (239 520) |
| Other operating expenses | (231 934) | 94 333 | (137 601) |
| **Operating profit** | **1 733 743** | **-** | **1 733 743** |
| Tax on the Group's balance sheet items | (357 373) | 44 531 | (312 842) |
| Share in profits (losses) of entities under the equity method | (205 715) | - | (205 715) |
| **Profit before income tax** | **1 170 655** | **44 531** | **1 215 186** |
| Income tax expense | (340 646) | - | (340 646) |
| **Net profit** | **830 009** | **44 531** | **874 540** |
| | | | |
| **Earnings per share (in PLN)** | **19.60** | **1.06** | **20.66** |
| **Diluted earnings per share (in PLN)** | **19.60** | **1.05** | **20.65** |

### Restatements in the statement of comprehensive income

| | Period from 01.01.2019 to 30.09.2019 before restatement | Restatement | Period from 01.01.2019 to 30.09.2019 after restatement |
|---|---|---|---|
| **Net profit** | **830 009** | **44 531** | **874 540** |
| **Other comprehensive income net of tax** | **57 562** | **-** | **57 562** |
| **Total comprehensive income (net)** | **887 571** | **44 531** | **932 102** |

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Restatement in the statement of financial position

| **ASSETS** | **30.09.2019 before restatement** | **Restatement** | **30.09.2019 after restatement** |
|---|---|---|---|
| **TOTAL ASSETS** | **150 570 225** | **-** | **150 570 225** |

| **LIABILITIES** | **30.09.2019 before restatement** | **Restatement** | **30.09.2019 after restatement** |
|---|---|---|---|
| Provisions | 442 715 | (47 039) | 395 676 |
| Other liabilities | 2 884 657 | 47 381 | 2 932 038 |
| Other items of liabilities | 131 172 631 | - | 131 172 631 |
| **TOTAL LIABILITIES** | **134 500 003** | **342** | **134 500 345** |
| **EQUITY** | | | |
| **Share capital** | **3 579 068** | **-** | **3 579 068** |
| **Retained earnings:** | **12 256 810** | **(342)** | **12 256 468** |
| - Profit from the previous year | 11 426 801 | (44 873) | 11 381 928 |
| - Profit for the current year | 830 009 | 44 531 | 874 540 |
| **Other components of equity** | **234 344** | **-** | **234 344** |
| **TOTAL EQUITY** | **16 070 222** | **(342)** | **16 069 880** |
| | | | |
| **TOTAL LIABILITIES AND EQUITY** | **150 570 225** | **-** | **150 570 225** |

Restatement in the statement of cash flow

| | **Period from 01.01.2019 to 30.09.2019 before restatement** | **Restatement** | **Period from 01.01.2019 to 30.09.2019 after restatement** |
|---|---|---|---|
| **Profit before income tax** | **1 170 655** | **44 531** | **1 215 186** |
| **Adjustments, including:** | **1 569 563** | **(44 531)** | **1 525 032** |
| Changes in provisions | 186 833 | (47 039) | 139 794 |
| Changes in other liabilities | 283 306 | 2 508 | 285 814 |
| Other adjustments | 1 099 424 | - | 1 099 424 |
| **A. Cash flows from operating activities** | **2 740 218** | **-** | **2 740 218** |
| **B. Cash flows from investing activities** | **94 082** | **-** | **94 082** |
| **C. Cash flows from financing activities** | **(896 761)** | **-** | **(896 761)** |
| **Net increase / decrease in cash and cash equivalents (A+B+C)** | **1 937 539** | **-** | **1 937 539** |
| Effects of exchange rate changes on cash and cash equivalents | 40 594 | - | 40 594 |
| Cash and cash equivalents at the beginning of the reporting period | 10 597 670 | - | 10 597 670 |
| **Cash and cash equivalents at the end of the reporting period** | **12 575 803** | **-** | **12 575 803** |

The above-mentioned changes in the comparative data have been included in these financial statements in all the notes to which these changes referred.

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

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

Impairment of loans and advances

The Group reviews its loan portfolio in terms of possible impairments at least once per quarter. In order to determine whether any impairment loss should be recognised in the income statement, the Group assesses whether any evidence exists that would indicate some measurable reduction of estimated future cash flow attached to the loan portfolio. The methodology and the assumptions (on the basis of which the estimated cash flow amounts and their anticipated timing are determined) are regularly verified. If the current value of estimated cash flows (discounted recoveries from payments of capital, discounted recoveries from interests, discounted recoveries from off-balance sheet liabilities and discounted recoveries from collaterals for on-balance and off-balance sheet loans and advances, weighed by the probability of realization of specific scenarios) for portfolio of loans and advances which are impaired, change by +/-10%, the estimated loans and advances impairment would either decrease by PLN 65.9 million or increase by PLN 74.7 million as at 30 September 2020, respectively (as at 31 December 2019: PLN 49.7 million and PLN 59.4 million, respectively). This estimation was performed for portfolio of loans and advances and for off-balance sheet liabilities individually assessed for impairment on the basis of future cash flows due to repayments and recovery from collateral – stage 3. The rules of determining write-downs and provisions for impairment of credit exposures have been described under Note 3.3.6 to the Consolidated Financial Statements of mBank S.A. Group for 2019, published on 28 February 2020.

**COVID-19 pandemic impact on the mBank Group activities**

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

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

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

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

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

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

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

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

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

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

The Group made available for the Corporate Banking clients also new financing aimed at stabilizing their liquidity situation, according to which collateral in the form of BGK (Bank Gospodarstwa Krajowego) guarantees is used. These guarantees do not constitute government subsidies as defined in IAS 20.

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A transaction secured with a BGK guarantee must meet the conditions defined in a specific portfolio guarantee line agreement signed between the Group and BGK. The BGK guarantee secures up to 80% of the exposure, but not more than the specified maximum level defined in the agreement. The Group may use the BGK guarantee in the first place in case of non-payment of a borrower. If the Group have used BGK guarantee, potential recoveries from the borrower are shared between mBank Group and BGK on a pari passu basis.

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

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

| | 30.09.2020 | |
|---|---|---|
| | Number of obligors | Of which: granted |
| **Moratoria** | 79 193 | 76 123 |
| **Government guarantees (BGK)** | 28 | 28 |

| | 30.09.2020 | | | | |
|---|---|---|---|---|---|
| | Gross carrying amount of moratoria | Of which: subject to expired moratoria | Of which: subject to active moratoria | Accumulated impairment, accumulated negative changes in fair value due to credit risk of active moratoria | Net carrying amount of active moratoria |
| **Moratoria** | **16 317 775** | **11 973 044** | **4 344 731** | **(70 941)** | **4 273 790** |
| - Individual customers | 7 024 934 | 5 963 862 | 1 061 072 | (24 129) | 1 036 943 |
| - Corporate customers | 9 292 841 | 6 009 182 | 3 283 659 | (46 812) | 3 236 847 |
| **Government guarantees (BGK)** | **284 484** | **-** | **284 484** | **(2 044)** | **282 440** |
| - Individual customers | **-** | **-** | **-** | **-** | **-** |
| - Corporate customers | 284 484 | - | 284 484 | (2 044) | 282 440 |

| | Performing | | | | |
|---|---|---|---|---|---|
| | Gross carrying amount | Of which: exposures with forbearance measures | Of which: grace period of capital and interest | Of which: instruments with significant increase in credit risk since initial recognition but not credit-impaired (Stage 2) | Accumulated impairment |
| **Moratoria** | **4 314 476** | **39 634** | **477 375** | **1 992 492** | **(66 430)** |
| - Individual customers | 1 052 463 | 4 845 | 289 013 | 597 221 | (22 646) |
| - Corporate customers | 3 262 013 | 34 789 | 188 362 | 1 395 271 | (43 784) |
| **Government guarantees (BGK)** | **284 484** | **-** | **-** | **24 902** | **(2 044)** |
| - Individual customers | - | - | - | - | - |
| - Corporate customers | 284 484 | - | - | 24 902 | (2 044) |

| | Non-performing | | | | |
|---|---|---|---|---|---|
| | Gross carrying amount | Of which: exposures with forbearance measures | Of which: unlikely to pay that are not past-due or past-due <= 90 days | Accumulated impairment | Inflows to non-performing exposures |
| **Moratoria** | **30 255** | **7 310** | **10 459** | **(4 511)** | **2 672** |
| - Individual customers | 8 609 | 1 765 | 4 914 | (1 483) | 2 467 |
| - Corporate customers | 21 646 | 5 545 | 5 545 | (3 028) | 205 |
| **Government guarantees (BGK)** | **-** | **-** | **-** | **-** | **-** |
| - Individual customers | - | - | - | - | - |
| - Corporate customers | - | - | - | - | - |

The vast majority of clients who had active moratoria as of 30 September 2020 received support only benefited from the suspension of the principal part of the instalment - around 89% of the total exposure covered by the moratoria. Consequently the customers are still obeyed to make repayments but in a lower amount. The delay in the interest payments is subject to the standard days-past-due calculation. Overdue interest payment exceeding 30 days results in the reclassification of exposure to stage 2 and exceeding 90 days - to stage 3.

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

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

The process of client and transaction risk monitoring takes into account the impact of the COVID-19 pandemic on the client's situation and the strength of the impact (i.e. temporary turbulence, long-term problem for the business model, etc.) as well as the plan to mitigate this impact implemented by the client. The Group conducts sector analysis of clients that have applied for moratorium. Among those clients, the largest balance sheet exposure as at 30 September 2020 is held by clients operating in the following sectors: real estate activities, transport and storage, accommodation and food service activities.

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

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

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

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

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

1. Review of sectors and individual clients of the corporate portfolio, in particular clients under observation, in order to verify the potential increase in the probability of failure to implement the restructuring plans, which was already carried out in March as the first activity of the Group as part of taking into account the impact of the epidemic on clients' financial situation.

2. Modification of the weight of macroeconomic scenarios, consisting in assigning a 100% weight to the pessimistic scenario, in the expected credit loss model, applied in the first quarter of 2020.

3. Updating models of the relationship between the long-term PD parameter and macroeconomic variables, based on historical data and the currently observed economic situation, in the second quarter of 2020.

4. Updating macroeconomic forecasts, taking into account the impact of COVID-19 and state aid actions, affecting long-term PD, EAD and LGD parameters, as well as the level of exposure allocation to stage 2, in particular by increasing the expected level of allocation for some portfolios due to the expected increase in the loss ratio, in the second quarter of 2020.

5. Restoration of macroeconomic scenario weights of 60% for the baseline scenario, 20% for the optimistic and 20% for the pessimistic respectively, in the expected credit loss model, while taking into account the current macroeconomic forecasts implemented directly in the risk parameters, in the second quarter of 2020

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Due to the uncertainty related to the difficulties in observation of the timeliness of repayment of loans covered by moratoria, the Group also decided to reclassify, as at 30 September 2020, some of the retail clients covered by this form of support, selected on the basis of behavioral characteristics, to stage 2 despite no evidence of a significant increase of credit risk, which resulted in the recognition of additional cost of credit risk in the amount of PLN 42.4 million.

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

The above-mentioned activities resulted in recognition of total additional cost of credit risk in the amount of PLN 242.5 million in the portfolio measured at amortized cost. In addition, these activities had an impact on the valuation of the loan portfolio at fair value through profit or loss, for which the Group recognized an additional cost of PLN 9.4 million.

Due to the fact that changes in risk parameters following the outbreak of the COVID-19 pandemic were implemented over a period of several months in a very dynamically changing macroeconomic environment, the Group decided to present the total value of their impact on 30 September 2020, as presented in the table below.

| | 30 September 2020 | | |
|---|---|---|---|
| | Individual customers | Corporate customers | Total |
| **Financial asset measured at amortized cost** | **122 431** | **120 049** | **242 480** |
| Stage 1 | 3 060 | 3 013 | 6 073 |
| Stage 2 | 104 173 | 35 974 | 140 147 |
| Stage 3 | 15 198 | 81 062 | 96 260 |
| **Financial assets measured at fair value through profit or loss** | **9 414** | **-** | **9 414** |

As at 30 September 2020, the Group did not apply management corrections (overlays).

Since the last interim financial statement publication, i.e. from 30 June 2020, the Group has not modified the forecasts of future macroeconomic conditions, thus the Group does not identify any significant changes in the expectations of the future economic conditions that could significantly affect the estimates of expected credit losses.

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

<u>Provisions for legal risks</u>

Provisions for legal proceedings are recognized for the value in dispute and other costs on each reporting date based on an estimate of the probability of loss. However, the Group's final liability may differ from the provisions that have been recognized, as a high degree of judgement is involved in assessing the probability of uncertain liabilities in such legal proceedings and quantifying them. These estimates may turn out to be inaccurate at a later stage of the proceedings.

The Group closely observes the developments in courts verdicts in legal proceedings regarding mortgage and housing loans in CHF, including impact of the Court of Justice of the European Union (CJEU) judgment described in point 26 Selected explanatory information "Proceedings before a court, arbitration body or public administration authority". As at 30 September 2020, the Group recognized a provision for individual court cases concerning indexation clauses in mortgage and housing loans in CHF in the amount of PLN 796 351 thousand (31 December 2019: PLN 417 653 thousand). This provision has been calculated in accordance with the calculation methodology implemented in 2019 based on the 'expected value' method allowed by the IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" in which the obligation is estimated by weighting all possible outcomes by their associated probabilities. The methodology applied by the Bank depends on numerous assumptions, all associated with the significant degree of expert judgement made by the Bank, among which the most important are: an expected population of borrowers who will file a lawsuit against the Bank, the probability of losing the case having final and binding judgement, the distribution of expected verdicts judged by the courts and the loss to be incurred by the Bank in case of a losing the case in court. The increase in the provision in the three quarters of 2020 comprises mostly of the effects of increase of probability of loss assumed in the calculation, the number of the projected cases, update of the assessment resulting in an increase of level of loss in case of losing the case by the Bank and change in the CHF / PLN exchange rate. The increase in the provision in the third quarter of 2020 alone resulted mainly from the changes in probability of loss assumed in the calculation as well as changes in assumptions regarding the number of the projected cases.

The population of borrowers who will file a lawsuit against the Bank has been projected for a period of 5 years (counting from 31 December 2019) based on the Bank's history of legal cases in the past and assumes a significant increase in inflow of new cases. The Bank assumes that vast majority of the projected cases will be filed within first 3 years. If the assumed number of inflowing cases changed by +/- 20% and all other relevant assumptions remained constant the amount of the provision would change by +/- PLN 52.1 million. The assumed population of borrowers has not changed in the first half of 2020. In the third quarter of 2020 the Bank increased the number of the cases by 13.7% when compared to 31 December 2019.

The probability of loss has been calculated using data from the Bank's history of final and binding positive and negative verdicts. Despite the prevailing number of negative final verdicts announced in the indexation clauses proceedings in 2020, approximately half of all final verdicts till 30 September 2020 was favourable to the Group. As the number of final verdicts is not statistically representative (too few binding verdicts have been issued by courts in cases related to mBank) the assumption of probability of loss takes also into account expert judgements by the Bank about the future trends in the court verdicts as well as anticipated verdicts of the Supreme Court and CJEU in CHF mortgage loans related proceedings. If the assumed probability of loss changed by +/- 10% and all other relevant assumptions remained constant the amount of the provision would change by +/- PLN 79.6 million. As a result of assessment of the assumptions by the Bank the probability of loss assumed in the calculation as of 30 September 2020 increased by 33.3% compared to 31 December 2019, out of which 16.7% in first half of 2020.

The methodology also takes into account the expected level of loss in case of losing the case by the Bank. The projected loss rate was calculated using the probabilities of different verdicts that may be issued. As currently there is still no homogenous line of verdicts taken by the courts in such cases the Bank took into account three possible losing scenarios of outcomes in legal proceedings: (i) the contract is partially invalid; the contract is not invalid, but the indexation mechanism is eliminated, which transforms a loan indexed to CHF into a PLN loan subject to the interest rate of the loan indexed to CHF, (ii) the contract is invalid in whole; the change in the contract resulting from deletion of the exchange rate norm (assuming that the norm defines the main subject matter of the contract) would be too far-reaching and (iii) the contract on a mortgage indexed to the CHF is not invalid and the loan remains a mortgage indexed to CHF; the gap should be filled by interpreting the contract based on a norm referring to the fixing rate of the NBP. Each of these scenarios is associated with a different level of predicted losses for the Bank. The Bank calculated the average level of loss weighted with the probabilities of occurrence of the given scenario in case of negative final and binding judgement. The probabilities of those scenarios applied by the Bank has been based on the assessment of the Bank consulted with the external legal advisor. If the assumed weighted average loss changed by +/- 5% and all other relevant assumptions remained constant the amount of the provision would change by +/- PLN 39.8 million. The weighted average loss assumed in the calculation as of 30 September 2020 increased by 16.2% compared to 31 December 2019. No changes in this assumption were implemented in the third quarter of 2020.

The method used to calculate the provision is based on parameters that are highly judgmental and with a high range of possible values. It is possible that the provision will have to be adjusted significantly in the future, particularly that important parameters used in calculations are interdependent.

Prepayments of retail loans

CJEU ruled on 11 September 2019 that in case concerning consumer loans paid off prematurely the consumer has the right to a reduction in the total cost of the loan in the event of early repayment of the credit. The interpretation constituted an answer to a prejudicial question asked in a court case in which few banks have participated including mBank.

The above ruling impacts consumer loans granted on 18 December 2011 or later, in the amount not exceeding 255 550 PLN or its equivalent in other currency and mortgage loans granted on 22 July 2017 or later with no limit of the loan amount, which have been paid off fully or partially.

As of 30 September 2020 the provision recorded within other provisions (Note 25) related to potential reimbursements of commissions in relation to early repayments of loans before the date of the verdict amounted to PLN 17.0 million (PLN 16.5 million as of 31 December 2019).

The total negative impact of early repayments of retail loans on the Group's three quarters 2020 gross profit amounted to PLN 40.6 million, of which PLN 36.5 million reduced net interest income and PLN 4.1 million increased other operating expenses.

The above estimates are burdened with significant uncertainty regarding the number of customers who will request the Bank to refund commissions regarding earlier repayments made by the CJEU verdict as well as the expected rate of loan prepayments in the future.

Fair value of derivatives and other financial instruments

The fair value of financial instruments not listed on active markets is determined by applying valuation techniques. All the models are approved prior to being applied and they are also calibrated in order to assure that the obtained results indeed reflect the actual data and comparable market prices. As far as possible, observable market data originating from an active market are used in the models. Methods for determining the fair value of financial instruments are described in Note 2.7 to the Consolidated Financial Statements of mBank S.A. Group for 2019, published on 28 February 2020.

Deferred tax assets

Deferred tax assets are recognised in respect of tax losses to the extent that it is probable that future taxable profit will be available, against which the losses can be utilised. Judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits.

Income tax in interim financial statements

Income tax in interim financial statements is accrued in accordance with IAS 34. Interim period tax expense is accrued using the tax rate that would be applicable to expected total annual earnings, that is, the estimated average annual effective income tax rate applied to the pre-tax income of the interim period.

The calculation of the average annual effective income tax rate requires the use of a pre-tax income forecast for the entire fiscal year and permanent differences between the carrying amounts of assets and liabilities and their tax base. The projected annual effective tax rate used to calculate the income tax expense during the three quarters of 2020 was 54.9%.

Revenue and expenses from sale of insurance products bundled with loans

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

The remuneration included in fee and commission income is recognised partly as upfront income and partly including deferring over time based on the analysis of the stage of completion of the service.

The Group leads in case of insurance policies bundled with loans to upfront recognition less than 10% of bancassurance income associated with cash and car loans and 0% to approximately 25% of bancassurance income associated with mortgage loans. Recognition of the remaining part of the income is spread over the economic life of the associated loans. Expenses directly linked to the sale of insurance products are recognised using the same pattern.

Liabilities due to post-employment employee benefits

The costs of post-employment employee benefits are determined using an actuarial valuation method. The actuarial valuation involves making assumptions about discount rates, future salary increases, mortality rates and other factors. Due to the long–term nature of these programmes, such estimates are subject to significant uncertainty.

Leasing classification

The Group as lessor makes judgement classifying lease agreements as finance lease or operating lease based on the economic substance of the transaction basing on professional judgment whether substantially all the risk and rewards incidental to ownership of an asset were transferred or not.

The Group as a lessee makes certain estimates and calculations that have an impact on the valuation of lease liabilities and right-of-use assets. They include, among others: determination of the duration of contracts, determining the interest rate used to discount future cash flows and determination of the depreciation rate of right-of-use assets.

## 4. Business segments

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

The classification by business segments is based on client groups and product groups defined by homogenous transaction characteristics. The classification is consistent with sales management and the philosophy of delivering complex products to the Bank's clients, including both standard banking products and more sophisticated investment products. The method of presentation of financial results coupled with the business management model ensures a constant focus on creating added value in relations with clients of the Bank and Group companies and should be seen as a primary division, which serves the purpose both managing and perceiving business within the Group.

The Group conducts its business through different business segments, which offer specific products and services targeted at specific client groups and market segments. The Group currently conducts its operations through the following business segments:

- The Retail Banking segment, which divides its customers into mBank customers and Private Banking customers and which offers a full range of the Bank's banking products and services as well as specialized products offered by a number of subsidiaries belonging to the Retail Banking segment. The key products in this segment include current and savings accounts (including accounts in foreign currencies), term deposits, lending products (retail mortgage loans and non-mortgage loans such as cash loans, car loans, overdrafts, credit cards and other loan products), debit cards, insurance products, investment products, brokerage and leasing services offered to both individual customers and to micro-businesses. The results of the Retail Banking segment include the results of foreign branches of mBank in the Czech Republic and Slovakia. The Retail Banking segment also includes the results of mFinanse S.A., LeaseLink Sp. z o.o. and mElements S.A. (since January 2020), as well as the results of retail segments of mLeasing Sp. z o.o., Asekum Sp. z o.o. and mBank Hipoteczny S.A.

- The Corporates and Financial Markets segment, which is divided into two sub-segments:

  - *Corporate and Investment Banking* sub-segment (business line), which targets small, medium and large-sized companies and public sector entities. The key products offered to these customers include transactional banking products and services including current account products, multi-functional internet banking, tailor-made cash management and trade finance services, term deposits, foreign exchange transactions, a comprehensive offer of short-term financing and investment loans, cross-border credit, project finance, structured and mezzanine finance services, investment banking products including foreign exchange options, forward contracts, interest rate derivatives and commodity swaps and options, structured deposit products with embedded options (interest on structured deposit products are directly linked to the performance of certain underlying financial instruments such as foreign exchange options, interest rate options and stock options), debt origination for corporate clients, treasury bills and bonds, non-government debt, medium-term bonds, buy/sell back and sell/buy back transactions and repo transactions, as well as leasing, factoring and brokerage services. The Corporate and Investment Banking sub-segment includes the results of the following subsidiaries: mFaktoring S.A., Garbary Sp. z o.o., Tele-Tech Investment Sp. z o.o. as well as the results of corporate segments of mLeasing Sp. z o. o., Asekum Sp. z o.o. and mBank Hipoteczny S.A.

  - *Financial Markets* sub-segment (business line) consists primarily of treasury, financial markets, and financial institutions operations, manages the liquidity, interest rate and foreign exchange risks of the Bank, its trading and investment portfolios, and conducts market making in PLN denominated cash and derivative instruments. The Bank also maintains an extensive correspondent banking network and also develops relationships with other banks providing products such as current accounts, overdrafts, stand alone and syndicated loans and loans insured by KUKE to support the Polish export market. This sub-segment also includes the results of mFinance France S.A. as well as the results of mLeasing Sp. z o.o and mBank Hipoteczny S.A. with regard to activities concerning funding.

- Operations which are not included in the Retail Banking segment and the Corporates and Financial Markets segment are reported under "Other". This segment includes the results of BDH Development Sp. z o.o., Future Tech Fundusz Inwestycyjny Zamknięty and mCentrum Operacji Sp. z o.o. w likwidacji until the date of liquidation of the company.

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

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

Allocation of funds to the Group companies and assigning them to particular business segments results in funding cost transfers. Interest charged for these funds is based on the Group's weighted average cost of capital and presented in operating income.

Internal fund transfers between the Bank's units are calculated at transfer rates based on market rates. Transfer rates are determined on the same basis for all operating units of the Bank and their differentiation results only from currency and maturity structure of assets and liabilities. Internal settlements concerning internal valuation of funds transfers are reflected in the results of each segment.

Assets and liabilities of a business segment comprise operating assets and liabilities, which account for most of the statement of financial position, whereas they do not include such items as taxes or loans.

The separation of the assets and liabilities of a segment, as well as of its income and costs, is done on the basis of internal information prepared at the Bank for the purpose of management accounting. Assets and liabilities for which the units of the given segment are responsible as well as income and costs related to such assets and liabilities are attributed to individual business segments. The financial result of a business segment takes into account all the income and cost items attributable to it.

The business operations of particular companies of the Group are fully attributed to the appropriate business segments (including consolidation adjustments).

The primary basis used by the Group in the segment reporting is business line division. In addition, the Group's activity is presented by geographical areas reporting broken down into Poland and foreign countries because of the place of origin of income and expenses. Foreign countries segment includes activity of mBank's foreign branches in Czech Republic and Slovakia as well as activity of foreign subsidiary mFinance France S.A. The activity of the company mFinance France S.A., after the elimination of income and expenses and assets and liabilities related to the issue of bonds under the EMTN programme, is presented in the "Foreign countries" segment. The cost of the EMTN programme as well as the related assets and liabilities are presented in the segment "Poland".

In connection with the change in the key of allocation of income on capital since the beginning of 2020, the comparative data for the three quarters of 2019 regarding the interest result by business segment activities of mBank S.A. Group have been changed accordingly. The other changes result from adjustments to comparative data described in Note 2 in the item "Comparative data".

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Business segment reporting on the activities of mBank S.A. Group for the period from 1 January to 30 September 2020 – data regarding consolidated income statement.

| | Corporates & Financial Markets | | Retail Banking | Other | Total figure for the Group |
|---|---|---|---|---|---|
| | Corporate and Investment Banking | Financial Markets | | | |
| Net interest income | 809 909 | 164 269 | 2 049 084 | 9 108 | 3 032 370 |
| - sales to external clients | 814 166 | 551 103 | 1 665 668 | 1 433 | 3 032 370 |
| - sales to other segments | (4 257) | (386 834) | 383 416 | 7 675 | - |
| Net fee and commission income | 564 957 | (10 680) | 560 855 | (16 318) | 1 098 814 |
| Dividend income | - | - | - | 4 789 | 4 789 |
| Trading income | 53 143 | 64 662 | 26 410 | (1 714) | 142 501 |
| Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss | (1 607) | - | (34 283) | 1 572 | (34 318) |
| Gains less losses from financial assets and liabilities not measured at fair value through profit or loss and investments in subsidiaries and associates | (6 323) | 12 707 | (807) | (4 056) | 1 521 |
| Other operating income | 98 918 | 381 | 61 762 | 4 132 | 165 193 |
| Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss | (476 099) | 925 | (497 197) | 2 419 | (969 952) |
| Result on provisions for legal risk related to foreign currency loans | - | - | (388 734) | - | (388 734) |
| Overhead costs | (536 969) | (75 581) | (934 390) | (5 472) | (1 552 412) |
| Amortisation | (93 371) | (13 076) | (214 484) | (1 206) | (322 137) |
| Other operating expenses | (78 255) | (46) | (61 414) | (16 979) | (156 694) |
| **Operating profit** | **334 303** | **143 561** | **566 802** | **(23 725)** | **1 020 941** |
| Taxes on Group balance sheet items | (133 073) | (64 912) | (201 502) | (4 125) | (403 612) |
| **Gross profit of the segment** | **201 230** | **78 649** | **365 300** | **(27 850)** | **617 329** |
| Income tax | | | | | (338 882) |
| Net profit attributable to Owners of mBank S.A. | | | | | 278 513 |
| Net profit attributable to non-controlling interests | | | | | (66) |

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

| 30.09.2020 | Corporates & Financial Markets | | Retail Banking | Other | Total figure for the Group |
|---|---|---|---|---|---|
| | Corporate and Investment Banking | Financial Markets | | | |
| Assets of the segment | 43 736 150 | 66 766 800 | 69 525 974 | 2 117 833 | **182 146 757** |
| Liabilities of the segment | 45 344 250 | 23 949 251 | 94 235 794 | 1 647 819 | **165 177 114** |

| 31.12.2019 | Corporates & Financial Markets | | Retail Banking | Other | Total figure for the Group |
|---|---|---|---|---|---|
| | Corporate and Investment Banking | Financial Markets | | | |
| Assets of the segment | 44 805 002 | 46 845 014 | 64 989 636 | 2 080 931 | **158 720 583** |
| Liabilities of the segment | 35 685 057 | 25 498 967 | 79 052 093 | 2 331 161 | **142 567 278** |

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Business segment reporting on the activities of mBank S.A. Group for the period from 1 January to 30 September 2019 – data regarding consolidated income statement

| | Corporates & Financial Markets | | Retail Banking | Other | Total figure for the Group |
|---|---|---|---|---|---|
| | Corporate and Investment Banking | Financial Markets | | | |
| Net interest income | 786 200 | 159 846 | 2 035 497 | 10 728 | 2 992 271 |
| - sales to external clients | 793 809 | 545 385 | 1 651 612 | 1 465 | 2 992 271 |
| - sales to other segments | (7 609) | (385 539) | 383 885 | 9 263 | - |
| Net fee and commission income | 527 720 | (10 852) | 421 386 | (12 385) | 925 869 |
| Dividend income | - | - | - | 3 949 | 3 949 |
| Trading income | 53 312 | 27 673 | 27 837 | (3 409) | 105 413 |
| Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss | (797) | - | 21 701 | 29 933 | 50 837 |
| Gains less losses from financial assets and liabilities not measured at fair value through profit or loss and investments in subsidiaries and associates | 1 301 | 26 590 | (129) | (4 921) | 22 841 |
| Other operating income | 65 364 | 51 | 55 354 | 55 221 | 175 990 |
| Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss | (199 454) | 992 | (347 132) | (786) | (546 380) |
| Result on provisions for legal risk related to foreign currency loans | - | - | (94 333) | - | (94 333) |
| Overhead costs | (552 312) | (68 442) | (898 870) | (5 794) | (1 525 418) |
| Amortisation | (77 369) | (8 878) | (185 799) | 2 035 | (270 011) |
| Other operating expenses | (50 053) | (1 062) | (74 371) | (109 107) | (234 593) |
| **Operating profit** | **553 912** | **125 918** | **961 141** | **(34 536)** | **1 606 435** |
| Taxes on Group balance sheet items | (129 693) | (24 829) | (176 505) | (6 251) | (337 278) |
| **Gross profit of the segment** | **424 219** | **101 089** | **784 636** | **(40 787)** | **1 269 157** |
| Income tax | | | | | (375 123) |
| Net profit attributable to Owners of mBank S.A. | | | | | 894 098 |
| Net profit attributable to non-controlling interests | | | | | (64) |

Information about geographical areas on the activities of mBank S.A. Group for the period from 1 January to 30 September 2020 and for the period from 1 January to 30 September 2019

| | from 1 January to 30 September 2020 | | | from 1 January to 30 September 2019 | | |
|---|---|---|---|---|---|---|
| | Poland | Foreign Countries | Total | Poland | Foreign Countries | Total |
| Net interest income | 2 831 324 | 201 046 | 3 032 370 | 2 810 820 | 181 451 | 2 992 271 |
| Net fee and commission income | 1 087 735 | 11 079 | 1 098 814 | 912 980 | 12 889 | 925 869 |
| Dividend income | 4 789 | - | 4 789 | 3 949 | - | 3 949 |
| Trading income | 141 425 | 1 076 | 142 501 | 100 656 | 4 757 | 105 413 |
| Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss | (34 318) | - | (34 318) | 50 837 | - | 50 837 |
| Gains less losses from financial assets and liabilities not measured at fair value through profit or loss and investments in subsidiaries and associates | 1 497 | 24 | 1 521 | 22 841 | - | 22 841 |
| Other operating income | 162 514 | 2 679 | 165 193 | 170 962 | 5 028 | 175 990 |
| Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss | (976 877) | 6 925 | (969 952) | (537 668) | (8 712) | (546 380) |
| Result on provisions for legal risk related to foreign currency loans | (388 734) | - | (388 734) | (94 333) | - | (94 333) |
| Overhead costs | (1 448 875) | (103 537) | (1 552 412) | (1 430 545) | (94 873) | (1 525 418) |
| Amortisation | (311 537) | (10 600) | (322 137) | (260 249) | (9 762) | (270 011) |
| Other operating expenses | (154 965) | (1 729) | (156 694) | (231 475) | (3 118) | (234 593) |
| **Operating profit** | **913 978** | **106 963** | **1 020 941** | **1 518 775** | **87 660** | **1 606 435** |
| Taxes on Group balance sheet items | (379 130) | (24 482) | (403 612) | (317 719) | (19 559) | (337 278) |
| **Gross profit of the segment** | **534 848** | **82 481** | **617 329** | **1 201 056** | **68 101** | **1 269 157** |
| Income tax | | | (338 882) | | | (375 123) |
| Net profit attributable to Owners of mBank S.A. | | | 278 513 | | | 894 098 |
| Net profit attributable to non-controlling interests | | | (66) | | | (64) |

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Information about geographical areas on the activities of mBank S.A. Group as at 30 September 2020 and as at 31 December 2019

| | 30.09.2020 | | | 31.12.2019 | | |
|---|---|---|---|---|---|---|
| | Poland | Foreign Countries | Total | Poland | Foreign Countries | Total |
| **Assets of the segment, including:** | 170 066 954 | 12 079 803 | **182 146 757** | 149 957 094 | 8 763 489 | **158 720 583** |
| - tangible assets | 2 194 287 | 32 886 | 2 227 173 | 2 188 996 | 39 492 | 2 228 488 |
| - deferred income tax assets | 817 933 | 2 363 | 820 296 | 935 335 | 2 377 | 937 712 |
| **Liabilities of the segment** | 152 609 707 | 12 567 407 | **165 177 114** | 131 757 088 | 10 810 190 | **142 567 278** |

## 5. Net interest income

| the period | from 01.01.2020 to 30.09.2020 | from 01.01.2019 to 30.09.2019 |
|---|---|---|
| **Interest income** | | |
| **Interest income accounted for using the effective interest method** | **3 270 035** | **3 365 776** |
| Interest income of financial assets at amortised cost, including: | 2 971 275 | 3 004 292 |
| *- Loans and advances* | *2 761 744* | *2 793 965* |
| *- Debt securities* | *197 136* | *169 002* |
| *- Cash and short-term placements* | *19 927* | *42 175* |
| *- Other* | *(7 532)* | *(850)* |
| Interest income on financial assets at fair value through other comprehensive income | 298 760 | 361 484 |
| *- Debt securities* | *298 760* | *361 484* |
| **Income similar to interest on financial assets at fair value through profit or loss, including:** | **355 083** | **429 741** |
| Financial assets held for trading | 28 445 | 42 896 |
| *- Loans and advances* | *4 207* | *3 035* |
| *- Debt securities* | *24 238* | *39 861* |
| Non-trading financial assets mandatorily at fair value through profit or loss, including: | 77 730 | 148 598 |
| *- Loans and advances* | *77 730* | *148 598* |
| Interest income on derivatives classified into banking book | 99 170 | 142 042 |
| Interest income on derivatives concluded under the fair value hedge | 60 796 | 55 576 |
| Interest income on derivatives concluded under the cash flow hedge | 88 942 | 40 629 |
| **Total interest income** | **3 625 118** | **3 795 517** |

| the period | from 01.01.2020 to 30.09.2020 | from 01.01.2019 to 30.09.2019 |
|---|---|---|
| **Interest expenses** | | |
| Financial liabilities measured at amortised cost, including: | (578 289) | (795 560) |
| *- Deposits* | *(326 187)* | *(494 441)* |
| *- Loans received* | *(7 375)* | *(10 497)* |
| *- Issue of debt securities* | *(184 474)* | *(224 280)* |
| *- Subordinated liabilities* | *(53 921)* | *(56 985)* |
| *- Lease liabilities* | *(1 859)* | *(2 014)* |
| *- Other financial liabilities* | *(4 473)* | *(7 343)* |
| Other | (14 459) | (7 686) |
| **Total interest expense** | **(592 748)** | **(803 246)** |

The item "Other" in the part concerning interest income accounted for using the effective interest method includes the result on insignificant modification of financial assets.

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## 6. Net fee and commission income

| the period | from 01.01.2020 to 30.09.2020 | from 01.01.2019 to 30.09.2019 |
|---|---|---|
| **Fee and commission income** | | |
| Payment cards-related fees | 327 928 | 314 632 |
| Credit-related fees and commissions | 340 348 | 306 448 |
| Commissions from currency transactions | 244 348 | 222 749 |
| Commissions from bank accounts | 157 024 | 155 034 |
| Commissions from money transfers | 107 585 | 107 620 |
| Commissions for agency service regarding sale of insurance products of external financial entities | 84 703 | 74 324 |
| Fees from brokerage activity and debt securities issue | 147 861 | 65 245 |
| Commissions due to guarantees granted and trade finance commissions | 70 734 | 69 309 |
| Commissions for agency service regarding sale of other products of external financial entities | 54 845 | 57 970 |
| Commissions on trust and fiduciary activities | 23 886 | 19 943 |
| Fees from portfolio management services and other management-related fees | 9 641 | 9 952 |
| Fees from cash services | 32 383 | 36 703 |
| Other | 32 143 | 29 163 |
| **Fee and commission income** | **1 633 429** | **1 469 092** |

| the period | from 01.01.2020 to 30.09.2020 | from 01.01.2019 to 30.09.2019 |
|---|---|---|
| **Fee and commission expense** | | |
| Payment cards-related fees | (164 519) | (181 980) |
| Commissions paid to external entities for sale of the Group's products | (131 000) | (140 856) |
| Commissions of insurance products | (9 156) | (7 342) |
| Commissions paid for sale of external financial entities | (15 486) | (15 876) |
| Discharged brokerage fees | (28 511) | (22 122) |
| Costs for cash services | (30 501) | (30 140) |
| Fees to NBP and KIR | (10 655) | (10 035) |
| Other discharged fees | (144 787) | (134 872) |
| **Total fee and commission expense** | **(534 615)** | **(543 223)** |

## 7. Dividend income

| the period | from 01.01.2020 to 30.09.2020 | from 01.01.2019 to 30.09.2019 |
|---|---|---|
| Financial assets at fair value through profit and loss | 4 789 | 3 949 |
| **Total dividend income** | **4 789** | **3 949** |

IFRS Condensed Consolidated Financial Statements for the third quarter of 2020 PLN (000's)

## 8. Net trading income

| the period | from 01.01.2020 to 30.09.2020 | from 01.01.2019 to 30.09.2019 |
|---|---|---|
| **Foreign exchange result** | **40 286** | **70 053** |
| Net exchange differences on translation | (146 723) | (2 092) |
| Net transaction gains/(losses) | 187 009 | 72 145 |
| **Gains or losses on financial assets and liabilities held for trading** | **103 080** | **27 616** |
| Derivatives, including: | 52 136 | 1 877 |
| *- Interest-bearing instruments* | *43 688* | *(3 142)* |
| *- Market risk instruments* | *8 448* | *5 019* |
| Debt securities | 54 732 | 26 339 |
| Loans and advances | (3 788) | (600) |
| **Gains or losses from hedge accounting** | **(865)** | **7 744** |
| Net profit on hedged items | (104 102) | (211 525) |
| Net profit on fair value hedging instruments | 101 619 | 219 054 |
| Ineffective portion of cash flow hedge | 1 618 | 215 |
| **Net trading income** | **142 501** | **105 413** |

The foreign exchange result includes profit/(loss) on forward contracts, options, futures and recalculated assets and liabilities denominated in foreign currencies. The result on derivative transactions of interest-bearing instruments includes the result of swap contracts for interest rates, options and other derivatives. The result of the market risk instruments operations include profit/(loss) on: bond futures, index futures, security options, stock exchange index options, and options on futures contracts as well as the result from securities forward transactions and commodity swaps. The result on equity instruments operations includes the valuation and result on trading in equity securities held for trading.

The Group applies fair value hedge accounting and cash flow hedge accounting. Detailed information on hedge accounting are included in Note 16 "Financial assets held for trading and hedging derivatives".

## 9. Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss

| the period | from 01.01.2020 to 30.09.2020 | from 01.01.2019 to 30.09.2019 |
|---|---|---|
| Equity instruments | 21 148 | 57 559 |
| Debt securities | 4 797 | 65 819 |
| Loans and advances | (60 263) | (72 541) |
| **Total gains or losses on non-trading financial assets mandatorily at fair value through profit or loss** | **(34 318)** | **50 837** |

In September 2020, Visa converted half of the value of the Series C Preference Shares (disclosed in the financial statements as debt securities). As a result of the conversion, the Bank received Series A Preferred Stock, which will be automatically converted into Class A Common Stock upon sale in the proportion of 1 Series A Preferred Stock per 100 Class A Common Stock shares. The Bank still held series C preferred shares, but their value on the conversion date was reduced by 50%.

Due to the conversion, the Group recognized a profit in the amount of PLN 19 577 thousand in the Equity instruments item, resulting from the valuation of series A preferred shares. The item Debt securities in both periods includes the valuation of series C preferred shares.

In 2019, under Equity instruments, the Group recognized a profit of PLN 45 058 thousand, resulting from the revaluation of Polski Standard Płatności Sp. z o.o., made in connection with the commencement of strategic cooperation with Mastercard.

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## 10. Gains less losses from financial assets and liabilities not measured at fair value through profit or loss and investments in subsidiaries and associates

| the period | from 01.01.2020 to 30.09.2020 | from 01.01.2019 to 30.09.2019 |
|---|---|---|
| Gains less losses related to sale of debt securities measured at fair value through other comprehensive income | (246) | 27 328 |
| Gains less losses related to sale and revaluation of investments in subsidiaries and associates | (2 967) | (4 921) |
| Gains less losses from derecognition, including: | 4 734 | 434 |
| *- Financial assets at amortised cost* | *(3 625)* | *434* |
| *- Financial liabilities at amortised cost* | *8 359* | *-* |
| **Gains less losses from financial assets and liabilities not measured at fair value through profit or loss and investments in subsidiaries and associates** | **1 521** | **22 841** |

## 11. Other operating income

| the period | from 01.01.2020 to 30.09.2020 | from 01.01.2019 to 30.09.2019 |
|---|---|---|
| Income from sale or liquidation of fixed assets, intangible assets, assets held for sale and inventories | 77 455 | 110 214 |
| Income from services provided | 7 780 | 8 582 |
| Net income from operating lease and right-of-use assets in sublease | 2 358 | 1 933 |
| Income due to release of provisions for future commitments | 23 077 | 12 051 |
| Income from recovering receivables designated previously as prescribed, remitted or uncollectible | 3 030 | 1 992 |
| Income from compensations, penalties and fines received | 698 | 459 |
| Net revenues from the sale of an organised part of the company mFinanse S.A. | 18 000 | 20 000 |
| Other | 32 795 | 20 759 |
| **Total other operating income** | **165 193** | **175 990** |

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

Net revenues from the sale of an organised part of the company mFinanse S.A. concern to the transaction described in detail in Note 12 of the Consolidated Financial Statements of mBank S.A. Group for 2019 published on 28 February 2020.

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

Net income from operating lease and right-of-use assets in sublease generated for the three quarters of 2020 and for the three quarters of 2019 is presented below.

| the period | from 01.01.2020 to 30.09.2020 | from 01.01.2019 to 30.09.2019 |
|---|---|---|
| **Net income from operating lease and right-of-use assets in sublease, including:** | | |
| - Income from operating lease | 24 428 | 32 705 |
| - Income from right-of-use assets in sublease | 4 868 | 5 691 |
| - Depreciation cost of fixed assets provided under operating lease and right-of-use assets in sublease | (26 938) | (36 463) |
| **Total net income from operating lease and right-of-use assets in sublease** | **2 358** | **1 933** |

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

| the period | from 01.01.2020 to 30.09.2020 | from 01.01.2019 to 30.09.2019 |
|---|---|---|
| **Financial assets at amortised cost, including:** | **(929 294)** | **(528 018)** |
| - Debt securities | (1) | 9 |
| *Stage 1* | *(1)* | *9* |
| - Loans and advances | (929 293) | (528 027) |
| *Stage 1* | *22 020* | *(101 769)* |
| *Stage 2* | *(167 243)* | *(70 954)* |
| *Stage 3* | *(789 681)* | *(359 149)* |
| *POCI* | *5 611* | *3 845* |
| **Financial assets at fair value through other comprehensive income** | **871** | **(296)** |
| - Debt securities | 871 | (296) |
| *Stage 1* | *664* | *472* |
| *Stage 2* | *207* | *(768)* |
| **Commitments and guarantees given** | **(41 529)** | **(18 066)** |
| *Stage 1* | *(6 253)* | *178* |
| *Stage 2* | *(9 747)* | *(4 370)* |
| *Stage 3* | *(25 708)* | *(11 426)* |
| *POCI* | *179* | *(2 448)* |
| **Net impairment losses on financial assets not measured at fair value through profit or loss** | **(969 952)** | **(546 380)** |

## 13. Overhead costs

| the period | from 01.01.2020 to 30.09.2020 | from 01.01.2019 to 30.09.2019 |
|---|---|---|
| Staff-related expenses | (752 013) | (769 813) |
| Material costs, including: | (507 932) | (485 892) |
| - costs of administration and real estate services | (187 149) | (198 243) |
| - IT costs | (138 550) | (126 617) |
| - marketing costs | (91 618) | (102 235) |
| - consulting costs | (79 197) | (50 280) |
| - other material costs | (11 418) | (8 517) |
| Taxes and fees | (19 651) | (22 524) |
| Contributions and transfers to the Bank Guarantee Fund | (263 654) | (240 862) |
| Contributions to the Social Benefits Fund | (9 162) | (6 327) |
| **Total overhead costs** | **(1 552 412)** | **(1 525 418)** |

Staff-related expenses for the three quarters of 2020 and for the three quarters of 2019 is presented below.

| the period | from 01.01.2020 to 30.09.2020 | from 01.01.2019 to 30.09.2019 |
|---|---|---|
| Wages and salaries | (610 363) | (622 159) |
| Social security expenses | (106 650) | (107 768) |
| Remuneration concerning share-based payments, including: | (5 230) | (8 042) |
| - share-based payments settled in mBank S.A. shares | (5 173) | (7 562) |
| - cash-settled share-based payments | (57) | (480) |
| Other staff expenses | (29 770) | (31 844) |
| **Staff-related expenses, total** | **(752 013)** | **(769 813)** |

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## 14. Other operating expenses

| the period | from 01.01.2020 to 30.09.2020 | from 01.01.2019 to 30.09.2019 |
|---|---|---|
| Costs arising from sale or liquidation of fixed assets, intangible assets, assets held for resale and inventories | (75 198) | (93 554) |
| Provisions for future commitments | (17 319) | (49 034) |
| Costs arising from provisions created for other receivables (excluding loans and advances) | (746) | (233) |
| Donations made | (3 106) | (2 606) |
| Costs of sale of services | - | (275) |
| Compensation, penalties and fines paid | (1 088) | (2 214) |
| Costs arising from receivables and liabilities recognised as prescribed, remitted and uncollectible | (3) | (9) |
| Debt collection expenses | (29 799) | (20 275) |
| Other operating costs | (29 435) | (66 393) |
| **Total other operating expenses** | **(156 694)** | **(234 593)** |

The item "Costs arising from sale or liquidation of fixed assets, intangible assets, assets held for resale and inventories" includes mainly the costs of mLeasing Sp. z o. o. from the sale of leasing items.

Costs of services provided concern non-banking services.

## 15. Earnings per share

<u>Earnings per share for 9 months– mBank S.A. Group consolidated data</u>

| the period | from 01.01.2020 to 30.09.2020 | from 01.01.2019 to 30.09.2019 |
|---|---|---|
| **Basic:** | | |
| Net profit attributable to Owners of mBank S.A. | 278 513 | 894 098 |
| Weighted average number of ordinary shares | 42 352 256 | 42 337 276 |
| **Net basic profit per share (in PLN per share)** | **6.58** | **21.12** |
| **Diluted:** | | |
| Net profit attributable to Owners of mBank S.A., applied for calculation of diluted earnings per share | 278 513 | 894 098 |
| Weighted average number of ordinary shares | 42 352 256 | 42 337 276 |
| Adjustments for: | | |
| - share options | 21 983 | 19 252 |
| Weighted average number of ordinary shares for calculation of diluted earnings per share | 42 374 239 | 42 356 528 |
| **Diluted earnings per share (in PLN per share)** | **6.57** | **21.11** |

<u>Earnings per share for 9 months – mBank S.A. stand-alone data</u>

| the period | from 01.01.2020 to 30.09.2020 | from 01.01.2019 to 30.09.2019 |
|---|---|---|
| **Basic:** | | |
| Net profit | 263 629 | 874 540 |
| Weighted average number of ordinary shares | 42 352 256 | 42 337 276 |
| **Net basic profit per share (in PLN per share)** | **6.22** | **20.66** |
| **Diluted:** | | |
| Net profit attributable applied for calculation of diluted earnings per share | 263 629 | 874 540 |
| Weighted average number of ordinary shares | 42 352 256 | 42 337 276 |
| Adjustments for: | | |
| - share options | 21 983 | 19 252 |
| Weighted average number of ordinary shares for calculation of diluted earnings per share | 42 374 239 | 42 356 528 |
| **Diluted earnings per share (in PLN per share)** | **6.22** | **20.65** |

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## 16. Financial assets held for trading and derivatives held for hedges

| | 30.09.2020 | 31.12.2019 |
|---|---|---|
| **Derivatives, including:** | **1 488 869** | **959 776** |
| - Held for trading derivative financial instruments classified into banking book | 166 935 | 138 882 |
| - Held for trading derivative financial instruments classified into trading book | 1 415 678 | 877 926 |
| - Derivative financial instruments held for fair value hedging | 354 079 | 230 937 |
| - Derivative financial instruments held for cash flow hedging | 794 535 | 273 282 |
| - Offsetting effect | (1 242 358) | (561 251) |
| **Debt securities** | **678 604** | **1 733 569** |
| - General governments, including: | 405 495 | 1 330 541 |
| *pledged securities* | *32 018* | *162 038* |
| - Credit institutions | 85 612 | 170 953 |
| - Other financial corporations | 73 098 | 122 429 |
| - Non-financial corporations | 114 399 | 109 646 |
| **Loans and advances** | **186 432** | **172 689** |
| - Corporate customers | 186 432 | 172 689 |
| **Total financial assets held for trading** | **2 353 905** | **2 866 034** |

The above note includes government bonds and treasury bills subject to pledge in sell/buy back transactions.

### Derivative financial instruments

The Group has the following types of derivative instruments:

**Forward currency transactions** represent commitments to purchase foreign and local currencies, including outstanding spot transactions. **Futures for currencies and interest rates** are contractual commitments to receive or pay a specific net value, depending on currency rate of exchange or interest rate variations, or to buy or sell a foreign currency or a financial instrument on a specified future date for a fixed price established on the organised financial market. Because futures contracts are collateralised with fair-valued cash or securities and the changes of the face value of such contracts are accounted for daily in reference to stock exchange quotations, the credit risk is marginal.

**FRA contracts** are similar to futures except that each FRA is negotiated individually and each requires payment on a specific future date of the difference between the interest rate set in the agreement and the current market rate on the basis of theoretical amount of capital.

**Currency and interest rate swap contracts** are commitments to exchange one cash flow for another cash flow. Such a transaction results in swap of currencies or interest rates (e.g., fixed to variable interest rate) or combination of all these factors (e.g., cross-currency CIRS). With the exception of specific currency swap contracts, such transactions do not result in swaps of capital. The credit risk of the Group consists of the potential cost of replacing swap contracts if the parties fail to discharge their liabilities. This risk is monitored daily by reference to the current fair value, proportion of the face value of the contracts and market liquidity. The Group evaluates the parties to such contracts using the same methods as for its credit business, to control the level of its credit exposure.

**Currency and interest rate options** are agreements, pursuant to which the selling party grants the buying party the right, but not an obligation, to purchase (call option) or sell (put option) a specific quantity of a foreign currency or a financial instrument at a predefined price on or by a specific date or within an agreed period. In return for accepting currency or interest rate risk, the buyer offers the seller a premium. An option can be either a public instrument traded at a stock exchange or a private instrument negotiated between the Group and a customer (private transaction). The Group is exposed to credit risk related to purchased options only up to the balance sheet value of such options, i.e. the fair value of the options.

**Market risk transactions** include futures contracts as well as commodity options, stock options and index options.

Face values of certain types of financial instruments provide a basis for comparing them to instruments disclosed in the statement of financial position but they may not be indicative of the value of the future cash flows or of the present fair value of such instruments. For this reason, the face values do not indicate the level of the Group's exposure to credit risk or price change risk. Derivative instruments can have positive value (assets) or negative value (liabilities), depending on market interest or currency exchange rate fluctuations. The aggregate fair value of derivative financial instruments may be subject to strong variations.

## Hedge accounting

The Group applies fair value hedge accounting and cash flow hedge accounting. Detailed information on hedge accounting are presented in these Note below.

In accordance with the IFRS9 provisions, only on the day of initial application the Bank had the opportunity to choose as its accounting policy element to continue to apply the IAS 39 hedge accounting requirements instead of the IFRS 9 requirements.

IFRS 9 requires the Bank to ensure that its hedging relationships are compliant with the risk management strategy applied by the Bank and its objectives. IFRS 9 introduces new requirements with regard to the assessment of hedge effectiveness, rebalancing of the hedge relationship as well as it prohibits voluntary discontinuation of hedge accounting (i.e. in the absence of the conditions to stop the application of hedge accounting, as defined in the standard).

The Group decided to continue from 1 January 2018, to apply the hedge accounting requirements in accordance with IAS 39.

The Group determines the hedge ratio based on the nominal value of the hedged item and hedging instrument and it is 1:1 except for mortgage bonds issued by mBank Hipoteczny (mBH) at mBank Group hedging relationship, for which the hedged ratio was determined based on BPV (Basis Point Value).

The sources of hedge ineffectiveness for hedging relationships for which the ineffectiveness arises include mismatch of cash flow dates and repricing periods, base mismatch (e.g. another WIBOR), nominal mismatch in case when the hedge ratio is different than 1:1, CVA/DVA mismatch which is in hedging instrument and is not in hedged instrument and mismatch due to initial valuation of hedging instruments if a previously acquired derivative was included in hedging relationship.

### *Fair value hedge accounting*

The Group applies fair value hedge accounting, under which the only kind of hedged risk is the risk of changes in interest rates.

At the end of each month, the Group evaluates effectiveness of the applied hedging by carrying out analysis of changes in fair value of the hedged and hedging instruments in respect of the hedged risk in order to confirm that hedging relationships are effective in accordance with the accounting policy described in Note 2.13. to the Consolidated Financial Statements of mBank S.A. Group for 2019, published on 28 February 2020.

Description of the hedging relation

The Group hedges against the risk of change in fair value:

- fixed interest rate eurobonds issued by mFinance France S.A. (mFF), subsidiary of mBank. The hedged risk results from changes in interest rates;
- mortgage bonds issued by mBank Hipoteczny (mBH), a subsidiary of mBank. The hedged risk results from changes in interest rates;
- loans received by mBank from European Investment Bank. The hedged risk results from changes in interest rates;
- fixed interest bonds issued by mBank. The hedged risk results from changes in interest rates,
- part of the fixed interest rate mortgage portfolio granted by mBank's foreign branch in the Czech Republic. The hedged risk results from changes in interest rates,
- part of the portfolio of deposits modelled by the Bank in PLN with economic characteristics of fixed-rate deposits. The hedged risk results from changes in interest rates.

Hedged items

The hedged items are:

- one tranche of fixed interest rate eurobonds issued by mFF with a total nominal value of EUR 427 583 thousand,
- one tranche of fixed interest rate eurobonds issued by mFF with a total nominal value of CHF 200 000 thousand,
- fixed interest rate mortgage bonds issued by mBH with a nominal value of EUR 546 900 thousand,

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- fixed interest rate loans received by mBank from European Investment Bank with a nominal value of respectively EUR 100 000 thousand, CHF 113 110 thousand, CHF 175 560 thousand and CHF 138 388 thousand,
- fixed rate bonds issued by mBank S.A. with a nominal value of CHF 305 000 thousand,
- fixed rate bonds issued by mBank S.A. with a nominal value of EUR 460 030 thousand,
- part of the fixed interest rate mortgage portfolio, denominated in CZK, granted by mBank's foreign branch in the Czech Republic,
- part of the portfolio of deposits modelled by the Bank in PLN with economic characteristics of fixed-rate deposits.

Hedging instruments

IRS is the hedging instrument swapping the fixed interest rate for a variable interest rate.

Presentation of the result from hedged and hedging transactions

Fair value adjustment of the hedged assets and liabilities as well as valuation of the hedging instruments are recognised in the income statement as trading income, with the exception of interest income and costs of the interest element of the valuation of hedging instruments, which are presented in the item Interest income / expense on derivatives concluded under the fair value hedge.

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

| the period | from 01.01.2020 to 30.09.2020 | from 01.01.2019 to 30.09.2019 |
|---|---|---|
| Interest income on derivatives concluded under the fair value hedge accounting (Note 5) | 60 796 | 55 576 |
| Net profit on hedged items (Note 8) | (104 102) | (211 525) |
| Net profit on fair value hedging instruments (Note 8) | 101 619 | 219 054 |
| **The total results of fair value hedge accounting recognised in the income statement** | **58 313** | **63 105** |

***Cash flow hedge accounting***

- cash flow hedge accounting of the part of loans at a variable interest rate indexed to the market rate portfolio, granted by the Bank

The Group applies cash flow hedge accounting of the part of loans at a variable interest rate indexed to the market rate portfolio, granted by the Bank. An Interest Rate Swap is the hedging instrument changing the variable interest rate to a fixed interest rate. The interest rate risk is the hedged risk within applied by the Group cash flow hedge accounting. The ineffective portion of the gains or losses on the hedging instrument is presented in Note 8 in the position "Other net trading income and result on hedge accounting". Portion of the gains or losses on the hedging instrument that is an effective hedge, is presented in the statement of comprehensive income as "Cash flow hedges (net)".

The period from October 2020 to August 2029 is the period in which the cash flows are expected, and when they are expected to have an impact on the result.

- cash flow hedges in relation to mortgage loans and mortgage bonds issued by mBank Hipoteczny

The Group applies hedge accounting in relation to mortgage loans and mortgage bonds issued by mBank Hipoteczny. The purpose of the hedging strategy is to eliminate the risk of volatility of cash flows generated by mortgage loans in PLN due to changes in reference interest rates and mortgage bonds denominated in a convertible currency due to exchange rate changes using currency interest rate swaps (CIRS).

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

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

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

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

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

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

In the case of established relationships, the period in which cash flows are expected and when they should be expected to influence the results is the period from October 2020 to September 2025.

The following note presents other comprehensive income due to cash flow hedges for the three quarters of 2020 and for the three quarters of 2019.

| the period | from 01.01.2020 to 30.09.2020 | from 01.01.2019 to 30.09.2019 |
|---|---|---|
| **Other gross comprehensive income from cash flow hedge at the beginning of the period** | **147 088** | **103 263** |
| Unrealised gains/losses included in other gross comprehensive income during the reporting period | 606 914 | 135 264 |
| Profits / (Losses) recognized in other comprehensive income in the period | (169 432) | (40 629) |
| - *net interest income* | *(88 942)* | *(40 629)* |
| - *foreign exchange result* | *(80 490)* | - |
| **Accumulated other gross comprehensive income at the end of the reporting period** | **584 570** | **197 898** |
| Deferred income tax on accumulated other comprehensive income at the end of the reporting period | (111 068) | (37 601) |
| **Accumulated other net comprehensive income at the end of the reporting period** | **473 502** | **160 297** |
| Impact on other comprehensive income in the reporting period (gross) | 437 482 | 94 635 |
| Deferred tax on cash flow hedges | (83 122) | (17 981) |
| **Impact on other comprehensive income in the reporting period (net)** | **354 360** | **76 654** |

| the period | from 01.01.2020 to 30.09.2020 | from 01.01.2019 to 30.09.2019 |
|---|---|---|
| **Gains/losses recognised in comprehensive income (gross) during the reporting period, including:** | | |
| Unrealised gains/losses included in other comprehensive income (gross) | 437 482 | 94 635 |
| Results of cash flow hedge accounting recognised in the income statement | 171 050 | 40 844 |
| *- amount included as interest income in income statement during the reporting period (Note 5)* | *88 942* | *40 629* |
| *- ineffective portion of hedge recognised included in other net trading income in income statement (Note 8)* | *1 618* | *215* |
| *- foreign exchange result* | *80 490* | - |
| **Impact on other comprehensive income in the reporting period (gross)** | **608 532** | **135 479** |

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

| | 30.09.2020 | 31.12.2019 |
|---|---|---|
| **Equity instruments** | **252 397** | **162 616** |
| - Other financial corporations | 180 729 | 106 250 |
| - Non-financial corporations | 71 668 | 56 366 |
| **Debt securities** | **71 615** | **133 774** |
| - Other financial corporations | 71 615 | 133 774 |
| **Loans and advances to customers** | **1 595 034** | **1 971 532** |
| - Individual customers | 1 325 443 | 1 685 799 |
| - Corporate customers | 267 560 | 279 062 |
| - Public sector customers | 2 031 | 6 671 |
| **Total non-trading financial assets mandatorily at fair value through profit or loss** | **1 919 046** | **2 267 922** |

| | | |
|---|---|---|
| Short-term (up to 1 year) | 1 157 820 | 1 382 155 |
| Long-term (over 1 year) | 761 226 | 885 767 |

## 18. Financial assets at fair value through other comprehensive income

| 30.09.2020 | Carrying amount | Gross carrying amount | | | | Accumulated impairment | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | Stage 1 | Stage 2 | Stage 3 | POCI | Stage 1 | Stage 2 | Stage 3 | POCI |
| **Debt securities** | **35 484 841** | **35 419 689** | **68 654** | **-** | **-** | **(2 589)** | **(913)** | **-** | **-** |
| - Central banks | 999 997 | 999 997 | - | - | - | - | - | - | - |
| - General governments, including: | 32 485 072 | 32 485 161 | - | - | - | (89) | - | - | - |
| *pledged securities* | *1 234 708* | *1 234 708* | - | - | - | - | - | - | - |
| - Credit institutions | 186 806 | 186 996 | - | - | - | (190) | - | - | - |
| - Other financial institutions | 1 349 592 | 1 350 799 | - | - | - | (1 207) | - | - | - |
| - Non-financial corporations | 463 374 | 396 736 | 68 654 | - | - | (1 103) | (913) | - | - |
| **Total financial assets at fair value through other comprehensive income** | **35 484 841** | **35 419 689** | **68 654** | **-** | **-** | **(2 589)** | **(913)** | **-** | **-** |

| | |
|---|---|
| Short-term (up to 1 year) gross | 11 700 080 |
| Long-term (over 1 year) gross | 23 788 263 |

| 31.12.2019 | Carrying amount | Gross carrying amount | | | | Accumulated impairment | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | Stage 1 | Stage 2 | Stage 3 | POCI | Stage 1 | Stage 2 | Stage 3 | POCI |
| **Debt securities** | **22 773 921** | **22 737 162** | **41 121** | **-** | **-** | **(3 242)** | **(1 120)** | **-** | **-** |
| - Central banks | 3 219 627 | 3 219 627 | - | - | - | - | - | - | - |
| - General governments, including: | 17 573 979 | 17 574 048 | - | - | - | (69) | - | - | - |
| *pledged securities* | *1 232 295* | *1 232 295* | - | - | - | - | - | - | - |
| - Credit institutions | 263 460 | 264 583 | - | - | - | (1 123) | - | - | - |
| - Other financial institutions | 1 162 968 | 1 163 964 | - | - | - | (996) | - | - | - |
| - Non-financial corporations | 553 887 | 514 940 | 41 121 | - | - | (1 054) | (1 120) | - | - |
| **Total financial assets at fair value through other comprehensive income** | **22 773 921** | **22 737 162** | **41 121** | **-** | **-** | **(3 242)** | **(1 120)** | **-** | **-** |

| | |
|---|---|
| Short-term (up to 1 year) gross | 4 031 311 |
| Long-term (over 1 year) gross | 18 746 972 |

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The above note includes government bonds pledged under the Bank Guarantee Fund, government bonds and treasury bills pledged as sell/buy back transactions and government bonds pledged as collateral for the loans received from the European Investment Bank.

### Movements in expected credit losses allowance on financial assets at fair value through other comprehensive income

| Change from 1 January to 30 September 2020 | As at the beginning of the period | Transfer to Stage 1 | Transfer to Stage 2 | Transfer to Stage 3 | New financial assets originated or purchased | Financial assets derecognised during the period | Changes in credit risk | As at the end of the period |
|---|---|---|---|---|---|---|---|---|
| **Debt securities** | **(4 362)** | **-** | **-** | **-** | **(1 313)** | **1 963** | **210** | **(3 502)** |
| Stage 1 | (3 242) | - | 50 | - | (1 313) | 1 945 | (29) | (2 589) |
| Stage 2 | (1 120) | - | (50) | - | - | 18 | 239 | (913) |
| **Expected credit losses allowance, total** | **(4 362)** | **-** | **-** | **-** | **(1 313)** | **1 963** | **210** | **(3 502)** |

| Change from 1 January to 31 December 2019 | As at the beginning of the period | Transfer to Stage 1 | Transfer to Stage 2 | Transfer to Stage 3 | New financial assets originated or purchased | Financial assets derecognised during the period | Changes in credit risk | As at the end of the period |
|---|---|---|---|---|---|---|---|---|
| **Debt securities** | **(4 535)** | **-** | **-** | **-** | **(963)** | **2 518** | **(1 382)** | **(4 362)** |
| Stage 1 | (4 171) | (214) | 72 | - | (963) | 2 367 | (333) | (3 242) |
| Stage 2 | (364) | 214 | (72) | - | - | 151 | (1 049) | (1 120) |
| **Expected credit losses allowance, total** | **(4 535)** | **-** | **-** | **-** | **(963)** | **2 518** | **(1 382)** | **(4 362)** |

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

| Change from 1 January to 30 September 2020 | As at the beginning of the period | Transfer to Stage 1 | Transfer to Stage 2 | Transfer to Stage 3 | New financial assets originated or purchased | Financial assets derecognised during the period | Other movements | As at the end of the period |
|---|---|---|---|---|---|---|---|---|
| **Debt securities** | **22 778 283** | **-** | **-** | **-** | **24 124 758** | **(12 014 989)** | **600 291** | **35 488 343** |
| Stage 1 | 22 737 162 | - | (48 900) | - | 24 120 094 | (12 014 989) | 626 322 | 35 419 689 |
| Stage 2 | 41 121 | - | 48 900 | - | 4 664 | - | (26 031) | 68 654 |
| **Financial assets at fair value through other comprehensive income, gross** | **22 778 283** | **-** | **-** | **-** | **24 124 758** | **(12 014 989)** | **600 291** | **35 488 343** |

| Change from 1 January to 31 December 2019 | As at the beginning of the period | Transfer to Stage 1 | Transfer to Stage 2 | Transfer to Stage 3 | New financial assets originated or purchased | Financial assets derecognised during the period | Other movements | As at the end of the period |
|---|---|---|---|---|---|---|---|---|
| **Debt securities** | **24 342 819** | **-** | **-** | **-** | **15 882 431** | **(18 387 362)** | **940 395** | **22 778 283** |
| Stage 1 | 24 321 098 | 12 952 | (40 218) | - | 15 882 431 | (18 378 592) | 939 491 | 22 737 162 |
| Stage 2 | 21 721 | (12 952) | 40 218 | - | - | (8 770) | 904 | 41 121 |
| **Financial assets at fair value through other comprehensive income, gross** | **24 342 819** | **-** | **-** | **-** | **15 882 431** | **(18 387 362)** | **940 395** | **22 778 283** |

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## 19. Financial assets at amortised cost

| 30.09.2020 | Carrying amount | Gross carrying amount | | | | Accumulated impairment | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | Stage 1 | Stage 2 | Stage 3 | POCI | Stage 1 | Stage 2 | Stage 3 | POCI |
| **Debt securities** | **14 471 422** | **14 471 502** | **-** | **-** | **-** | **(80)** | **-** | **-** | **-** |
| - General governments, including: | 10 393 924 | 10 393 924 | - | - | - | - | - | - | - |
| *pledged securities* | *2 700 080* | *2 700 080* | - | - | - | - | - | - | - |
| - Credit institutions | 1 975 346 | 1 975 346 | - | - | - | - | - | - | - |
| - Other financial institutions | 2 102 152 | 2 102 232 | - | - | - | (80) | - | - | - |
| **Loans and advances to banks** | **8 991 355** | **8 992 274** | **-** | **-** | **-** | **(919)** | **-** | **-** | **-** |
| **Loans and advances to customers** | **107 876 830** | **92 746 539** | **13 869 249** | **4 690 178** | **308 031** | **(295 097)** | **(426 096)** | **(2 994 010)** | **(21 964)** |
| Individual customers | 61 950 975 | 53 802 152 | 7 714 146 | 2 161 288 | 111 786 | (169 937) | (295 793) | (1 369 119) | (3 548) |
| Corporate customers | 45 618 494 | 38 637 210 | 6 155 103 | 2 527 821 | 196 245 | (124 867) | (130 303) | (1 624 299) | (18 416) |
| Public sector customers | 307 361 | 307 177 | - | 1 069 | - | (293) | - | (592) | - |
| **Total financial assets at amortised cost** | **131 339 607** | **116 210 315** | **13 869 249** | **4 690 178** | **308 031** | **(296 096)** | **(426 096)** | **(2 994 010)** | **(21 964)** |

| | |
|---|---|
| Short-term (up to 1 year) gross | 48 918 668 |
| Long-term (over 1 year) gross | 86 159 105 |

| 31.12.2019 | Carrying amount | Gross carrying amount | | | | Accumulated impairment | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | Stage 1 | Stage 2 | Stage 3 | POCI | Stage 1 | Stage 2 | Stage 3 | POCI |
| **Debt securities** | **11 234 873** | **11 234 952** | **-** | **-** | **-** | **(79)** | **-** | **-** | **-** |
| - General governments, including: | 9 975 484 | 9 975 484 | - | - | - | - | - | - | - |
| *pledged securities* | *1 799 235* | *1 799 235* | - | - | - | - | - | - | - |
| - Other financial institutions | 1 259 389 | 1 259 468 | - | - | - | (79) | - | - | - |
| **Loans and advances to banks** | **4 341 758** | **4 342 890** | **-** | **-** | **-** | **(1 132)** | **-** | **-** | **-** |
| **Loans and advances to customers** | **103 203 254** | **94 130 201** | **7 920 046** | **4 105 697** | **237 588** | **(313 118)** | **(258 035)** | **(2 603 391)** | **(15 734)** |
| Individual customers | 56 999 856 | 52 456 328 | 4 076 251 | 2 039 606 | 102 706 | (189 868) | (198 492) | (1 284 124) | (2 551) |
| Corporate customers | 45 819 083 | 41 290 212 | 3 843 795 | 2 065 043 | 134 882 | (122 923) | (59 543) | (1 319 200) | (13 183) |
| Public sector customers | 384 315 | 383 661 | - | 1 048 | - | (327) | - | (67) | - |
| **Total financial assets at amortised cost** | **118 779 885** | **109 708 043** | **7 920 046** | **4 105 697** | **237 588** | **(314 329)** | **(258 035)** | **(2 603 391)** | **(15 734)** |

| | |
|---|---|
| Short-term (up to 1 year) gross | 42 975 941 |
| Long-term (over 1 year) gross | 78 995 433 |

The above note includes government bonds pledged under the Bank Guarantee Fund, government bonds pledged as sell-buy-back transactions, government bonds pledged as collateral for the loans received from the European Investment Bank.

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

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| Loans and advances to customers 30.09.2020 | Gross carrying amount | including: | | |
|---|---|---|---|---|
| | | Individual customers | Corporate customers | Public sector customers |
| Current accounts | 12 872 989 | 7 495 291 | 5 376 275 | 1 423 |
| Term loans, including: | 82 808 774 | 55 984 292 | 26 517 662 | 306 820 |
| *- housing and mortgage loans to natural persons* | *43 587 389* | *43 587 389* | | |
| Reverse repo or buy/sell back | 1 176 154 | - | 1 176 154 | - |
| Finance leases | 11 971 533 | - | 11 971 533 | - |
| Other loans and advances | 2 453 978 | - | 2 453 978 | - |
| Other receivables | 330 569 | 309 789 | 20 777 | 3 |
| **Total gross carrying amount** | **111 613 997** | **63 789 372** | **47 516 379** | **308 246** |

| Loans and advances to customers 30.09.2020 | Accumulated impairment | including | | |
|---|---|---|---|---|
| | | Individual customers | Corporate customers | Public sector customers |
| Current accounts | (1 011 627) | (654 420) | (357 207) | - |
| Term loans, including: | (2 282 895) | (1 183 977) | (1 098 033) | (885) |
| *- housing and mortgage loans to natural persons* | *(442 679)* | *(442 679)* | | |
| Finance leases | (392 094) | - | (392 094) | - |
| Other loans and advances | (50 551) | - | (50 551) | - |
| **Total accumulated impairment** | **(3 737 167)** | **(1 838 397)** | **(1 897 885)** | **(885)** |
| **Total gross carrying amount** | **111 613 997** | **63 789 372** | **47 516 379** | **308 246** |
| Total accumulated impairment | (3 737 167) | (1 838 397) | (1 897 885) | (885) |
| **Total carrying amount** | **107 876 830** | **61 950 975** | **45 618 494** | **307 361** |

| | |
|---|---|
| Short-term (up to 1 year) gross | 37 369 871 |
| Long-term (over 1 year) gross | 74 244 126 |

| Loans and advances to customers 31.12.2019 | Gross carrying amount | including: | | |
|---|---|---|---|---|
| | | Individual customers | Corporate customers | Public sector customers |
| Current accounts | 13 455 553 | 7 493 468 | 5 958 926 | 3 159 |
| Term loans, including: | 78 051 279 | 50 819 397 | 26 850 332 | 381 550 |
| *- housing and mortgage loans to natural persons* | *38 979 040* | *38 979 040* | | |
| Reverse repo or buy/sell back | 13 398 | - | 13 398 | - |
| Finance leases | 11 631 675 | - | 11 631 675 | - |
| Other loans and advances | 2 629 690 | - | 2 629 690 | - |
| Other receivables | 611 937 | 362 026 | 249 911 | - |
| **Total gross carrying amount** | **106 393 532** | **58 674 891** | **47 333 932** | **384 709** |

| Loans and advances to customers 31.12.2019 | Accumulated impairment | including | | |
|---|---|---|---|---|
| | | Individual customers | Corporate customers | Public sector customers |
| Current accounts | (966 201) | (664 889) | (301 312) | - |
| Term loans, including: | (1 901 009) | (1 010 146) | (890 469) | (394) |
| *- housing and mortgage loans to natural persons* | *(414 932)* | *(414 932)* | | |
| Finance leases | (289 832) | - | (289 832) | - |
| Other loans and advances | (33 236) | - | (33 236) | - |
| **Total accumulated impairment** | **(3 190 278)** | **(1 675 035)** | **(1 514 849)** | **(394)** |
| **Total gross carrying amount** | **106 393 532** | **58 674 891** | **47 333 932** | **384 709** |
| Total accumulated impairment | (3 190 278) | (1 675 035) | (1 514 849) | (394) |
| **Total carrying amount** | **103 203 254** | **56 999 856** | **45 819 083** | **384 315** |

| | |
|---|---|
| Short-term (up to 1 year) gross | 36 875 519 |
| Long-term (over 1 year) gross | 69 518 013 |

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

| | 30.09.2020 | 31.12.2019 |
|---|---|---|
| **Net housing and mortgage loans to natural persons (in PLN '000), including:** | **43 144 710** | **38 564 108** |
| - PLN | 22 307 847 | 18 624 049 |
| - CHF | 13 638 489 | 13 561 831 |
| - EUR | 3 580 810 | 3 120 555 |
| - CZK | 3 396 969 | 3 024 539 |
| - USD | 195 819 | 206 635 |
| - Other currency | 24 776 | 26 499 |
| **Net housing and mortgage loans to natural persons in original currencies (main currencies in '000)** | | |
| - PLN | 22 307 847 | 18 624 049 |
| - CHF | 3 256 719 | 3 458 504 |
| - EUR | 791 025 | 732 783 |
| - CZK | 20 389 970 | 18 046 175 |
| - USD | 50 654 | 54 411 |

## Movements in expected credit losses allowance

| Change from 1 January to 30 September 2020 | As at the beginning of the period | Transfer to Stage 1 | Transfer to Stage 2 | Transfer to Stage 3 | New financial assets originated or purchased | Financial assets derecognised during the period | Changes in credit risk | Write-offs | Other movements | As at the end of the period |
|---|---|---|---|---|---|---|---|---|---|---|
| **Debt securities** | **(79)** | **-** | **-** | **-** | **-** | **-** | **(1)** | **-** | **-** | **(80)** |
| Stage 1 | (79) | - | - | - | - | - | (1) | - | - | (80) |
| **Loans and advances to banks** | **(1 132)** | **-** | **-** | **-** | **(736)** | **1 011** | **(62)** | **-** | **-** | **(919)** |
| Stage 1 | (1 132) | - | - | - | (736) | 1 011 | (62) | - | - | (919) |
| **Loans and advances to customers** | **(3 190 278)** | **-** | **-** | **-** | **(152 098)** | **150 068** | **(971 236)** | **388 785** | **37 592** | **(3 737 167)** |
| Stage 1 | (313 118) | (366 674) | 162 089 | 3 207 | (79 554) | 45 616 | 253 336 | - | 1 | (295 097) |
| Stage 2 | (258 035) | 341 259 | (200 547) | 132 723 | (9 064) | 21 322 | (453 752) | - | (2) | (426 096) |
| Stage 3 | (2 603 391) | 25 415 | 38 458 | (135 910) | (53 903) | 82 983 | (773 129) | 387 874 | 37 593 | (2 994 010) |
| POCI | (15 734) | - | - | (20) | (9 577) | 147 | 2 309 | 911 | - | (21 964) |
| **Expected credit losses allowance, total** | **(3 191 489)** | **-** | **-** | **-** | **(152 834)** | **151 079** | **(971 299)** | **388 785** | **37 592** | **(3 738 166)** |

| Change from 1 January to 31 December 2019 | As at the beginning of the period | Transfer to Stage 1 | Transfer to Stage 2 | Transfer to Stage 3 | New financial assets originated or purchased | Financial assets derecognised during the period | Changes in credit risk | Write-offs | Other movements | As at the end of the period |
|---|---|---|---|---|---|---|---|---|---|---|
| **Debt securities** | **(87)** | **-** | **-** | **-** | **-** | **-** | **8** | **-** | **-** | **(79)** |
| Stage 1 | (87) | - | - | - | - | - | 8 | - | - | (79) |
| **Loans and advances to banks** | **(1 518)** | **-** | **-** | **-** | **(1 560)** | **1 529** | **417** | **-** | **-** | **(1 132)** |
| Stage 1 | (1 518) | - | - | - | (1 560) | 1 529 | 417 | - | - | (1 132) |
| **Loans and advances to customers** | **(3 042 547)** | **-** | **-** | **-** | **(265 758)** | **144 356** | **(623 937)** | **597 253** | **355** | **(3 190 278)** |
| Stage 1 | (214 875) | (382 332) | 102 610 | 4 397 | (119 016) | 50 598 | 245 500 | - | - | (313 118) |
| Stage 2 | (220 963) | 333 478 | (130 698) | 128 900 | (21 970) | 21 901 | (368 616) | - | (67) | (258 035) |
| Stage 3 | (2 599 882) | 48 854 | 28 088 | (133 297) | (124 522) | 76 222 | (488 828) | 589 552 | 422 | (2 603 391) |
| POCI | (6 827) | - | - | - | (250) | (4 365) | (11 993) | 7 701 | - | (15 734) |
| **Expected credit losses allowance, total** | **(3 044 152)** | **-** | **-** | **-** | **(267 318)** | **145 885** | **(623 512)** | **597 253** | **355** | **(3 191 489)** |

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

| Change from 1 January to 30 September 2020 | As at the beginning of the period | Transfer to Stage 1 | Transfer to Stage 2 | Transfer to Stage 3 | New financial assets originated or purchased | Financial assets derecognised during the period | Write-offs | Other movements | As at the end of the period |
|---|---|---|---|---|---|---|---|---|---|
| **Debt securities** | **11 234 952** | **-** | **-** | **-** | **4 355 309** | **(1 764 212)** | **-** | **645 453** | **14 471 502** |
| Stage 1 | 11 234 952 | - | - | - | 4 355 309 | (1 764 212) | - | 645 453 | 14 471 502 |
| **Loans and advances to banks** | **4 342 890** | **-** | **-** | **-** | **8 223 298** | **(3 559 051)** | **-** | **(14 863)** | **8 992 274** |
| Stage 1 | 4 342 890 | - | - | - | 8 223 298 | (3 559 051) | - | (14 863) | 8 992 274 |
| **Loans and advances to customers** | **106 393 532** | **-** | **-** | **-** | **21 985 469** | **(14 201 313)** | **(388 825)** | **(2 174 866)** | **111 613 997** |
| Stage 1 | 94 130 201 | 2 151 927 | (8 871 611) | (697 867) | 20 739 615 | (12 786 919) | - | (1 918 807) | 92 746 539 |
| Stage 2 | 7 920 046 | (2 127 549) | 8 943 097 | (635 424) | 1 118 960 | (1 176 645) | - | (173 236) | 13 869 249 |
| Stage 3 | 4 105 697 | (24 378) | (71 486) | 1 239 128 | 121 813 | (234 420) | (387 914) | (58 262) | 4 690 178 |
| POCI | 237 588 | - | - | 94 163 | 5 081 | (3 329) | (911) | (24 561) | 308 031 |
| **Financial assets at amortised cost, gross** | **121 971 374** | **-** | **-** | **-** | **34 564 076** | **(19 524 576)** | **(388 825)** | **(1 544 276)** | **135 077 773** |

| Change from 1 January to 31 December 2019 | As at the beginning of the period | Transfer to Stage 1 | Transfer to Stage 2 | Transfer to Stage 3 | New financial assets originated or purchased | Financial assets derecognised during the period | Write-offs | Other movements | As at the end of the period |
|---|---|---|---|---|---|---|---|---|---|
| **Debt securities** | **9 000 626** | **-** | **-** | **-** | **1 952 008** | **(486 122)** | **-** | **768 440** | **11 234 952** |
| Stage 1 | 9 000 626 | - | - | - | 1 952 008 | (486 122) | - | 768 440 | 11 234 952 |
| **Loans and advances to banks** | **2 547 864** | **-** | **-** | **-** | **3 517 663** | **(1 696 413)** | **-** | **(26 224)** | **4 342 890** |
| Stage 1 | 2 547 864 | - | - | - | 3 517 663 | (1 696 413) | - | (26 224) | 4 342 890 |
| **Loans and advances to customers** | **95 059 979** | **-** | **-** | **-** | **34 350 790** | **(18 991 377)** | **(597 253)** | **(3 428 607)** | **106 393 532** |
| Stage 1 | 82 159 668 | 3 406 464 | (3 116 956) | (626 902) | 32 103 237 | (16 817 502) | - | (2 977 808) | 94 130 201 |
| Stage 2 | 8 714 545 | (3 253 951) | 3 189 531 | (450 634) | 1 916 470 | (1 861 076) | - | (334 839) | 7 920 046 |
| Stage 3 | 3 976 749 | (152 513) | (72 575) | 992 776 | 318 861 | (302 412) | (589 552) | (65 637) | 4 105 697 |
| POCI | 209 017 | - | - | 84 760 | 12 222 | (10 387) | (7 701) | (50 323) | 237 588 |
| **Financial assets at amortised cost, gross** | **106 608 469** | **-** | **-** | **-** | **39 820 461** | **(21 173 912)** | **(597 253)** | **(2 686 391)** | **121 971 374** |

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

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

| No. | Sectors | Gross value 30.09.2020 | % | Gross value 31.12.2019 | % |
|---|---|---|---|---|---|
| 1. | Household customers | 63 789 372 | 57.15 | 58 674 891 | 55.15 |
| 2. | Real estate | 7 050 713 | 6.32 | 6 305 974 | 5.93 |
| 3. | Construction | 5 057 808 | 4.53 | 5 160 496 | 4.85 |
| 4. | Food sector | 2 964 006 | 2.66 | 3 017 507 | 2.84 |
| 5. | Transport and logistics | 2 823 909 | 2.53 | 2 825 670 | 2.66 |
| 6. | Financial sector | 2 727 715 | 2.44 | 1 766 892 | 1.66 |
| 7. | Metals | 2 234 670 | 2.00 | 2 331 810 | 2.19 |
| 8. | Motorisation | 2 104 264 | 1.89 | 2 240 037 | 2.11 |
| 9. | Construction materials | 2 083 192 | 1.87 | 2 178 231 | 2.05 |
| 10. | Chemicals and plastic products | 1 846 394 | 1.65 | 1 915 441 | 1.80 |
| 11. | Wood, furniture and paper products | 1 643 161 | 1.47 | 1 782 443 | 1.68 |
| 12. | Scientific and technical activities | 1 376 562 | 1.23 | 1 406 065 | 1.32 |
| 13. | Wholesale trade | 1 311 569 | 1.18 | 1 427 747 | 1.34 |
| 14. | Retail trade | 1 297 464 | 1.16 | 1 231 428 | 1.16 |
| 15. | IT | 1 201 635 | 1.08 | 1 172 087 | 1.10 |
| 16. | Power, power and heating distribution | 1 146 786 | 1.03 | 1 126 577 | 1.06 |
| 17. | Rental and leasing activities | 965 751 | 0.87 | 1 116 106 | 1.05 |
| 18. | Pharmacy | 893 011 | 0.80 | 894 470 | 0.84 |
| 19. | Hotels and Restaurants | 782 896 | 0.70 | 748 789 | 0.70 |
| 20. | Fuels | 778 329 | 0.70 | 1 033 659 | 0.97 |

As at 30 September 2020, the total exposure of the Group in the above sectors (excluding household customers) amounts to 36.11% of the credit portfolio (31 December 2019: 37.31%).

## 20. Non-current assets and liabilities held for sale

On 7 November 2019, as part of implementing the mBank Group plan to withdraw from development activity and focus on the main activity in the financial industry, mBank S.A. signed a conditional agreement for the sale of shares in the company BDH Development Sp. z o.o. (BDH) to Archicom Polska S.A. The transaction will be finalized after all the conditions precedent are met in the form of the sale by BDH of shares held in CSK Sp. z o. o. registration by the registry court of the reduction in BDH's share capital related to the redemption of shares, and the President of the Office for Competition and Consumer Protection's consent to the concentration consisting in the acquisition by Archicom Polska S.A. control over BDH (conditions met) and after signing the promised agreement between the parties. The parties undertook to sign a promised agreement transferring the value of BDH shares no later than 31 December 2020.

In connection with the above agreement, in accordance with the accounting principles described in Note 2.19 to the Consolidated Financial Statements of mBank S.A. Group for 2019, published on 28 February 2020, as at 31 December 2019, the Group classified BDH as non-current assets held for sale.

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

| ASSETS | 30.09.2020 | 31.12.2019 |
|---|---|---|
| Other assets | 15 261 | 10 651 |
| **TOTAL ASSETS** | **15 261** | **10 651** |

| LIABILITIES | 30.09.2020 | 31.12.2019 |
|---|---|---|
| Financial liabilities measured at amortised cost, including: | 159 | 96 |
| *Amounts due to banks* | *96* | *96* |
| *Amounts due to customers* | *63* | *-* |
| Other liabilities | 258 | 1 219 |
| **TOTAL LIABILITIES** | **417** | **1 315** |

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## 21. Intangible assets

| | 30.09.2020 | 31.12.2019 |
|---|---|---|
| Goodwill | 27 760 | 27 760 |
| Patents, licences and similar assets, including: | 721 099 | 696 491 |
| - computer software | 545 362 | 576 535 |
| Other intangible assets | 4 119 | 1 199 |
| Intangible assets under development | 341 280 | 229 990 |
| **Total intangible assets** | **1 094 258** | **955 440** |

## 22. Tangible assets

| | 30.09.2020 | 31.12.2019 |
|---|---|---|
| **Tangible assets, including:** | **622 075** | **698 634** |
| - land | 653 | 1 033 |
| - buildings and structures | 154 355 | 163 524 |
| - equipment | 160 836 | 188 496 |
| - vehicles | 212 804 | 238 850 |
| - other fixed assets | 93 427 | 106 731 |
| **Fixed assets under construction** | **66 080** | **75 416** |
| **The right to use, including:** | **429 499** | **488 347** |
| - real estate | 379 579 | 437 295 |
| - the right of perpetual of usufruct of land | 47 842 | 48 358 |
| - cars | 1 460 | 1 561 |
| - other | 618 | 1 133 |
| **Total tangible assets** | **1 117 654** | **1 262 397** |

## 23. Financial liabilities held for trading and derivatives held for hedges

| | 30.09.2020 | 31.12.2019 |
|---|---|---|
| Derivatives, including: | 1 087 757 | 948 764 |
| - Held for trading derivative financial instruments classified into banking book | 205 140 | 104 161 |
| - Held for trading derivative financial instruments classified into trading book | 1 168 761 | 957 386 |
| - Derivative financial instruments held for fair value hedging | 2 158 | 6 451 |
| - Derivative financial instruments held for cash flow hedging | - | 12 960 |
| - Offsetting effect | (288 302) | (132 194) |
| **Total financial liabilities held for trading and derivatives held for hedges** | **1 087 757** | **948 764** |

IFRS Condensed Consolidated Financial Statements for the third quarter of 2020 PLN (000's)

## 24. Financial liabilities measured at amortised cost – amounts due to banks and customers

| 30.09.2020 | Amount due to banks | Amount due to customers | including: | | |
|---|---|---|---|---|---|
| | | | Individual customers | Corporate customers | Public sector customers |
| **Deposits** | **1 174 820** | **136 522 243** | **92 187 598** | **43 799 174** | **535 471** |
| Current accounts | 496 349 | 118 644 190 | 81 405 744 | 36 868 086 | 370 360 |
| Term deposits | - | 17 521 181 | 10 781 854 | 6 574 216 | 165 111 |
| Repo transactions | 678 471 | 356 872 | - | 356 872 | - |
| **Loans and advances received** | **-** | **3 198 190** | - | 3 198 190 | - |
| **Other financial liabilities** | **599 364** | **1 398 116** | **115 742** | **1 241 926** | **40 448** |
| Liabilities in respect of cash collaterals | 362 043 | 544 614 | 38 488 | 506 126 | - |
| Leasing liabilities | - | 461 807 | - | 421 418 | 40 389 |
| Other liabilities | 237 321 | 391 695 | 77 254 | 314 382 | 59 |
| **Deposits and other financial liabilities, total** | **1 774 184** | **141 118 549** | **92 303 340** | **48 239 290** | **575 919** |

| | | |
|---|---|---|
| Short-term (up to 1 year) | 1 151 429 | 136 956 618 |
| Long-term (over 1 year) | 622 755 | 4 161 931 |

| 31.12.2019 | Amount due to banks | Amount due to customers | including: | | |
|---|---|---|---|---|---|
| | | | Individual customers | Corporate customers | Public sector customers |
| **Deposits** | **528 448** | **112 424 332** | **77 525 267** | **34 083 016** | **816 049** |
| Current accounts | 424 200 | 88 073 656 | 62 639 670 | 24 823 049 | 610 937 |
| Term deposits | - | 24 175 269 | 14 885 597 | 9 084 560 | 205 112 |
| Repo transactions | 104 248 | 175 407 | - | 175 407 | - |
| **Loans and advances received** | **189 901** | **2 980 294** | **-** | **2 980 294** | **-** |
| **Other financial liabilities** | **448 522** | **1 256 512** | **139 105** | **1 074 601** | **42 806** |
| Liabilities in respect of cash collaterals | 301 021 | 423 059 | 43 854 | 377 593 | 1 612 |
| Leasing liabilities | - | 496 912 | - | 456 052 | 40 860 |
| Other liabilities | 147 501 | 336 541 | 95 251 | 240 956 | 334 |
| **Deposits and other financial liabilities, total** | **1 166 871** | **116 661 138** | **77 664 372** | **38 137 911** | **858 855** |

| | | |
|---|---|---|
| Short-term (up to 1 year) | 816 830 | 112 608 069 |
| Long-term (over 1 year) | 350 041 | 4 053 069 |

The Group presents amounts due to micro enterprises provided by Retail Banking of mBank S.A. under amounts due to individual customers.

## 25. Provisions

| | 30.09.2020 | 31.12.2019 |
|---|---|---|
| Provisions for legal proceedings, including: | 872 896 | 484 760 |
| *- provisions for individual cases concerning indexation clauses in mortgage and housing loans in CHF* | *796 351* | *417 653* |
| *- provisions for other legal proceedings relating to loans in foreign currencies* | *66 078* | *61 103* |
| *- provisions for remaining legal proceedings* | *10 467* | *6 004* |
| Provisions for commitments and guarantees given | 196 118 | 153 432 |
| Other provisions | 73 229 | 101 104 |
| **Provisions, total** | **1 142 243** | **739 296** |

The issues related to individual cases concerning indexation clauses in mortgage and housing loans in CHF is presented in point 26 Selected explanatory information.

The methodology of the measurement of provisions for legal risk regarding individual court cases concerning indexation clauses in mortgage and housing loans in CHF is presented in Note 3.

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The item Other provisions includes provisions recognized related to the judgment of the CJEU of 11 September 2019 regarding reimbursement of commissions in case of earlier loan repayments of consumer loans and mortgage loans, which is described in detail in Note 3.

## Movements in the provisions for remaining legal proceedings and other provisions

| Change from 1 January to 30 September | 2020 | | | |
|---|---|---|---|---|
| | Provisions for individual cases concerning indexation clauses in mortgage and housing loans in CHF | Provisions for other legal proceedings relating to loans in foreign currencies | Provisions for remaining legal proceedings | Other provisions |
| **Provisions as at the beginning of the period** | **417 653** | **61 103** | **6 004** | **101 104** |
| **Change in the period, due to:** | **378 698** | **4 975** | **4 463** | **(27 875)** |
| - increase of provisions | 380 925 | 8 270 | 5 170 | 12 150 |
| - release of provisions | - | (461) | - | (7 799) |
| - utilization | (2 227) | (2 834) | (710) | (29 225) |
| - reclassification to non-current assets held for sale | - | - | - | (3 040) |
| - foreign exchange differences | - | - | 3 | 39 |
| **Provisions as at the end of the period** | **796 351** | **66 078** | **10 467** | **73 229** |

| Change from 1 January to 31 December | 2019 | | | |
|---|---|---|---|---|
| | Provisions for individual cases concerning indexation clauses in mortgage and housing loans in CHF | Provisions for other legal proceedings relating to loans in foreign currencies | Provisions for remaining legal proceedings | Other provisions |
| **Provisions as at the beginning of the period** | **30 565** | **67 258** | **8 498** | **42 553** |
| **Change in the period, due to:** | **387 088** | **(6 155)** | **(2 494)** | **58 551** |
| - increase of provisions | 387 855 | 3 776 | 2 114 | 136 179 |
| - release of provisions | (339) | (3 506) | (2 894) | (5 947) |
| - utilization | (428) | (6 425) | (1 714) | (71 985) |
| - reclassification to non-current assets held for sale | - | - | - | 302 |
| - foreign exchange differences | - | - | - | 2 |
| **Provisions as at the end of the period** | **417 653** | **61 103** | **6 004** | **101 104** |

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

| Change from 1 January to 30 September 2020 | As at the beginning of the period | Transfer to stage 1 | Transfer to stage 2 | Transfer to stage 3 | Increases due to granting and takeover | Decreased results of derecognised from balance sheet | Changes in credit risk (net) | As at the end of the period |
|---|---|---|---|---|---|---|---|---|
| **Loan commitments** | **63 864** | **-** | **-** | **-** | **36 775** | **(35 705)** | **27 623** | **92 557** |
| Stage 1 | 35 708 | 28 210 | (4 535) | (1) | 16 941 | (11 664) | (22 352) | 42 307 |
| Stage 2 | 23 639 | (28 210) | 4 576 | (249) | 9 176 | (10 226) | 34 305 | 33 011 |
| Stage 3 | 2 136 | - | (41) | 250 | 10 097 | (13 018) | 15 685 | 15 109 |
| POCI | 2 381 | - | - | - | 561 | (797) | (15) | 2 130 |
| **Guarantees and other financial facilities** | **89 568** | **-** | **-** | **-** | **26 536** | **(36 757)** | **24 212** | **103 559** |
| Stage 1 | 4 781 | 1 017 | (648) | - | 13 524 | (12 730) | (1 243) | 4 701 |
| Stage 2 | 4 713 | (1 017) | 648 | (278) | 1 290 | (2 480) | 2 285 | 5 161 |
| Stage 3 | 79 684 | - | - | 278 | 11 722 | (20 967) | 23 188 | 93 905 |
| POCI | 390 | - | - | - | - | (580) | (18) | (208) |
| **Other commitments** | **-** | **-** | **-** | **-** | **11** | **(9)** | **-** | **2** |
| Stage 1 | - | - | - | - | 11 | (9) | - | 2 |
| **Provisions on off-balance sheet commitments and financial guarantees** | **153 432** | **-** | **-** | **-** | **63 322** | **(72 471)** | **51 835** | **196 118** |

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| Change from 1 January to 31 December 2019 | As at the beginning of the period | Transfer to stage 1 | Transfer to stage 2 | Transfer to stage 3 | Increases due to granting and takeover | Decreased results of derecognised from balance sheet | Changes in credit risk (net) | As at the end of the period |
|---|---|---|---|---|---|---|---|---|
| **Loan commitments** | **57 914** | **-** | **-** | **-** | **36 450** | **(43 974)** | **13 474** | **63 864** |
| Stage 1 | 32 575 | 32 226 | (4 616) | (112) | 22 736 | (13 204) | (33 897) | 35 708 |
| Stage 2 | 18 247 | (32 226) | 4 688 | (145) | 10 844 | (11 234) | 33 465 | 23 639 |
| Stage 3 | 6 231 | - | (72) | 257 | 1 695 | (19 479) | 13 504 | 2 136 |
| POCI | 861 | - | - | - | 1 175 | (57) | 402 | 2 381 |
| **Guarantees and other financial facilities** | **51 495** | **-** | **-** | **-** | **60 502** | **(28 484)** | **6 055** | **89 568** |
| Stage 1 | 2 784 | 1 484 | (674) | (3) | 13 852 | (7 847) | (4 815) | 4 781 |
| Stage 2 | 4 994 | (1 484) | 674 | (189) | 2 773 | (1 755) | (300) | 4 713 |
| Stage 3 | 47 154 | - | - | 192 | 43 877 | (20 477) | 8 938 | 79 684 |
| POCI | (3 437) | - | - | - | - | 1 595 | 2 232 | 390 |
| **Other commitments** | **-** | **-** | **-** | **-** | **109** | **(109)** | **-** | **-** |
| Stage 1 | - | - | - | - | 109 | (109) | - | - |
| **Provisions on off-balance sheet commitments and financial guarantees** | **109 409** | **-** | **-** | **-** | **97 061** | **(72 567)** | **19 529** | **153 432** |

## 26. Assets and liabilities for deferred income tax

| Deferred income tax assets | 30.09.2020 | 31.12.2019 |
|---|---|---|
| **As at the beginning of the period** | **1 473 790** | **1 344 037** |
| Changes recognized in the income statement | 116 423 | 124 182 |
| Changes recognized in other comprehensive income | 11 455 | 855 |
| Other changes | 324 | 4 716 |
| **As at the end of the period** | **1 601 992** | **1 473 790** |

| Provisions for deferred income tax | 30.09.2020 | 31.12.2019 |
|---|---|---|
| **As at the beginning of the period** | **(536 160)** | **(385 044)** |
| Changes recognized in the income statement | (109 337) | (136 256) |
| Changes recognized in other comprehensive income | (136 286) | (11 231) |
| Other changes | - | (3 629) |
| **As at the end of the period** | **(781 783)** | **(536 160)** |

| Income tax | The period from 01.01.2020 to 30.09.2020 | The period from 01.01.2019 to 30.09.2019 |
|---|---|---|
| Current income tax | (345 968) | (304 203) |
| Deferred income tax recognised in the income statement | 7 086 | (70 920) |
| **Income tax recognised in the income statement** | **(338 882)** | **(375 123)** |
| Recognised in other comprehensive income | (124 831) | (21 462) |
| **Total income tax** | **(463 713)** | **(396 585)** |

## 27. Fair value of assets and liabilities

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

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

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

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The approach to the method used for the loans that are fair valued in line of IFRS9 requirements, is described in the Note 3.3.7 to the Consolidated Financial Statements of mBank Group for 2019, published on 28 February 2020.

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

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

**Positions that are recognised in GL through amortised cost**

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

| | 30.09.2020 | | 31.12.2019 | |
|---|---|---|---|---|
| | Carrying value | Fair value | Carrying value | Fair value |
| **Financial assets at amortised cost** | | | | |
| **Debt securities** | **14 471 422** | **14 980 925** | **11 234 873** | **11 409 164** |
| **Loans and advances to banks** | **8 991 355** | **8 986 245** | **4 341 758** | **4 338 448** |
| **Loans and advances to customers, including:** | **107 876 830** | **108 915 015** | **103 203 254** | **103 538 180** |
| **Loans and advances to individuals** | **61 950 975** | **63 950 473** | **56 999 856** | **58 296 285** |
| Current accounts | 6 840 871 | 6 989 206 | 6 828 579 | 7 011 607 |
| Term loans | 54 800 315 | 56 651 478 | 49 809 251 | 50 922 652 |
| Other | 309 789 | 309 789 | 362 026 | 362 026 |
| **Loans and advances to corporate entities** | **45 618 494** | **44 652 530** | **45 819 083** | **44 854 574** |
| Current accounts | 5 019 068 | 4 878 131 | 5 657 614 | 5 522 094 |
| Term loans, including finance lease | 36 999 068 | 36 174 041 | 37 301 706 | 36 472 717 |
| Reverse repo or buy/sell back transactions | 1 176 154 | 1 176 154 | 13 398 | 13 398 |
| Other loans and advances | 2 403 427 | 2 403 427 | 2 596 454 | 2 596 454 |
| Other | 20 777 | 20 777 | 249 911 | 249 911 |
| **Loans and advances to public sector** | **307 361** | **312 012** | **384 315** | **387 321** |
| **Financial liabilities at amortised cost** | | | | |
| **Amounts due to other banks** | **1 774 184** | **1 774 184** | **1 166 871** | **1 166 836** |
| **Amounts due to customers** | **141 118 549** | **141 139 987** | **116 661 138** | **116 661 251** |
| **Debt securities in issue** | **13 849 349** | **14 005 753** | **17 435 143** | **17 711 082** |
| **Subordinated liabilities** | **2 561 855** | **2 532 904** | **2 500 217** | **2 519 770** |

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

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

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

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

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

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

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

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

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

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

**Positions that are recognised in GL through fair value**

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

| 30.09.2020 | Including: | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| | | Quoted prices in active markets | Valuation techniques based on observable market data | Other valuation techniques |
| **RECURRING FAIR VALUE MEASUREMENTS** | | | | |
| **Financial assets** | | | | |
| **Financial assets held for trading and hedging derivatives** | **2 353 905** | **405 495** | **1 395 065** | **553 345** |
| Loans and advances to customers | 186 432 | - | - | 186 432 |
| Debt securities | 678 604 | 405 495 | - | 273 109 |
| Derivative financial instruments, including: | 1 488 869 | - | 1 395 065 | 93 804 |
| Derivative financial instruments held for trading | 1 582 613 | - | 1 582 613 | - |
| Hedging derivative financial instruments | 1 148 614 | - | 1 054 810 | 93 804 |
| Offsetting effect | (1 242 358) | - | (1 242 358) | - |
| **Non-trading financial assets mandatorily at fair value through profit or loss** | **1 919 046** | **90 469** | **-** | **1 828 577** |
| Loans and advances to customers | 1 595 034 | - | - | 1 595 034 |
| Debt securities | 71 615 | - | - | 71 615 |
| Equity securities | 252 397 | 90 469 | - | 161 928 |
| **Financial assets at fair value through other comprehensive income** | **35 484 841** | **33 752 079** | **999 997** | **732 765** |
| Debt securities | 35 484 841 | 33 752 079 | 999 997 | 732 765 |
| **Total financial assets** | **39 757 792** | **34 248 043** | **2 395 062** | **3 114 687** |
| **Financial liabilities** | | | | |
| Derivative financial instruments, including: | 1 087 757 | - | 1 087 757 | - |
| Derivative financial instruments held for trading | 1 373 901 | - | 1 373 901 | - |
| Hedging derivative financial instruments | 2 158 | - | 2 158 | - |
| Offsetting effect | (288 302) | - | (288 302) | - |
| **Total financial liabilities** | **1 087 757** | **-** | **1 087 757** | **-** |

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| Assets and Liabilities Measured at Fair Value Based on Level 3 - changes from 1 January to 30 September 2020 | Debt trading securities | Derivative financial instruments | Non-trading debt securities mandatorily at fair value through profit or loss | Non-trading equity securities mandatorily at fair value through profit or loss | Debt securities at fair value through other comprehensive income |
|---|---|---|---|---|---|
| **As at the beginning of the period** | **403 028** | **(7 524)** | **133 774** | **161 791** | **1 032 369** |
| **Gains and losses for the period:** | **3 120** | **101 328** | **8 179** | **137** | **(9 258)** |
| Recognised in profit or loss: | 3 120 | 81 002 | 8 179 | 137 | - |
| *Net trading income* | *3 120* | *81 002* | *3 382* | *69* | - |
| *Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss* | - | - | *4 797* | 1 446 | - |
| *Gains or losses on subsidiaries and associates* | - | - | - | *(1 378)* | - |
| Recognised in other comprehensive income: | - | 20 326 | - | - | (9 258) |
| *Financial assets at fair value through other comprehensive income* | - | - | - | - | *(9 258)* |
| *Cash flow hedges* | - | *20 326* | - | - | - |
| Purchases | 1 148 808 | - | - | - | 226 460 |
| Redemptions | (139 644) | - | - | - | (279 324) |
| Sales | (5 961 318) | - | - | - | (4 345 244) |
| Issues | 4 819 115 | - | - | - | 4 107 762 |
| Conversion | - | - | (70 338) | - | - |
| **As at the end of the period** | **273 109** | **93 804** | **71 615** | **161 928** | **732 765** |

During the three quarters of 2020 there were no transfers of financial instruments between the levels of fair value hierarchy.

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

IFRS Condensed Consolidated Financial Statements for the third quarter of 2020 PLN (000's)

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

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

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

**Level 1**

As at 30 September 2020, at level 1 of the fair value hierarchy, the Group has presented the fair value of held for trading government bonds in the amount of PLN 405 495 thousand (see Note 16) and the fair value of government bonds and treasury bills measured at fair value through other comprehensive income in the amount of PLN 32 448 866 thousand (see Note 18) (31 December 2019 respectively: PLN 1 330 541 thousand and PLN 17 537 697 thousand). Level 1 includes the fair values of corporate bonds in the amount of PLN 1 303 213 thousand (31 December 2019: PLN 984 228 thousand).

In addition, as at 30 September 2020 level 1 includes the value of the registered privileged shares of Giełda Papierów Wartościowych in the amount of PLN 951 thousand (31 December 2019: PLN 825 thousand) and shares of Visa Inc. in the amount of PLN 89 518 thousand, resulting from the conversion of a part of a debt instrument measured at fair value through profit or loss, resulting from the reclassification of preferred stock in Visa Inc.

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

**Level 2**

Level 2 of the fair value hierarchy mainly includes the fair values of bills issued by NBP in the amount of PLN 999 997 thousand (31 December 2019: PLN 3 219 627 thousand), whose valuation is based on a NPV model (discounted future cash flows) fed with interest rate curves generated by transformation of quotations taken directly from active and liquid financial markets.

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

As at 30 September 2020 and 31 December 2019, level 2 also includes the value of options referencing on the WIG-20 index. For options valuation on WIG-20 index an internal Bank's model (based on implied volatility model) using market parameters is applied.

**Level 3**

Level 3 of the hierarchy presents the fair values of commercial debt securities issued by local banks and companies in the amount of PLN 1 041 283 thousand (31 December 2019: PLN 1 532 889 thousand) and includes the fair value of a debt instrument measured at fair value through profit or loss, resulting from the reclassification of preferred stock in Visa Inc.

Level 3 includes also the fair value of local government bonds in the amount of PLN 36 206 thousand (31 December 2019 - PLN 36 282 thousand).

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

Level 3 as at 30 September 2020 includes the value of loans and advances to customers in the amount of PLN 1 781 466 thousand (31 December 2019 – PLN 2 144 221 thousand).

The Fair Value calculation for loans and advances to customers is based on its discounted estimated future cash flows. Future cash flows are determined taking into account:

- repayment schedule,
- time value of money, based on risk-free interest rates set in the process of forecasting interest flows,
- 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.

Moreover, level 3 covers mainly the fair value of equity securities amounting to PLN 161 928 thousand (31 December 2019: PLN 161 791 thousand). The equity securities presented at level 3 have been valuated using the market multiples method. The market multiples method consists of valuating the equity capital of a company by using a relation between the market values of the own equity capital or market values of the total capital invested in comparable companies (goodwill) and selected economic and financial figures.

Level 3 also includes the valuation of CIRS contracts concluded under cash flow hedge accounting of the PLN mortgage loan portfolio and covered bonds issued by mBank Hipoteczny (for more information, see Note 16). As at 30 September 2020, the valuation of these contracts was positive (assets) and amounted to PLN 93 804 thousand, while as at 31 December 2019 the valuation was negative (liabilities) and amounted to PLN 7 524 thousand.

## Selected explanatory information

### 1. Compliance with international financial reporting standards

The presented condensed consolidated report for the third quarter of 2020 fulfils the requirements of the International Accounting Standard (IAS) 34 "Interim Financial Reporting" relating to interim financial reports.

In addition, selected explanatory information provide additional information in accordance with Decree of the Minister of Finance dated 29 March 2018 concerning the publication of current and periodic information by issuers of securities and the conditions of acceptance as equal information required by the law of other state, which is not a member state (Journal of Laws 2018, item 757).

### 2. Consistency of accounting principles and calculation methods applied to the drafting of the quarterly report and the last annual financial statements

The description of the Group's accounting policies is presented in Note 2 and 3 of these condensed consolidated financial statements. The accounting principles adopted by the Group were applied on a continuous basis for all periods presented in the financial statements, except for the changes in accounting principles, which were presented under Note 2 in point "Comparative data".

### 3. Seasonal or cyclical nature of the business

The business operations of the Group do not involve significant events that would be subject to seasonal or cyclical variations.

### 4. Nature and values of items affecting assets, liabilities, equity, net profit/(loss) or cash flows, which are extraordinary in terms of their nature, magnitude or exerted impact

In the three quarters of 2020 the COVID-19 pandemic significantly affected the Group's results, mainly by increasing expected credit losses charges and valuation of loan portfolio measured at fair value through profit or loss. The financial results for the third quarter of 2020 also include additional costs related to the increase in the provision for individual court cases regarding indexation clauses in mortgage and housing loans in CHF in the amount of PLN 185.8 million. Detailed information in this regard is presented in Note 3 "Major estimates and judgments made in connection with the application of accounting policy principles".

### 5. Nature and amounts of changes in estimate values of items, which were presented in previous interim periods of the current reporting year, or changes of accounting estimates indicated in prior reporting years, if they bear a substantial impact upon the current interim period

In the third quarter of 2020, the Group increased the provisions for individual court cases regarding indexation clauses in mortgage and housing loans in CHF by PLN 185.8 million. The increase in the provision for legal risk related to foreign currency loans resulted mainly from the change in the loss probability ratio used in the calculation of the provision and an increase in the projected number of new cases. Detailed information in this regard is presented in Note 3 "Major estimates and judgments made in connection with the application of accounting policy principles".

### 6. Issues, redemption and repayment of non-equity and equity securities

In the third quarter of 2020 the following issues and redemptions of debt securities took place:

- mBank Hipoteczny S.A. redeemed long term bonds in the amount of PLN 200 000 thousand and mortgage bonds in the amount of PLN 500 000 thousand and EUR 30 000 thousand.
- mFinance France redeemed Eurobonds issued on 21 September 2016 with a nominal value of EUR 500 000 thousand, maturing on 26 September 2020. The nominal value of redeemed Eurobonds remaining in trading as at 26 September 2020 amounted to EUR 464 822 thousand.

### 7. Dividends paid (or declared) altogether or broken down by ordinary shares and other shares

On 27 March 2020, the 33rd Annual General Meeting of mBank S.A. adopted a resolution regarding the distribution of the net profit for 2019. The net profit of mBank S.A. in the amount of PLN 980 980 thousand was left undivided.

## 8. Significant events after the end of the third quarter of 2020, which are not reflected in the financial statements

Events as indicated above did not occur in the Group.

## 9. Effect of changes in the structure of the entity in the third quarter of 2020, including business combinations, acquisitions or disposal of subsidiaries, long-term investments, restructuring, and discontinuation of business activities

Events as indicated above did not occur in the Group.

## 10. Changes in contingent liabilities and commitments

In the third quarter of 2020, there were no changes in contingent liabilities and commitments of credit nature, i.e. guarantees, letters of credit or unutilised loan amounts, other than resulting from current operating activities of the Group. There was no single case of granting of guarantees or any other contingent liability of any material value for the Group.

## 11. Write-offs of the value of inventories down to net realisable value and reversals of such write-offs

In the third quarter of 2020, events as indicated above did not occur in the Group.

## 12. Revaluation write-offs on account of impairment of tangible fixed assets, intangible assets, or other assets as well as reversals of such write-offs

In the third quarter of 2020, events as indicated above did not occur in the Group.

## 13. Revaluation write-offs on account of impairment of financial assets

Data regarding write-offs on account of impairment of financial assets is presented under Note 12 of these condensed consolidated financial statements.

## 14. Reversals of provisions against restructuring costs

In the third quarter of 2020, events as indicated above did not occur in the Group.

## 15. Acquisitions and disposals of tangible fixed asset items

In the third quarter of 2020, there were no material transactions of acquisition or disposal of any tangible fixed assets, with the exception of typical lease operations that are performed by the companies of the Group.

## 16. Material liabilities assumed on account of acquisition of tangible fixed assets

In the third quarter of 2020, events as indicated above did not occur in the Group.

## 17. Information about changing the process (method) of measurement the fair value of financial instruments

In the reporting period there were no changes in the process (method) of measurement the fair value of financial instruments.

## 18. Changes in the classification of financial assets due to changes of purpose or use of these assets

In the reporting period there were no changes in the classification of financial assets as a result of a change in the purpose or use of these assets.

## 19. Corrections of errors from previous reporting periods

In the third quarter of 2020, events as indicated above did not occur in the Group. The restatements of comparative data have been described in the Note 2, in the item "Comparative data".

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## 20. Information on changes in the economic situation and operating conditions that have a significant impact on the fair value of financial assets and financial liabilities of the entity, regardless of whether these assets and liabilities are included in the fair value or in the adjusted purchase price (amortized cost)

As part of the actions taken in Poland and around the world related to the COVID-19 pandemic, in March, April and May 2020, the Monetary Policy Council reduced interest rates by a total of 140 basis points, which affected the valuation of assets and liabilities to fair value. The COVID-19 pandemic also caused a sharp slowdown in economic activity at the end of the first quarter of 2020. Efforts to slow down the spread of the virus, introduced gradually from mid-March, froze activities in many sectors of the economy. In the first half of May, a gradual opening of the economy began and this process is taking place in stages and consists in resuming activity by individual industries while maintaining an increased sanitary regime. The recent rapid increase in the number of new infections at the end of September and in October has brought back tighter restrictions. Their scale is expected to be smaller than in spring, but in their current form they are already severe for consumers and companies.

These activities also affected the fair value of financial assets and liabilities. For more information on the impact of COVID-19 on the valuation of loans, see Note 3, "Major estimates and judgments made in connection with the application of accounting policies".

## 21. Default or infringement of a loan agreement or failure to initiate composition proceedings

In the third quarter of 2020, events as indicated above did not occur in the Group.

## 22. Position of the management on the probability of performance of previously published profit/loss forecasts for the year in light of the results presented in the half-yearly report compared to the forecast

The Bank did not publish a performance forecast for the year 2020.

## 23. Registered share capital

The total number of ordinary shares as at 30 September 2020 was 42 365 259 shares (31 December 2019: 42 350 367 shares) at PLN 4 nominal value each. All issued shares were fully paid up.

**REGISTERED SHARE CAPITAL (THE STRUCTURE) AS AT 30 SEPTEMBER 2020**

| Share type | Type of privilege | Type of limitation | Number of shares | Series / face value of issue in PLN | Paid up | Registered on |
|---|---|---|---|---|---|---|
| ordinary bearer* | - | - | 9 989 000 | 39 956 000 | fully paid in cash | 1986 |
| ordinary registered* | - | - | 11 000 | 44 000 | fully paid in cash | 1986 |
| ordinary bearer | - | - | 2 500 000 | 10 000 000 | fully paid in cash | 1994 |
| ordinary bearer | - | - | 2 000 000 | 8 000 000 | fully paid in cash | 1995 |
| ordinary bearer | - | - | 4 500 000 | 18 000 000 | fully paid in cash | 1997 |
| ordinary bearer | - | - | 3 800 000 | 15 200 000 | fully paid in cash | 1998 |
| ordinary bearer | - | - | 170 500 | 682 000 | fully paid in cash | 2000 |
| ordinary bearer | - | - | 5 742 625 | 22 970 500 | fully paid in cash | 2004 |
| ordinary bearer | - | - | 270 847 | 1 083 388 | fully paid in cash | 2005 |
| ordinary bearer | - | - | 532 063 | 2 128 252 | fully paid in cash | 2006 |
| ordinary bearer | - | - | 144 633 | 578 532 | fully paid in cash | 2007 |
| ordinary bearer | - | - | 30 214 | 120 856 | fully paid in cash | 2008 |
| ordinary bearer | - | - | 12 395 792 | 49 583 168 | fully paid in cash | 2010 |
| ordinary bearer | - | - | 16 072 | 64 288 | fully paid in cash | 2011 |
| ordinary bearer | - | - | 36 230 | 144 920 | fully paid in cash | 2012 |
| ordinary bearer | - | - | 35 037 | 140 148 | fully paid in cash | 2013 |
| ordinary bearer | - | - | 36 044 | 144 176 | fully paid in cash | 2014 |
| ordinary bearer | - | - | 28 867 | 115 468 | fully paid in cash | 2015 |
| ordinary bearer | - | - | 41 203 | 164 812 | fully paid in cash | 2016 |
| ordinary bearer | - | - | 31 995 | 127 980 | fully paid in cash | 2017 |
| ordinary bearer | - | - | 24 860 | 99 440 | fully paid in cash | 2018 |
| ordinary bearer | - | - | 13 385 | 53 540 | fully paid in cash | 2019 |
| ordinary bearer | - | - | 14 892 | 59 568 | fully paid in cash | 2020 |
| **Total number of shares** | | | **42 365 259** | | | |
| **Total registered share capital** | | | | **169 461 036** | | |
| **Nominal value per share (PLN)** | | **4** | | | | |

* As at the end of the reporting period

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On 4 August 2020, the National Depository of Securities (KDPW) registered of 7 826 shares of mBank S.A. with a nominal value of PLN 4 each. The shares were registered as part of the conditional share capital increase on the securities accounts of persons participating in the Bank's incentive program.

On 22 September 2020, KDPW registered 7 066 ordinary bearer shares of the Bank with a nominal value of PLN 4 each. The shares were registered under the conditional share capital increase on the securities accounts of persons participating in the Bank's incentive programs.

Due to the registration of the above-mentioned shares by the KDPW the Bank's share capital increased in the third quarter of 2020 by PLN 59 568.

Moreover, on 23 October 2020, KDPW registered of 172 shares of mBank S.A. with a nominal value of PLN 4 each, issued in connection with incentive programs. As at the date of publication of these financial statements, the share capital of the Bank amounts to PLN 169 462 thousand.

## 24. Material share packages

Commerzbank AG is a shareholder holding over 5% of the share capital and votes at the General Meeting and as at 30 September 2020 it held 69.29% of the share capital and votes at the General Meeting of mBank S.A. In the third quarter of 2020 there were no changes in the ownership structure of Bank's material shares packages.

## 25. Change in Bank shares and rights to shares held by managers and supervisors

| | Number of the rights to shares held as at the date of publishing the report for H1 2020 | Number of the rights to shares acquired from the date of publishing the report for H1 2020 to the date of publishing the report for Q3 2020 | Number of the rights to shares sold from the date of publishing the report for H1 2020 to the date of publishing the report for Q3 2020 | Number of the rights to shares held as at the date of publishing the report for Q3 2020 |
|---|---|---|---|---|
| **Management Board** | | | | |
| 1. Cezary Stypułkowski | - | - | - | - |
| 2. Frank Bock | - | 111 | 111 | - |
| 3. Andreas Böger | - | 90 | 90 | - |
| 4. Krzysztof Dąbrowski | - | 223 | 223 | - |
| 5. Cezary Kocik | - | 570 | 570 | - |
| 6. Marek Lusztyn | - | - | - | - |
| 7. Adam Pers | - | - | - | - |

| | Number of shares held as at the date of publishing the report for H1 2020 | Number of shares acquired from the date of publishing the report for H1 2020 to the date of publishing the report for Q3 2020 | Number of shares sold from the date of publishing the report for H1 2020 to the date of publishing the report for Q3 2020 | Number of shares held as at the date of publishing the report for Q3 2020 |
|---|---|---|---|---|
| **Management Board** | | | | |
| 1. Cezary Stypułkowski | 22 167 | - | - | 22 167 |
| 2. Frank Bock | 655 | 111 | - | 766 |
| 3. Andreas Böger | 729 | 90 | - | 819 |
| 4. Krzysztof Dąbrowski | 1 459 | 223 | - | 1 682 |
| 5. Cezary Kocik | 1 591 | 570 | - | 2 161 |
| 6. Marek Lusztyn | - | - | - | - |
| 7. Adam Pers | - | - | - | - |

As at the date of publishing the report for the first half of 2020 and as at the date of publishing the report for the third quarter of 2020, the Members of the Management Board had no and they have no rights to Bank's shares.

As at the date of publishing the report for the first half of 2020 the Member of the Supervisory Board of mBank S.A. Mr Jörg Hessenmüller had the 7 175 Bank's shares. As at the date of publishing the report for the third quarter of 2020, Mr Jörg Hessenmüller had the 7 958 Bank's shares.

As at the date of publishing the report for the first half of 2020 and as at the date of publishing the report for the third quarter of 2020, the other Members of the Supervisory Board of mBank S.A. had neither Bank shares nor rights to Bank shares.

## 26. Proceedings before a court, arbitration body or public administration authority

The Group monitors the status of all court cases brought against entities of the Group, including the status of court rulings regarding loans in foreign currencies in terms of shaping of and possible changes in the line of verdicts of the courts, as well as the level of required provisions for legal proceedings.

The Group creates provisions for litigations against entities of the Group, which as a result of the risk assessment involve a probable outflow of funds from fulfilling the liability and when a reliable estimate of the amount of the liability can be made. The amount of provisions is determined taking into account the amounts of outflow of funds calculated on the basis of scenarios of potential settlements of disputable issues and their probability estimated by the Group based on the previous decisions of courts in similar matters and the experience of the Group.

The value of provisions for litigations as at 30 September 2020 amounted to PLN 872 896 thousand (PLN 484 760 thousand as at 31 December 2019). A potential outflow of funds due to the fulfilment of the obligation takes place at the moment of the final resolution of the cases by the courts, which is beyond the control of the Group.

**Information on the most important court proceedings relating to the issuer's contingent liabilities**

1. Claims of Interbrok's clients

   Since 14 August 2008, 170 entities which have been clients of Interbrok Investment E. Dróżdż i Spółka Spółka jawna (hereinafter Interbrok) called the Bank for amicable settlement for the total amount of PLN 386 086 thousand via the District Court in Warsaw. Nine compensation lawsuits were filed against the Bank. Eight of the nine lawsuits were filed by former clients of Interbrok for the total amount of PLN 800 thousand with the proviso that the claims may be extended up to the total amount of PLN 5 950 thousand. The plaintiffs alleged that the Bank had aided in Interbrok's illegal activities, which caused damage to them. With regard to seven of the afore-mentioned cases, legal proceedings against the Bank were dismissed and the cases were finally concluded. In the eighth case, a plaintiff withdrew their suit waiving the claim and the Regional Court dismissed the action. As far as the ninth suit is concerned, the amount in dispute is PLN 276 499 thousand, including statutory interest and costs of proceedings. According to the claims brought in the suit, this amount comprises the receivables, acquired by the plaintiff by way of assignment, due to the parties aggrieved by Interbrok on account of a reduction (as a result of Interbrok's bankruptcy) of the receivables by a return of the deposits paid by the aggrieved for making investments on the forex market. The plaintiff claims the Bank's liability on the grounds of the Bank's aid in committing the illicit act of Interbrok, consisting in unlicensed brokerage operations. On 7 November 2017, the Regional Court in Warsaw dismissed the action in its entirety. The ruling is not final. The plaintiff appealed.

2. A lawsuit filed by LPP S.A.

   On 17 May 2018, mBank S.A. received a lawsuit filed by LPP S.A. with its registered office in Gdańsk seeking damages amounting to PLN 96 307 thousand on account of interchange fee. In the lawsuit, LPP S.A. petitioned the court for awarding the damages jointly from mBank S.A. and from other domestic bank.

   The plaintiff accuses the two sued banks as well as other banks operating in Poland of taking part in a collusion breaching the Competition and Consumer Protection Act and the Treaty on the Functioning of the European Union. In the plaintiff's opinion, the collusion took the form of an agreement in restriction of competition in the market of acquiring services connected with settling clients' liabilities towards the plaintiff on account of payments for goods purchased by them with payment cards in the territory of Poland.

   On 16 August 2018 mBank S.A. has submitted its statement of defence and requested that the action be dismissed. The court accepted the Defendants' requests to summon sixteen banks to join the proceedings and ordered that the banks be served with the summons. Two banks have notified of their intention to intervene in the case as an indirect intervener.

3. A lawsuit filed by Polski Koncern Naftowy ORLEN S.A.

   On 7 February 2020, mBank S.A. received a lawsuit filed by Polski Koncern Naftowy ORLEN S.A. (Orlen) with its registered office in Płock seeking damages amounting to PLN 635 681 thousand on account of interchange fee. In the lawsuit, Orlen petitioned the court for awarding the damages jointly from mBank S.A. and other domestic bank and also from Master Card Europe and VISA Europe Management Services.

The plaintiff accuses the two sued banks as well as other banks operating in Poland of taking part in a collusion breaching the Competition and Consumer Protection Act and the Treaty on the Functioning of the European Union, i.e. a collusion restricting competition in the market of acquiring services connected with settling clients' liabilities towards the plaintiff on account of card payments for goods and services purchased by clients on the territory of Poland.

On 28 May 2020, mBank S.A. filed a response to the lawsuit.

4. Class action against mBank S.A. concerning the clause on changing interest rate

On 4 February 2011, a class action filed with the Regional Court in Łódź on 20 December 2010 by the Municipal Consumer Ombudsman representing a group of 835 individuals, the Bank's retail banking clients, was served on the Bank. The class action was filed to determine the Bank's liability for the improper performance of mortgage loan agreements. It was in particular claimed that the Bank had improperly applied provisions of agreements on changing interest rate, namely that the Bank had not lowered interest on loans, despite the fact that, according to the Plaintiff, it was obliged to do so. The Bank does not agree with the above-mentioned allegations. On 18 February 2011, the Bank responded to the lawsuit filing for its dismissal in whole.

As at 17 October 2012, the group of class members consisted of 1,247 individuals. On 3 July 2013, the Court announced its judgment allowing the claim in full. According to the Court, the Bank did not properly execute the agreements concluded with consumers, as a result of which they suffered losses. On 30 April 2014, the Court of Appeal in Łódź dismissed the appeal of mBank S.A., upholding the stance adopted by the Regional Court expressed in the judgment. On 14 May 2015, the Supreme Court revoked the ruling of the Court of Appeal in Łódź and referred the case back to that court for re-examination. By the decision of 24 September 2015, the Court of Appeal in Łódź admitted the expert opinion evidence in order to verify the legality of mBank's actions connected with changing the interest rates on the mortgage loans covered by the class action in the period from 1 January 2009 to 28 February 2010. On Hearing which took place on 15th July mBank S.A. withdrew the mBank's appeal against the ruling of 9 September 2013. In consequence the Appeal Court decided to dismissed proceedings what means that the ruling of the District Court in Łódź dated 3 July 2013 is final and non-appealable. The ruling dated 3 July 2013 does not question the validity of the concluded credit agreements. Once the ruling becomes final and non-appealable:

• interest on the loans covered by the class action will be charged at the fixed interest rate applicable on the date the loans were granted;

• a claim of the class members will arise for reimbursement of amounts potentially paid in excess of the fixed interest in the period covered by the class action.

The total value of claims in this class actions as at 30 June 2020 amounted to PLN 5.2 million.

The case is legally closed. Currently, the Bank has started communicating with customers regarding settlements in accordance with the judgment of 3 July 2013.

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

On 4 April 2016, the Municipal Consumer Ombudsman representing a group of 390 individuals, retail clients of mBank, who concluded agreements on CHF-indexed mortgage loans with mBank, filed a class action with the Regional Court in Łódź against the Bank.

The class action includes alternative claims for declaring invalidity of the loan agreements in part i.e. in the scope of the provisions related to indexation, or in whole; or for finding that the indexation provisions are invalid as they permit indexation of over 20% and below 20% at the CHF exchange rate from the table of exchange rates of mBank S.A. applicable as at the date of conclusion of each of the loan agreements.

As decided by the Court on 13 March 2018, the group is composed of 1,731 persons. The said decision was appealed against by both parties. On 19 October 2018 the court issued a judgment in which it dismissed all claim of the plaintiff. In the oral justification, the court stated that the Plaintiff had not shown that he had a legal interest in bringing the claim in question, and also referred to the validity of loan agreements indexed by CHF, stressing that both the contract itself and the indexation clause are in compliance with both applicable regulations and rules of social coexistence. On 11 January 2019, the appeal of the plaintiff to which the Bank submitted a response. On 27 February 2020, a hearing was held at the Court of Appeal in Łódź. On 9 March 2020, a verdict was passed in a case in which the Court of Appeal referred the case for re-examination of the Regional Court. On 9 June 2020, the Court of Appeal agreed to the plaintiff's motion to secure the plaintiff's claims by suspending the obligation to repay principal and interest instalments and prohibiting the bank from issuing calls for payment and terminating credit agreements. The Bank lodged a complaint about this decision, which the court decided to reject. On 24 July 2020, the Court also rejected the Bank's complaint against the decision to reject the complaint lodged on 13 July 2020 against the decision to grant security. The hearing is scheduled for 21 March 2021.

As at 30 September 2020 the total value of claims in this class actions amounted to PLN 377 million.

6. Individual court proceedings concerning indexation clauses to CHF

   Apart from the class action proceeding there are also individual court proceedings initiated against the Bank by its customers in connection with CHF loan agreements. As at 30 September 2020, 6 443 (31 December 2019: 3 715 proceedings) individual court proceedings were initiated against the Bank by its customers in connection with CHF loan agreements with the total value of claims amounting to PLN 1 150.9 million (31 December 2019: PLN 443.2 million). The value of provisions for all court proceedings related to CHF loan agreements amounted to PLN 862.4 million as at 30 September 2020 (as at 31 December 2019: PLN 478.8 million).

   Out of the individual proceedings, 5 721 (31 December 2019: 2 902 proceedings) proceedings with the total value of claims amounting to PLN 1 138.4 million (31 December 2019: PLN 430.1 million) related to indexation clauses in CHF loan agreements and include claims for declaring ineffectiveness or invalidity in part (i.e. to the extent that the agreement contains contractual provisions related to indexation) or invalidity in whole of the loan agreements. Despite the prevailing number of negative final verdicts announced in the indexation clauses proceedings in 2020, approximately half of all final verdicts till 30 September 2020 was favourable to the Group.

   The carrying amount of mortgage and housing loans granted to individual customers in CHF presented in the condensed consolidated financial statements of mBank S.A. Group as at 30 September 2020 amounted to PLN 13.6 billion (i.e. CHF 3.3 billion) compared to PLN 13.6 billion (i.e. CHF 3.5 billion) as at the end of 2019. Additionally the volume of the portfolio of loans granted in CHF that were already fully repaid as of 30 September 2020 amounted to PLN 6.6 billion (as at 31 December 2019: PLN 6.3 billion).

   The Bank's approach to the measurement of provisions for legal risk associated with this portfolio of loans has been described in the Note 3 "Major estimates and judgments made in connection with the application of accounting policy principles".

**Ruling of the Court of Justice of the European Union regarding a CHF mortgage**

On 3 October 2019 the Court of Justice of the European Union issued the ruling in the prejudicial mode regarding a mortgage linked to the Swiss franc granted by a Polish bank. The submitted prejudicial questions were to determine, among other things, if a generally applicable custom can be used where there is no provision in domestic law that could replace an abusive exchange rate clause. In accordance with CJEU's ruling, the question of abusiveness will be decided by Polish courts. CJEU did not refer to this issue. In addition, CJEU did not make a clear-cut decision regarding the consequences of an exchange rate clause being considered abusive by a domestic court. However, the possibility of a credit agreement being performed further in PLN and with interest calculated according to LIBOR was found doubtful by the Court. If an exchange rate clause is found abusive, a domestic court must decide whether the agreement in question can be performed further or should be declared invalid, taking into account the client's will and the consequences of invalidity for the client. CJEU approved the application of a disposable norm (in the bank's opinion article 358 of the Polish Civil Code referring to the NBP fixing rate can be considered to be a disposable norm), if the invalidity of the agreement would be unfavourable for the client. CJEU rejected the application of general provisions referring to a custom or equity principles.

**Tax audits**

On 10 August 2020, mLeasing Sp. z o.o. a call was received from the First Masovian Tax Office in connection with the verification activities in the field of tax on goods and services for the month of June 2020. As a result of checking activities, no irregularities were found. The tax refund for June took place on 25 August 2020.

The tax authorities may inspect at any time the books and records within 5 years subsequent to the reported tax year and may impose additional tax assessments and penalties. The Management Board is not aware of any circumstances, which may give rise to a potential tax liability in this respect.

**Inspection by the Office of the Polish Financial Supervision Authority (PFSA Office)**

In the period from October till December 2018 the PFSA Office employees carried out an inspection in the Bank in order to investigate whether the activities of mBank S.A. in the area of fulfilling its duties as the depositary were in conformity with the law and agreements on the performance of functions of the depositary, in particular in conformity with the Act of 27 May 2004 on Investment Funds and Management of Alternative Investment Funds (Journal of Laws of 2018, item 1355, as later amended).

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The detailed findings of the inspection were presented in the protocol delivered to the Bank on 11 February 2019. On 25 February 2019 the Bank delivered to the PFSA office its objections to the protocol as well as additional explanations related to the issues being the subject of the inspection.

On 1 April 2019 the Bank received PFSA response to the objections to the inspection protocol as well as PFSA recommendations in regard to the adjustment of Bank's activity as a depositary bank for investment funds to the applicable law. All objections of the Bank have been rejected by the regulator.

On 25 April 2019 the Bank submitted to PFSA Office a declaration of actions taken as realization of post-inspection recommendations. PFSA by letter dated 4 September 2019 objected to the implementation of selected recommendations. On 11 October 2019 Bank submitted to PFSA the response addressing given objections, in which the description of taken actions was further specified as well as some new solutions for implementation were presented. On 5 December 2019, the PFSA Office sent to the Bank a reply to the letter containing the acceptance of some of the Bank's activities aimed at implementing post-audit recommendations and clarifications of other expectations that are being implemented. On 14 May 2020 the Bank formally confirmed the implementation of all the PFSA recommendations.

On 27 February 2020, the Bank received the decision of PFSA Office dated 25 February 2020 to initiate administrative proceedings regarding the imposition of an administrative penalty on the Bank, pursuant to the provisions of the Act dated 27 May 2004 on investment funds and management of alternative investment funds.

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

Proceedings for considering provisions of a template agreement as abusive instituted ex officio on 12 April 2019. The proceedings concern amendment clauses stipulating under which circumstances the bank is authorised to amend the terms and conditions of the agreement, including the amount of fees and commissions. In the opinion of the President of the Office of Competition and Consumer Protection (UOKiK), the amendment clauses used by the bank give it an unlimited right to unilaterally and freely change the manner of performing the agreement. As a consequence, the UOKiK President represents the view that the clauses used by the bank define the rights and obligations of consumers contrary to good morals and grossly violate their interest and, thus, are abusive. mBank does not agree with this stance. mBank responded to the decision on instituting the proceedings in letters dated 28 May 2019 and 10 January 2020. As at the date of approval these condensed consolidated financial statements, the UOKiK President did not take any further actions in the case in question, did not take a stance, and did not respond to mBank's letters.

## 27. Off-balance sheet liabilities

Off-balance sheet liabilities as at 30 September 2020 and 31 December 2019 were as follows.

Consolidated data of mBank S.A. Group

| | 30.09.2020 | 31.12.2019 |
|---|---|---|
| **1. Contingent liabilities granted and received** | **48 210 745** | **42 068 017** |
| **Commitments granted** | **42 565 139** | **38 073 362** |
| - financing | 32 975 046 | 29 134 935 |
| - guarantees and other financial facilities | 7 886 057 | 8 938 427 |
| - other commitments | 1 704 036 | - |
| **Commitments received** | **5 645 606** | **3 994 655** |
| - financial commitments | 546 425 | 392 130 |
| - guarantees | 5 099 181 | 3 602 525 |
| **2. Derivative financial instruments (nominal value of contracts)** | **761 571 057** | **596 187 240** |
| Interest rate derivatives | 654 624 224 | 497 168 526 |
| Currency derivatives | 100 547 331 | 93 546 161 |
| Market risk derivatives | 6 399 502 | 5 472 553 |
| **Total off-balance sheet items** | **809 781 802** | **638 255 257** |

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Stand-alone data of mBank S.A.

| | 30.09.2020 | 31.12.2019 |
|---|---|---|
| **1. Contingent liabilities granted and received** | **49 237 981** | **46 072 755** |
| **Commitments granted** | **43 592 376** | **42 078 100** |
| - financing | 31 249 272 | 28 121 245 |
| - guarantees and other financial facilities | 10 639 068 | 13 956 855 |
| - other commitments | 1 704 036 | - |
| **Commitments received** | **5 645 605** | **3 994 655** |
| - financial commitments | 546 424 | 392 130 |
| - guarantees | 5 099 181 | 3 602 525 |
| **2. Derivative financial instruments (nominal value of contracts)** | **756 202 048** | **589 039 886** |
| Interest rate derivatives | 651 012 742 | 492 076 810 |
| Currency derivatives | 98 789 804 | 91 490 523 |
| Market risk derivatives | 6 399 502 | 5 472 553 |
| **Total off-balance sheet items** | **805 440 029** | **635 112 641** |

## 28. Transactions with related entities

mBank S.A. is the parent entity of the mBank S.A. Group and Commerzbank AG is the ultimate parent of the Group as well as the direct parent of mBank S.A.

All transactions between the Bank and related entities were typical and routine transactions concluded on terms, which not differ from arm's length terms, and their nature, terms and conditions resulted from the current operating activities conducted by the Bank. Transactions concluded with related entities as a part of regular operating activities include loans, deposits and foreign currency transactions.

The amounts of transactions with related entities, i.e., balances of receivables and liabilities as at 30 September 2020 and as at 31 December 2019, and related costs and income for the period from 1 January to 30 September 2020 and from 1 January to 30 September 2019 are presented in the table below.

| | mBank's subsidiaries | | | Commerzbank AG | | | Other companies of the Commerzbank AG Group | | |
|---|---|---|---|---|---|---|---|---|---|
| **As at the end of the period** | **30.09.2020** | **31.12.2019** | **30.09.2019** | **30.09.2020** | **31.12.2019** | **30.09.2019** | **30.09.2020** | **31.12.2019** | **30.09.2019** |
| **Statement of Financial Position** | | | | | | | | | |
| Assets | 111 372 | 160 187 | | 888 556 | 528 688 | | 18 | 19 | |
| Liabilities | 23 096 | 31 518 | | 2 229 635 | 2 059 006 | | 522 271 | 709 071 | |
| **Income Statement** | | | | | | | | | |
| Interest income | 1 304 | | 4 | 36 190 | | 50 457 | 349 | | 519 |
| Interest expense | (83) | | (53) | (29 866) | | (25 185) | (2 405) | | (3 715) |
| Fee and commission income | 267 | | 74 | 4 482 | | 3 509 | 35 | | 42 |
| Fee and commission expense | (323) | | - | - | | (1 030) | - | | - |
| Other operating income | 93 | | 73 | 1 157 | | 1 098 | - | | - |
| Overhead costs, amortisation and other operating expenses | (180) | | (2) | (6 184) | | (7 280) | - | | - |
| **Contingent liabilities granted and received** | | | | | | | | | |
| Liabilities granted | 362 064 | 355 716 | | 2 143 892 | 2 124 709 | | 7 314 | 3 502 | |
| Liabilities received | - | - | | 1 891 335 | 1 816 577 | | - | - | |

The total costs of remuneration of Members of the Supervisory Board, the Management Board and other key management personnel of the Bank that perform their duties from 1 January to 30 September 2020 recognized in the Group's income statement for that period amounted to PLN 23 228 thousand (in the period from 1 January to 30 September 2019: PLN 26 058 thousand).

With regard to the Management Board and other key management personnel the remuneration costs include also remuneration in the form of shares and rights to shares.

## 29. Credit and loan guarantees, other guarantees granted of significant value

As at 30 September 2020, the Bank's significant exposure under guarantees granted related to the guarantee payment of all amounts to be paid in respect of debt securities issued by mFinance France S.A. (mFF), a subsidiary of the mBank S.A.

On 20 November 2014, mFF issued a tranche of Eurobonds with nominal value of EUR 500 000 thousand maturing on 26 November 2021. In this case, the guarantee was granted on 20 November 2014 for the duration of the Programme, i.e. to 26 November 2021. In June 2020, there was a partial redemption of bonds with nominal value of EUR 72 417 thousand, therefore the amount of the guarantee was reduced accordingly.

On 14 March 2017, mFF issued next tranche of Eurobonds with nominal value of CHF 200 000 thousand maturing on 28 March 2023. In this case, the guarantee was granted on 14 March 2017 for the duration of the Programme, i.e. to 28 March 2023.

On 16 September 2020, the process of substitution from the mFF to the Bank as an issuer of Eurobonds began. The substitution entered into force on 1 October 2020. The bank, as the current guarantor, replaced the mFF as the main debtor on bonds and therefore the mFF ceased to be a bond issuer. Moreover, as the Bank became the issuer and the main debtor under the bonds, the above-mentioned Bank guarantees expired on 1 October 2020. Information on substitution is presented in point 33 below.

## 30. Other information which the issuer deems necessary to assess its human resources, assets, financial position, financial performance and their changes as well as information relevant to an assessment of the issuer's capacity to meet its liabilities

- Change in the composition of the Management Board of mBank S.A.

On 25 June 2020, Supervisory Board of mBank S.A. adopted a resolution to dismiss Mr. Frank Bock from the function of the Vice President of the Management Board for Financial Markets mBank S.A. as of 31 December 2020.

The termination of the agreement with Mr. Frank Bock on 31 December 2020 is associated with the reorganization of the financial markets area within other business areas of the Bank, in order to increase the efficiency of the organizational and process structure, and its effect will be a reduction in the number of positions on the Bank's Management Board. Mr. Frank Bock will be involved in the reorganization of the area by the end of this year.

On 22 October 2020, Ms. Lidia Jabłonowska-Luba, Vice-President of the Management Board for Risk Management at mBank S.A., resigned from the position of a member of the Management Board of mBank S.A., from the position of Vice-President of the Management Board for Risk Management at mBank S.A., with the effective on 22 October 2020.

On 22 October 2020, the Supervisory Board of mBank S.A. adopted a resolution to appoint, on 22 October 2020, Mr. Marek Lusztyn to the Management Board of mBank S.A., for the period until the end of the current term of office of the Management Board of mBank S.A.

From the date of the approval by the Polish Financial Supervision Authority to appoint Mr. Marek Lusztyn as a Member of the Management Board supervising the management of risk relevant to the Bank's operations, Mr. Marek Lusztyn will take the position of Vice President of the Management Board of mBank S.A. for Risk Management at mBank S.A. (overseeing the management of risks relevant to mBank S.A.'s operations).

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

On 28 September 2020, Supervisory Board of mBank S.A., received the resignation of Mr. Michael Mandel, effective from 23 October 2020, from membership in the Bank's Supervisory Board as well as from the Executive and Nomination Committee and the Remuneration Committee. Mr. Michael Mandel resigned in connection with the planned departure from Commerzbank.

By a resolution of the Supervisory Board of mBank S.A. of 22 October 2020, Mrs. Sabine Schmittroth was appointed as a member of the Supervisory Board of mBank S.A. on 23 October 2020 for the period until the end of the current term of the Supervisory Board.

## 31. Factors affecting the results in the coming quarter

During the three quarters of 2020 the COVID-19 pandemic significantly affected the Group's results, mainly by increasing expected credit losses charges. The Group expects further impact of the pandemic and related activities undertaken in Poland and worldwide on the results of the next quarter and the entire 2020.

The reduction of interest rates by the Monetary Policy Council by 140 basis points in total, announced on 17 March, 8 April and on 28 May 2020, will have a negative impact on the Group's net interest income. The impact is currently estimated to be approximately in the range of PLN 250-300 million in 2020. The final impact may differ from the current estimation depending on the macroeconomic situation, business activity and volume development.

The Group has introduced a number of facilities for customers to limit the impact of the pandemic on their financial situation. Despite this, due to the potential deterioration of the macroeconomic situation, the Group expects that the financial situation of borrowers will deteriorate in the following quarters and thus further increase the expected credit losses charges in the fourth quarter and in the entire 2020 when compared to those charges in the fourth quarter of 2019 and entire 2019. Moreover, the weakening of the zloty as well as development of situation relating to new lawsuits and verdicts related to loans in CHF may have a negative impact on the amount of provisions created for legal risk of foreign currency mortgage and housing loans.

Considering the above, the Bank's Management Board expects that the consolidated net result in 2020 will be significantly lower than the net profit achieved in 2019.

## 32. Other information

- Requirements on mBank Group capital ratios as of 30 September 2020

On 19 March 2020, into force the repeal of the regulation on the systemic risk buffer applicable to banks in Poland under the provisions of the Act on Macro-prudential Supervision over the Financial System and Crisis Management in the Financial System of 5 August 2015 (Dz. U. 2019, item 483) into force. Thus, the value of the system buffer was reduced to 0% for mBank and mBank Group from 2.81% and 2.83%, respectively.

Given the above, as well as the other components that make up the required level of capital ratios, the minimum required level of capital ratios at the end of September 2020 was as follows:

- Individual total capital ratio – 14.90% and Tier 1 capital ratio – 12.00%,
- Consolidated total capital ratio –14.39% and Tier 1 capital ratio – 11.61%.

At the date of approved of these financial statements, mBank S.A. and mBank Group S.A. fulfil the KNF requirements related to the required capital ratios on both individual and consolidated levels.

- Request of the Polish Financial Supervision (KNF) to the Financial Stability Committee Authority (KSF) to express an opinion concerning the other systemically important institution buffer imposed on mBank S.A.

On 22 September 2020, mBank S.A. received a letter, in which the KNF asked the KSF to express its opinion regarding the amount of the other systemically important institution (O-SII) buffer imposed on the Bank. As part of the review of the adequacy of the O-SII buffer, carried out by the PFSA in accordance with art. 46 par. 1 of the Act of 5 August 2015 on Macroprudential Supervision of the Financial System and Crisis Management (Journal of Laws of 2019, item 483), the PFSA indicated that the assessment of systemic importance of the Bank is the basis to impose on the Bank the O-SII buffer in the amount equivalent to 0.50% of the total risk exposure amount calculated in accordance with Art. art. 92 par. 3 of CRR, instead of the current buffer of 0.75%.

On 29 September 2020, the Bank received FSC's decision with a positive opinion on the imposition on the Bank the O-SII buffer equivalent to 0.50% of the total risk exposure amount. Until date of approved of these mBank Group's IFRS Condensed Consolidated Financial Statements for Q3/2020, the Bank has not received a decision of the PFSA in this administrative procedure.

## 33. Events after the balance sheet date

- Substitution from mFinance France S.A.

On 1 October 2020, the substitution from mFinance France (mFF) to the Bank as a bond issuer came into force. The substitution process began on 6 September 2020, after the Supervisory Board of mBank S.A. adopted a resolution expressing its consent to it. As a result of the substitution, the financial liabilities of the mFF towards the bondholders expired, and the corresponding liabilities towards the bondholders arose on the Bank's side. The substitution covers two series of bonds issued by the mFF as part of the established program for the issue of debt securities with a total nominal value of up to EUR 3 000 000 thousand:

a) bonds with a total nominal value of EUR 500 000 thousand, issued on 26 November 2014, with a fixed interest rate, maturing on 26 November 2021 and listed on the regulated market operated by the Luxembourg Stock Exchange. The current face value of these outstanding bonds is EUR 427 583 thousand (the equivalent of PLN 1 930 666 thousand according to the average NBP exchange rate as of 1 October 2020) and

b) bonds with a total nominal value of CHF 200 000 thousand, issued on 28 March 2017, with a fixed interest rate, maturing on 28 March 2023 and listed on the regulated market operated by the Swiss stock exchange (the equivalent of PLN 837 680 thousand according to the average NBP exchange rate of 1 October 2020).

- Liquidation of mFinance France S.A.

On 13 October 2020 the Management Board of mBank S.A. adopted a resolution on the liquidation of the subsidiary mFinance France S.A. (mFF), in which the Bank holds 100% of shares and 100% of votes in the share capital.

The liquidation of mFF will take place after all necessary procedures have been carried out in accordance with applicable law.

The liquidation of mFF is a consequence of the actions taken by the Bank's Management Board to simplify the organizational structure of the Bank's capital group.

- Change of the head office of mBank S.A. location

On 13 October 2020, the Management Board of mBank S.A. adopted a resolution on changing the address of the Bank's head office location as of 20 November 2020.

From 20 November 2020, the new address of the head office of the Bank is 18 Prosta St., 00-850 Warsaw.

- Changs in the composition of the Management Boards and Supervisory Board of mBank S.A.

Changes in the composition of the Management Boards and Supervisory Board of mBank S.A. that occurred after the balance sheet date are presented in point 30 above.