mBank Hipoteczny S.A.

IFRS Condensed Financial Statements for the first half of 2021

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

Selected financial data

The following selected financial data constitute supplementary information to the condensed financial statements of mBank Hipoteczny S.A. for the first half of 2021.

	Selected financial data	in PLN `000		in PLN `000	
		Period from 01.01.2021 to 30.06.2021	Period from 01.01.2020 to 30.06.2020	Period from 01.01.2021 to 30.06.2021	Period from 01.01.2020 to 30.06.2020
I.	Interest income	132 165	208 099	29 065	46 855
II.	Fee and commission income	899	606	198	136
III.	Net trading income	1 086	240	239	54
IV.	Operating result	29 575	19 931	6 504	4 488
V.	Profit before income tax	14 280	4 398	3 140	990
VI.	Net profit attributable to shareholders of mBank Hipoteczny S.A.	7 842	1 194	1 725	269
VII.	Net cash flows from operating activities	(390 966)	1 366 004	(85 980)	307 569
VIII.	Net cash flows from investing activities	(5 800)	(6 886)	(1 276)	(1 550)
IX.	Net cash flows from financing activities	133 870	(1 352 352)	29 440	(304 495)
X.	Total net cash flows	(262 896)	6 766	(57 815)	1 523
XI.	Basic earnings per ordinary share / Diluted earnings per ordinary share (in PLN/EUR)	2,33	0,36	0,51	0,08

	Selected financial data	in PLN `000			in EUR `000		
		as at			as at		
		30.06.2021	31.12.2020	30.06.2020	30.06.2021	31.12.2020	30.06.2020
I.	Total assets	13 020 868	12 869 308	13 122 781	2 880 213	2 788 703	2 938 375
II.	Amounts due to other banks	4 406 049	3 500 673	2 950 987	974 617	758 575	660 767
III.	Amounts due to customers	1 649	3 477	5 464	365	753	1 223
IV.	Equity attributable to shareholders of mBank Hipoteczny S.A.	1 280 034	1 290 240	1 284 103	283 143	279 587	287 529
V.	Share capital	336 000	336 000	336 000	74 323	72 809	75 235
VI.	Number of shares	3 360 000	3 360 000	3 360 000	3 360 000	3 360 000	3 360 000
VII.	Book value per share / Diluted book value per share (in PLN/EUR)	380,96	384,00	382,17	84,27	83,21	85,57
VIII.	Total capital ratio (%)	18,63	19,22	18,52	18,63	19,22	18,52

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

- <u>for items of the statement of financial position</u> – exchange rate announced by the National Bank of Poland as at 30 June 2021: EUR 1 = PLN 4.5208, 31 December 2020: EUR 1 = PLN 4.6148 and 30 June 2020: EUR 1 = PLN 4.4660.
- <u>for items of the income statement and items of statement of cash flows</u> – 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 first half of 2021 and 2020: EUR 1 = PLN 4.5472 and EUR 1 = PLN 4.4413 respectively.

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Condensed income statement

	Note	Period	
		from 01.01.2021 to 30.06.2021	**from 01.01.2020 to 30.06.2020**
Interest income, including:		132 165	208 099
Interest income calculated using the effective interest rate method		*121 648*	*190 710*
Income similar to interest - financial assets measured at fair value through profit or loss		*10 517*	*17 389*
Interest expense		(61 662)	(124 813)
Net interest income	5	**70 503**	**83 286**
Fee and commission income		899	606
Fee and commission expenses		(4 388)	(4 114)
Net fee and commission income	6	**(3 489)**	**(3 508)**
Net trading income	7	1 086	240
Net income on modification	8	(1 691)	(3 307)
Net income on derecognition of financial instruments not measured at fair value through proft and loss	9	5	(867)
Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss	10	726	(847)
Other operating income	11	294	584
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss	14	(543)	(17 571)
Overhead costs	12	(29 870)	(33 251)
Amortisation and depreciation		(6 667)	(4 270)
Other operating expenses	13	(779)	(558)
Operating result		**29 575**	**19 931**
Taxes on the Bank balance sheet items		(15 295)	(15 533)
Profit before income tax		**14 280**	**4 398**
Income tax	27	(6 438)	(3 204)
Net profit		**7 842**	**1 194**
Net profit attributable to shareholders of the mBank Hipoteczny S.A.		**7 842**	**1 194**
Weighted average number of ordinary shares / Diluted weighted average number of ordinary shares	15	**3 360 000**	**3 295 359**
Earnings per ordinary share / Diluted earnings per ordinary share (in PLN)	15	**2,33**	**0,36**

Explanatory notes and selected explanatory data presented on pages 10 to 62 constitute an integral part of these condensed financial statements.

IFRS Condensed Financial Statements for the first half of 2021 PLN (000's)

Condensed statement of comprehensive income

	Note	Period from 01.01.2021 to 30.06.2021	Period from 01.01.2020 to 30.06.2020
Net profit		**7 842**	**1 194**
Other comprehensive income net of tax including:		**(18 048)**	**15 389**
Items that may be reclassified to the income statement		**(18 048)**	**15 389**
Change in the valuation of debt financial instruments measured at fair value through other comprehensive income (net)		(5 266)	4 909
Net cash flow hedge		(12 783)	10 480
Items that will not be reclassified to the income statement		**-**	**-**
Actuarial gains and losses on post-employment benefits (net)		-	-
Total comprehensive income net of tax		**(10 206)**	**16 583**
Net total comprehensive income attributable to shareholders of the mBank Hipoteczny S.A.		**(10 206)**	**16 583**

Explanatory notes and selected explanatory data presented on pages 10 to 62 constitute an integral part of these condensed financial statements

IFRS Condensed Financial Statements for the first half of 2021 PLN (000's)

Condensed statement of financial position

ASSETS	Note	30.06.2021	31.12.2020
Cash and balances with the Central Bank		31 061	29 393
Financial assets held for trading and derivatives held for hedges	16	128 283	196 917
Non-trading financial assets mandatorily at fair value through profit or loss, including:	17	128 928	133 838
Loans and advances to customers	17	128 928	133 838
Financial assets at fair value through other comprehensive income	18	761 422	791 045
Financial assets at amortised cost, including:	19	11 862 284	11 640 889
Loans and advances to banks		*93 568*	*323 133*
Loans and advances to customers		*11 768 716*	*11 317 756*
Intangible assets	20	54 036	53 936
Tangible assets	21	31 753	13 818
Current income tax assets		578	112
Deferred income tax assets	27	7 016	4 011
Other assets	22	15 507	5 349
TOTAL ASSETS		**13 020 868**	**12 869 308**

LIABILITIES AND EQUITY			
Liabilities			
Financial liabilities held for trading and derivatives held for hedges	16	276	4 719
Financial liabilities measured at amortised cost, including:		11 713 594	11 555 229
Amounts due to banks	23	*4 406 049*	*3 500 673*
Amounts due to customers	23	*1 649*	*3 477*
Debt securities issued	24	*7 205 756*	*7 950 930*
Subordinated liabilities		*100 140*	*100 149*
Provisions	25	4 421	3 392
Current income tax liabilities		-	-
Other liabilities	26	22 543	15 728
TOTAL LIABILITIES		**11 740 834**	**11 579 068**
Equity			
Share capital:		**884 631**	**884 631**
- Registered share capital		336 000	336 000
- Share premium		548 631	548 631
Retained earnings:		**395 552**	**387 710**
- Profit from the previous years		387 710	382 832
- Profit for the current period		7 842	4 878
Other components of equity		**(149)**	**17 899**
TOTAL EQUITY		**1 280 034**	**1 290 240**
TOTAL LIABILITIES AND EQUITY		**13 020 868**	**12 869 308**

Explanatory notes and selected explanatory data presented on pages 10 to 62 constitute an integral part of these condensed financial statements.

IFRS Condensed Financial Statements for the first half of 2021 PLN (000's)

Condensed statement of changes in equity

Changes in equity from 1 January 2021 to 30 June 2021

	Share capital		Retained earnings				Total comprehensive income net of tax			Total
	Registered share capital	Share premium	Other supplementary capital	General banking risk reserve	Retained profit from the previous years	Profit for the current period	Valuation of financial assets at fair value through other comprehensive income	Cash flow hedge	Actuarial gains and losses relating to post-employment benefits	
As at 1 January 2021	**336 000**	**548 631**	**338 032**	**44 800**	**4 878**	**-**	**4 423**	**13 450**	**26**	**1 290 240**
Net profit	-	-	-	-	-	7 842	-	-	-	7 842
Other comprehensive income (gross)	-	-	-	-	-	-	(6 501)	(15 781)	-	(22 282)
Deferred tax on other comprehensive income	-	-	-	-	-	-	1 235	2 998	-	4 234
Total comprehensive income	**-**	**-**	**-**	**-**	**-**	**7 842**	**(5 266)**	**(12 783)**	**-**	**(10 206)**
Transfer to supplementary capital	-	-	4 878	-	(4 878)	-	-	-	-	-
As at 31 June 2021	**336 000**	**548 631**	**342 910**	**44 800**	**-**	**7 842**	**(843)**	**667**	**26**	**1 280 034**

Changes in equity from 1 January 2020 to 31 December 2020

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

IFRS Condensed Financial Statements for the first half of 2021 PLN (000's)

Changes in equity from 1 January 2020 to 30 June 2020

	Share capital		Retained earnings				Total comprehensive income net of tax			Total
	Registered share capital	Share premium	Other supplementary capital	General banking risk reserve	Retained profit from the previous years	Profit for the current period	Valuation of financial assets at fair value through other comprehensive income	Cash flow hedge	Actuarial gains and losses relating to post-employment benefits	
As at 1 January 2020	**336 000**	**548 631**	**300 948**	**44 800**	**37 084**	**-**	**3 041**	**(3 008)**	**24**	**1 267 520**
Net profit	-	-	-	-	-	1 194	-	-	-	1 194
Other comprehensive income (gross)	-	-	-	-	-	-	6 062	12 938	-	19 000
Deferred tax on other comprehensive income	-	-	-	-	-	-	(1 153)	(2 458)	-	(3 611)
Total comprehensive income	**-**	**-**	**-**	**-**	**-**	**1 194**	**4 909**	**10 480**	**-**	**16 583**
Transfer to supplementary capital	-	-	37 084	-	(37 084)	-	-	-	-	-
Issue of shares	-	-	-	-	-	-	-	-	-	-
Share issue costs	-	-	-	-	-	-	-	-	-	-
As at 31 June 2020	**336 000**	**548 631**	**338 032**	**44 800**	**-**	**1 194**	**7 950**	**7 472**	**24**	**1 284 103**

IFRS Condensed Financial Statements for the first half of 2021 PLN (000's)

Condensed statement of cash flows

	Period	
	from 01.01.2021 to 30.06.2021	from 01.01.2020 to 30.06.2020
A. Cash flows from operating activities	**(390 966)**	**1 366 004**
Profit before income tax	**14 280**	**4 398**
Adjustments:	**(405 246)**	**1 361 606**
Income tax paid	(5 676)	(10 744)
Amortization and depreciation	6 667	4 270
Foreign exchange (gains) losses related to financing activities	(79 609)	192 332
Interest income (income statement)	(132 165)	(208 099)
Interest expenses (income statement)	61 662	124 813
Interest received	131 704	136 918
Interest paid	(8 177)	(16 151)
Change in assets and liabilities on derivative financial instruments	56 881	(55 813)
Change in loans and advances to customers	(461 568)	105 883
Change in the balance of financial assets at fair value through other comprehensive income	(12 392)	106 974
Adjustments to intangible assets and property, plant and equipment	(18 902)	(950)
Change in other assets	(10 158)	388
Change in amounts due to banks	115 406	784 020
Change in amounts due to customers	(1 580)	(2 154)
Change in debt securities in issue	(55 032)	192 481
Change in subordinated liabilities	(150)	(434)
Change in provisions	1 029	(1 226)
Change in other liabilities	6 814	9 098
Net cash from operating activities	**(390 966)**	**1 366 004**
B. Cash flows from investing activities	**(5 800)**	**(6 886)**
Investing activity inflows	**900**	**(120)**
For the sale of intangible assets and tangible fixed assets	919	31
Due to the disposal of intangible assets and tangible fixed assets	(19)	(151)
Investing activity outflows	**6 700**	**6 766**
Due to the purchase of intangible assets and tangible fixed assets	6 700	6 766
Net cash from investing activities	**(5 800)**	**(6 886)**
C. Cash flow from financing activites	**133 870**	**(1 352 352)**
Financing activity inflows	**2 721 482**	**(93 391)**
Change in foreign exchange (gains) losses related to financing activities	-	(192 332)
Due to the issue of debt securities	2 716 920	-
Due to take a subordinated loan	-	95 000
Interest received on derivative hedging financial instruments	4 562	3 941
Financing activities outflows	**2 587 612**	**1 258 961**
Due to the repayment of loans and advances from banks	1 929 136	655 533
Due to the issue of debt securities	627 210	522 660
Payments of leasing liabilities	802	1 570
Interest paid on loans received, debt securities in issue, subordinated loan	30 464	79 198
Net cash from financing activities	**133 870**	**(1 352 352)**
Net increase / decrease in cash and cash equivalents, total (A+B+C)	**(262 896)**	**6 766**
Cash and cash equivalents as at the beginning of the reporting period	387 525	269 128
Cash and balances with the central bank	29 393	35 234
Amounts due from other banks	323 133	13 912
Investment securities with maturity of up to 3 months from the date of purchase	34 999	219 982
Cash and cash equivalents as at the end of the reporting period	**124 629**	**275 894**
Cash and balances with the central bank	31 061	18 124
Amounts due from other banks	93 568	212 770
Investment securities with maturity of up to 3 months from the date of purchase	-	45 000

Explanatory notes and selected explanatory data presented on pages 10 to 62 constitute an integral part of these condensed financial statements.

Explanatory notes to the condensed financial statements

1. Information on mBank Hipoteczny S.A.

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

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

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

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

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

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

The seat of the Bank is located in Warsaw, at ul. Prosta 18. Until June 30, 2021, the seat of the Bank was at Al. Armii Ludowej 26.

The Bank was established for an indefinite period of time.

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

- a retail line, focused on the purchase of debt claims from housing mortgage loans from mBank S.A.,
- a commercial line, covering the purchase from mBank S.A. or co-financing with mBank S.A. of transactions concerning commercial real estate, such as office buildings, shopping centres, hotels, warehouses and distribution facilities.

Activities of mBank Hipoteczny S.A. are carried out in the segments described in detail in Note 4.

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

As at 30 June 2021 the employment in the Bank was 122 FTEs and 130 persons (31 December 2030: 124 FTEs; 134 persons).

Average employment in the first half of 2021 was 122 persons, in the first half of 2020 it was 139 persons.

These condensed financial statements were approved by the Management Board of mBank Hipoteczny S.A. on 3 August 2021.

2. Description of the relevant accounting policies

Accounting Basis

Condensed financial statements of mBank Hipoteczny S.A. drawn up for the 6-month period ended June 30, 2021. The comparative data presented in the financial statements refer to the 6-month period ended June 30, 2020. These financial statements are separate statements.

Both as at June 30, 2021, December 31, 2020 and June 30, 2020, mBank Hipoteczny S.A. did not have any subsidiary.

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

The informative scope of the interim report is narrower than in the case of complete financial statements, therefore they should be read in conjunction with the separate financial statements of mBank Hipoteczny S.A. for the financial year 2020.

Presented in these condensed financial statements of mBank Hipoteczny S.A. data for 2020 were audited by a statutory auditor.

The preparation of financial statements in accordance with IFRS requires the use of specific accounting estimates. It also requires the Bank's Management Board to apply its own judgment when applying the accounting principles adopted by the Bank. The issues regarding which a greater degree of judgment is required, more complex issues or those where assumptions and estimates are significant from the point of view of the financial statements are presented in note 3.

The financial statements are prepared in accordance with the principle of materiality. Omissions or distortions of items in the financial statements are material if they could, individually or jointly, affect the economic decisions made by users of the Bank's financial statements. Materiality depends on the size and nature of the omission or misstatement of items in the financial statements, and a combination of both. Each material category of similar items is presented separately by the Bank. Items that differ in terms of their nature or function are presented separately by the Bank, unless they are immaterial.

These condensed financial statements have been prepared on the assumption that the Bank will continue as going concerns in the foreseeable future, ie at least 12 months from the balance sheet date. As at the date of approval of these financial statements, there are no circumstances implying any threats to the continuation of the Bank's operations.

Due to the current situation with regard to COVID-19, on the basis of the analyzes performed at the moment, no significant uncertainty for the continuation of operations has been identified. In the Bank's opinion, the following areas of the epidemic's negative impact on business processes can be identified: credit risk, liquidity risk, financial stability risk and operational risk. In the opinion of the Management Board, the Bank, based on internal analyzes of current liquidity and stress scenarios relating to the future development of the Bank's regulatory ratios, does not identify any significant uncertainties related to the going concern assumption in the foreseeable future.

New standards, interpretations and amendments to published standards

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

Standards and interpretations endorsed by the European Union

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

- Amendments to IFRS 4 Extension of the Temporary Exemption from Applying IFRS 9, published by International Accounting Standards Board on 25 June 2020, approved by the European Union on 15 December 2020.

  Amendments to IFRS 4 extend the temporary exemption from application of the IFRS 9 so that insurers will be required to apply IFRS 9 for annual periods beginning on or after 1 January 2023. The extension maintains the alignment between the expiry date of the temporary exemption and the effective date of IFRS 17, which replaces IFRS 4.

  The application of the changes to the standard had no significant impact on the Group's financial statements in the period of their initial application.

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

  Group analysed the impact of applying the amendments to the standards on the financial statements in the period of their initial application. The detailed information regarding this analysis was presended for the first time in the consolidated financial statements for 2020.

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

- Annual Improvements to IFRS Standards 2018-2020, published by International Accounting Standards Board on 14 May 2020, approved by the European Union on 28 June 2021 and binding for annual 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, approved by the European Union on 28 June 2021 and binding for annual 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, approved by the European Union on 28 June 2021 and binding for annual 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, approved by the European Union on 28 June 2021 and binding for annual 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.

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 IAS 12, Deferred Tax related to Assets and Liabilities arising from a Single Transaction, published by International Accounting Standards Board on 7 May 2021, binding for annual periods starting on or after 1 January 2023.

  The amendments to the standards require that the entities recognise in the financial statements deferred tax assets and liabilities resulting form transactions, other than business combinations, in which equal amounts of deductible and taxable temporary differences arise on initial recognition.
  The Group is of the opinion that the application of the changes to standard will have no significant impact on the financial statements in the period of their initial application.
- Amendments to IFRS 16, Covid-19-Related Rent Concessions beyond 30 June 2021, published by International Accounting Standards Board on 31 March 2021, binding for annual periods starting on or after 1 April 2021.

  In amendment to IFRS 16 Covid-19-Related Rent Concessions beyond 30 June 2021 (the 2021 amendment) the Board extended the availability of the practical expedient that permits lessees not to assess whether rent concessions that occur as a direct consequence of the COVID-19 pandemic and meet specified conditions are lease modifications by one year. The 2021 amendment resulted in the practical expedient applying to rent concessions for which any reduction in lease payments affects only payments originally due on or before 30 June 2022, provided the other conditions for applying the practical expedient are met.
  The Group is of the opinion that the application of the changes to standard will have no significant impact 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 annual 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.

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

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

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

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

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

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

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

IFRS 14 Regulatory Deferral Accounts (issued on 30 January 2014) – The European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard– not yet endorsed by EU at the date of approval of these financial statements – effective for financial years beginning on or after 1 January 2016.

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

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

<u>Impairment of loans and advances</u>

The impact of the implementation of the New Definition of Default on the Bank's operations

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

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

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

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

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

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

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

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

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

The bank reviews its loan portfolio for impairment at least once a quarter. In order to determine whether an impairment should be recognized in the profit and loss account, the Bank assesses whether there are any indications of a measurable decrease in estimated future cash flows from loans and advances granted. If there is objective evidence that a loan is impaired, the amount of the loss is calculated as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the current effective interest rate of the financial asset (for loans based on a fixed interest rate, discounting takes place using the original effective interest rate). If the present value of estimated cash flows for the portfolio of loans with recognized individual impairment changed by +/- 10%, then as at June 30, 2021, the estimated amount of loan impairment would have decreased by PLN 17.9 million or increased by PLN 24 million (as at December 31, 2020, the estimated loan impairment would decrease by PLN 16.6 million or increase by PLN 21.5 million, respectively). This estimate was made for the portfolio of loans for which impairment is recognized based on an individual analysis of future cash flows from recoveries.from collateral (basket 3). The principles of measuring impairment are described in Note 2.8. financial statements for 2020, published on March 5, 2021.

Impact of the COVID-19 pandemic on the Bank's operations

<u>Assistance measures taken by the Bank following the COVID-19 pandemic</u>

In the context of the crisis triggered by the COVID-19 pandemic, the bank offers its customers a range of assistance tools to support them in the difficult situation following the outbreak. The aim of these tools is to help customers to maintain their liquidity by reducing their financial burden in the short term.

The tools used at the Bank were in line with the Banks' position with regard to the unification of the principles of offering support tools to clients of the banking sector. This position was a non-statutory moratorium within the meaning of the European Banking Authority's guidelines on statutory and non-statutory loan repayment moratoria that the Banks are applying in connection with the COVID-19 crisis. They were notified by the Polish Financial Supervision Authority to the European Banking Authority.

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

In terms of the activities of the Retail Banking area in Poland, in January 2021, the Bank again enabled corporate clients from industries particularly affected by the pandemic, listed in the provisions of the PFR 2.0 Financial Shield program, to apply for a deferment in the repayment of principal or principal and interest installments, for the period indicated by them a maximum of 9 months, taking into account the number of months used during the non-statutory moratorium in 2020, with the possibility of extending the loan period by the duration of the moratorium. The applications that met the conditions set by the sectoral position were examined in a simplified manner, ie without the need to test the client's ability to pay the liabilities. The process of examining applications was supported by the mechanism of automatic verification of boundary conditions (including the entrepreneur's PKD, no arrears in repayment of more than one installment, at least 6-month history of repayments, date of signing the loan before March 13, 2020).

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

The group also offers clients in Poland support under the so-called anti-crisis shield 4.0, effective from June 23, 2020, under which customers who lost their job or other main source of income after March 13, 2020 have the right to suspend loan repayment for up to 3 months without charging interest during the suspension period . This relief is a statutory moratorium in the sense of the EBA guidelines. The scale of applications for this form of aid is still insignificant. In the period from 1 January 2021 to 30 June 2021, aid was granted to 7 borrowers. The gross carrying amount of these customers' liabilities as at June 30, 2021 was PLN 2.2 million.

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

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The operation of the reactivated moratorium was limited only to clients operating in sectors most affected by the COVID-19 pandemic, i.e. in industries covered by the PFR Financial Shield (according to the PKD classification) or operating in the field of renting space in commercial or service facilities, including retail parks with an area of more than 2000 m2. Other criteria that qualify the client for aid were similar to the rules applicable under the first moratorium, i.e. they only applied to loans granted before March 13, 2020, the client as at December 31, 2020 was not classified as default by the Group, bankruptcy, restructuring, liquidation or enforcement proceedings and, by March 31, 2021, filed an application for a change in financing conditions.

The assistance measures offered by the Group consisted in the suspension of capital installments for up to 9 months in total (i.e. taking into account the earlier period of support granted under the first moratorium) or the extension of financing with renewable products up to 9 months in total. In the case of customers with a turnover of up to EUR 50 million, the Group also offered the possibility of suspending principal and interest installments for up to 6 months in total.

The amount of suspended principal parts of installments was added to the last installment, with respect to principal and interest installments, the amount of suspended principal installments was also added to the last installment, while the amount of suspended interest was added to subsequent interest installments payable after the deferral period, which corresponded to the number of deferred installments . In the case of transactions relating to the financing of commercial real estate with a value exceeding PLN 4 million, the terms of repayment were determined individually. At the same time, the Group required to maintain security at least at the current level and to limit distribution to owners.

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

	Total number of clients who received assistance since March 13,2020	Total number of clients who received assistance since March 13,2020 of which: number of customers who had debt as of 30.06.2021	of which: number of clients who received assistance in 2021
Moratoriums	2 814	2 369	*4*
BGK government guarantees	-	-	-

Total aid as of 30.06.2021 granted in Poland from 13.03.2020	Total number of clients who received assistance since 13.03.2020				
	Gross value of contracts with awarded moratoria	Including: gross value of contracts with expired moratoria	Including: gross value of contracts with active moratoria	Cumulative impairment of contracts with active moratoria	Net value/fair value of contracts with active moratoria
Moratoriums	**1 812 609**	**1 812 609**	**-**	**-**	**-**
Individual customers	735 454	735 454	-	-	-
Corporate customers	1 077 155	1 077 155	-	-	-
Including corporate customers who received help in 2021	125 023	125 023	-	-	-

At the end of June 30, 2021, there were no active moratoria.

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

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The tables below present information on the expired moratoria that were applied at the Bank under COVID-19 from March 13 to September 30, 2021.

Expired assistance as of 30.06.2021 provided between March 13 and September 30, 2020	Performing				
	Gross Value	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)	Cumulative impairment
Moratoriums	**1 789 383**	**25 925**	**1 789 383**	**334 892**	**12 915**
Individual customers	730 641	4 139	730 641	26 595	1 120
Corporate customers	1 058 742	21 786	1 058 742	308 297	11 795
Including corporate customers who received help in 2021	125 023	-	125 023	39 947	1 500

Expired assistance as of 30.06.2021 provided between March 13 and September 30, 2020	Non-performing				
	Gross Value	Of which: exposures with forbearance measures	Of which: unlikely to pay that are not past-due or past-due <= 90 days	Accumulated impairment	Cumulative impairment
Moratoriums	**23 227**	**18 924**	**22 308**	**-**	**(18 102)**
Individual customers	4 814	511	3 895	0	663
Corporate customers	18 413	18 413	18 413	-	(18 765)
Including corporate customers who received help in 2021	-	-	-	-	-

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

In assessing the financial situation of corporate clients, the Bank uses only the individual assessment as the most appropriate and precise (it does not use a collective or sectoral approach).
During the monitoring of customer and transaction risk, the impact of the COVID-19 pandemic on the customer's situation and the strength of this impact (i.e. temporary turbulence, long-term problem for the business model, etc.) as well as the plan to reduce this impact implemented by the customer were assessed.
The customer was entered on the Watch List (LW - list of customers under the watch) based on standard criteria defined in the Bank's internal regulations. With regard to customers who submitted an application for an aid measure to the Bank, the list of criteria for entering the Watch List has been extended with an additional, discretionary COVID-19 premise. A customer who has submitted an application for assistance measures to the Bank may be entered on the Watch List if, in the risk decision-maker, the problems resulting from the pandemic are of a long-term nature and after the pandemic ceases, the customer may not return to the financial situation allowing for payment of liabilities. With regard to clients whom the Bank has provided support in connection with COVID-19, other criteria for inclusion on the Watch List, included in the relevant internal regulations, also apply.
Placing a customer on LW results in classifying the customer to the basket 2.

In terms of retail client risk assessment, clients covered by the moratoria support tools continue to be scored according to the standard client 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 application of the prudential default, forbearance and IFRS9 framework in the light of COVID-19 measures, published on March 25, 2020, stating that the use of COVID-19 aid tools in the form of repayment moratoria meeting the guidelines defined in the guidelines The EBA regarding the treatment of public and private moratoria in the light of COVID-19 measures does not automatically classify exposures to default and forbearance, and in line with the statement of the KNF Office published under the Supervisory Impulses for Security and Development Package that it will apply a flexible approach to the application of EBA guidelines on of non-performing and restructured exposures, the Bank does not classify the granting of aid instruments used due to the COVID-19 crisis under the moratoria as a forbearance measure.
With regard to corporate clients, an individual assessment approach is applied in terms of the classification of client exposures as forborne, in accordance with the regulations in force at the Bank.
Due to the worsening economic situation in the country related to the COVID-19 epidemic, the Bank took additional steps to include this information in the expected credit risk losses. Due to the dynamically changing situation and the related uncertainty, the Bank's activities were spread over time and in particular included:

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 for the retail portfolio, consisting in assigning a weight of 100% to the pessimistic scenario, in the model for the expected loss, in the first quarter of 2020,

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

4. Update of macroeconomic forecasts, taking into account the impact of COVID-19 and state aid actions, affecting the models of long-term PD, EAD and LGD parameters, as well as the level of allocation of exposures to basket 2, in the second quarter of 2020,

5. Restoration of the weights of macroeconomic scenarios, respectively: 60% for the baseline scenario, 20% for the optimistic and 20% for the pessimistic, in the expected loss model, while taking into account the current macroeconomic forecasts directly in the risk parameters, at the end of 2020.
6. Monitoring of macroeconomic forecasts in order to verify the macroeconomic data used in the models in terms of their adequacy to the actual development of the economic situation in Poland. No grounds have been found for changes to the macroeconomic forecasts for risk parameters in the third and fourth quarters of 2020 or in the first and second quarters of 2021.

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

- actions taken in 2020 and in the first half of 2021 towards clients covered by non-statutory moratoria

Due to the uncertainty related to the difficult observation of the timeliness of repayment of loans covered by moratoria, the Bank also decided to reclassify, as at December 31, 2020, some of the retail clients covered by this form of support, selected on the basis of behavioral characteristics, into basket 2 despite the lack of evidence of a significant increase in risk which resulted in the recognition of additional allowances for expected credit losses in the amount of PLN 0.77 million. The total gross carrying amount of the reclassified portfolio as at December 31, 2020 was approximately PLN 400 million. The change had an impact on the basket share structure. The share of basket 2 in the total exposure of the loan portfolio increased with a simultaneous decrease in its coverage with provisions, which is a natural consequence of allocating exposures with a lower probability of impairment (lower PD) to the basket.

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In the first quarter of 2021, the Bank gradually resigned from using additional premises allowing for the maintenance of loans subject to moratoria in stage 2 transfer. The change in classification in the first half of 2021 resulted in the reversal of write-offs for expected credit losses in the total amount of PLN 0.6 million. The total gross carrying amount of the portfolio, for this reason reclassified to Basket 1, amounted to approximately PLN 391 million in the first half of 2021.

- actions taken in 2020 and in the first half of 2021 with regard to clients subject to statutory moratoria

In relation to the exposures covered by the relief in the form of the statutory moratorium, the Group decided to automatically classify them temporarily, starting from December 31, 2020, to Basket 3, or, in justified cases, to Basket 2. The final assignment of the exposure to Basket 2 was possible after additional analyzes taking into account quantitative and qualitative factors, such as the existence of a co-borrower in the contract, the credit quality of all customer exposures, the presence and amount of cash flows after the date of submitting the moratorium application.
These actions resulted in the recognition of additional allowances for expected credit losses in the amount of PLN 0.2 million in 2020 and in the amount of PLN 0.2 million in the first half of 2021. The total gross carrying amount of the portfolio subject to temporary reclassification as at June 30, 2021 was PLN 8.74 million (WBB for applications from 2021 was PLN 2.2 million).

Summary of the impact of the COVID-19 pandemic on expected credit losses
All actions dictated by the pandemic situation resulted in the total recognition of additional allowances for expected credit losses in 2020 in the amount of PLN 38,536 thousand. PLN in the portfolio measured at amortized cost in 2020, of which 36 836 thousand. PLN in the commercial portfolio and 1 700 thousand. PLN in the retail portfolio. In the first half of 2021, an additional 7,084 thousand jobs were added to the commercial portfolio. PLN while in the retail portfolio there was a dissolution of 380 thousand. PLN write-offs on this account.

Impairment and change in the fair value of loans and advances	The period from 01.01.2021 to 30.06.2021		
	Individual clients	Corporate clients	Total
Assets measured at amortized cost	**(380)**	**7 084**	**6 704**
Stage 1	-	(73)	(73)
Stage 2	(600)	3 441	2 841
Stage 3	220	3 716	3 936
Assets measured at fair value through profit or loss	**nd**	**3**	**3**
Total	**(380)**	**7 087**	**6 707**

Impairment and change in the fair value of loans and advances	30.12.2020		
	Individual clients	Corporate clients	Total
Assets measured at amortized cost	**1 700**	**36 836**	**38 536**
Stage 1	150	1 196	1 346
Stage 2	1 250	12 943	14 193
Stage 3	300	22 697	22 997
Assets measured at fair value through profit or loss	**nd**	**838**	**838**
Total	**1 700**	**37 674**	**39 374**

On December 17, 2020, mBank Hipoteczny SA (acting as the Beneficiary) concluded a Framework Guarantee Agreement with mBank SA (acting as the Guarantor) and 23 Detailed Guarantee Agreements (in total: Guarantee Agreements) concerning 23 commercial credit exposures mainly in stage 2 granted by mBank Hipoteczny SA (the Beneficiary) to its borrowers (ECL at the time of granting was PLN 16.2 million). The total value of guarantee instruments as at the date of signing the Guarantee Agreements, i.e. on December 17, 2020, amounted to PLN 121.52 million and EUR 105.83 million.

As at June 30, 2021, the Guarantee Agreement covered 21 commercial credit exposures. The total value of guarantee instruments as at June 30, 2021 was PLN 94.36 million and EUR 103.96 million.

Under the Guarantee Agreements, mBank SA (Guarantor) is a provider of unfunded credit protection within the meaning of Art. 194 paragraph. 6 CRR.

As of June 30, 2021. as well as as at December 31, 2020, the Bank did not apply management overlays.

In the first half of 2021, the Bank did not change its forecast of future macroeconomic conditions, therefore this factor did not change the estimate of expected credit losses.

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

In the first half of 2021, the Bank carried out the following activities as part of the model management process:

- cyclical recalibration of long-term PD models and quantitative model of allocation to baskets,
- adjustment of credit risk parameter models to the requirements of the new default definition,
- mproving the sensitivity of the quantitative model of allocation to baskets,
- reconstruction of the limit utilization components and prepayment factors under the EAD model.

In conjunction with:

- no significant impact of the current economic situation (resulting in large part from the aid measures applied) on parameters such as the loss ratio or the level of portfolio losses,
- results of consultations with other units of the Bank's risk division indicating that there is no need to take into account additional effects due to the impact of COVID-19 on the models

Apart from the activities related to the updating of the credit risk models mentioned above, the Bank did not introduce any other dedicated changes to the models used to calculate the expected credit risk losses.

<u>Significant modification</u>

Significant modification - a change in the contractual terms of a financial instrument, which leads to the removal of the modified asset from the balance sheet and recognition of a new one. Modified assets are derecognised in the net amount, i.e. including previously recognised expected credit losses for credit risk (in the case of assets with recognised impairment). The new asset is recognised at fair value (possibly adjusted for new commissions related to the newly created asset) and a new effective interest rate is calculated for it. The assessment of whether a given modification of financial assets is material or immaterial depends on meeting qualitative and quantitative criteria, which are described in Note 2.6. of the financial statements of mBank Hipoteczny S.A. for 2020 published on 5 March 2021.

<u>Description of the assumptions adopted for calculation of the effective interest rate and significant modification</u>

The solutions applied so far under aid schemes did not meet the criteria of a significant modification applied in the Bank with respect to financial assets.

In particular, there were no situations in which the Bank, as a beneficiary of aid programmes, would use aid programmes that would change the conditions of the Bank's financial liabilities.

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

- if the credit holiday period is not part of the agreement, then the introduction of the holiday causes a change in cash flows under the agreement and the Bank recalculates the gross carrying amount of the financial asset and recognises the profit or loss from the modification in the profit and loss account;

- if the credit holiday period is a feature of an existing contract (the existing contract allows for an equivalent grace period), there is a change in the expected cash flows and the need to recognise a cumulative adjustment to the gross carrying amount of the financial asset, recognised on the other hand in the profit and loss account as interest income.

The Bank identifies a negative result on an insignificant modification in the amount of PLN 1,691 thousand (Note 8), including 231 thousand in connection with the application of assistance programs due to the COVID-19 pandemic.

Deferred tax assets

The Bank recognizes a deferred tax asset if there is sufficient certainty that a taxable profit will be obtained in the future that will allow its use. The carrying amount of the deferred tax asset is verified as at each balance sheet date and is subject to appropriate reduction, provided that it is no longer probable that sufficient taxable income will be available for the partial or full realization of the deferred tax asset.
The Bank activates in deferred tax write-offs for loan losses not recognized as a tax cost, in part attributable to capital, which in future may become a tax-deductible cost in the form of an allowance for credit losses after meeting statutory prerequisites for overdue or probable non-recoverability or as the cost of irrecoverable capital after documenting the non-recoverability of receivables. Charges to credit losses that will never become a tax expense under the CIT Act have been excluded from the calculation of income tax.

Phantom share-based benefits

The Bank leads a remuneration program for the Management Board and employees having a significant impact on the Bank's risk profile based on phantom shares settled in cash.

In accordance with the provisions of IAS 19, the projected unit credit method was applied to determine the present value of liabilities due to employee benefits. The basis for calculating the provision for deferred portion of variable remuneration for eligible employees of the Bank is the amount of the bonus, which the Bank undertakes to pay based on the Policy of employees' remuneration having a significant impact on the Bank's risk profile.

Phantom shares are granted in the number resulting from the valuation of these shares for the assessment period. The valuation of the phantom stock is calculated each time at the end of the reporting period as a quotient of the Bank's book value and the number of ordinary shares. The payment of phantom shares depends on the average valuation of these shares obtained from two values: the value of the phantom share at the end of the annual period preceding the pay day and the value of the phantom share at the end of the first half of the year in which the payment is due in a given reporting period. The aforementioned average value is multiplied by the number of phantom shares to be executed in a given period, and the result of this action determines the amount of cash payment resulting from owned phantom shares. The final value of the bonus, which is the product of the number of shares, and their expected value as of the balance sheet date preceding the implementation of each of the deferred tranches, is discounted actuarially. The discounted amount is reduced by the actuarially discounted amounts for the annual impairment allowances on the same day. The actuarial discount is the product of the financial discount and the probability of each participant being able to meet individually until the rights are fully acquired for each of the deferred tranches. The amounts of annual write-downs are calculated in accordance with the projected unit credit method. The probability referred to above was determined by the "Multiple Decrement Model", where the following three risks were taken into account: the possibility of dismissal from work, the risk of total inability to work, the risk of death.

Fair value of derivatives and other financial instruments

The fair value of financial instruments not listed on active markets is determined using valuation techniques. All models are approved before use and also calibrated

in order to ensure that the obtained results reflect the actual data and comparable market prices. As far as possible, only observable data from an active market are used in the models. The methods of determining the fair value of financial instruments are described in Note 4.

Early repayment of retail loans

In the judgment of 11 September 2019 in a case concerning a consumer loan fully repaid early, the CJEU ruled that "the consumer's right to a reduction in the total cost of the loan in the event of early repayment of the loan covers all costs that have been imposed on the consumer". Due to the change in estimates of the expected future cash flows, a provision in the amount of PLN 886 thousand was created as at June 30, 2021. PLN.

As at June 30, 2021, the provision was recognized as provisions for future liabilities(Note 25) regarding the costs of potential commission reimbursements for early loan repayments made before the date of the CJEU judgment, amounted to PLN 3 786 thousand, (as at December 31, 2020: PLN 2 900 thousand). Originally, the group model referred to the entire loan portfolio, which resulted in an overestimation, therefore, in the first quarter of 2020, the group model was adjusted taking into account only a part of the portfolio that will be prepaid in the future.

The total negative impact of early repayment of retail loans on the Bank's gross profit in the first half of 2021 amounted to PLN 1,309 thousand. PLN, (H1 2020: PLN 142 thousand).

The above estimates are subject to significant uncertainty as to the number of clients who will apply to the Bank for the reimbursement of commissions related to early repayments made before the judgment of the CJEU, as well as the expected rate of prepayment of loans in the future.

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.

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

- a retail line, focused on the purchase of debt claims from housing mortgage loans from mBank S.A.,
- a commercial line, covering the purchase from mBank S.A. or co-financing with mBank S.A. of transactions concerning commercial real estate, such as office buildings, shopping centres, hotels, warehouses and distribution facilities.

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

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

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

1. The Corporate Banking Segment - is a segment of the Bank's business that includes the following loans:
   - for refinancing - loans for refinancing or purchase of existing commercial properties (office buildings, warehouses, shopping centres and malls, logistics centres, hotels, guest houses, commercial premises, etc.), including commercial loans acquired from mBank S.A.,
   - for housing developers — loans for the financing of housing development projects (estates with single/multi-family houses for sale or rent),
   - loans to commercial developers — loans for the financing of commercial real estate projects that are consistent with the Bank's credit policy,
   - historically to local government units — loans to local government units (municipalities, districts, provinces) as well as loans secured by local government units (commercial companies established by local governments, public health care institutions).
2. The Retail Banking Segment - is a segment of the Bank's business that includes the loans to natural persons, those that may from a basis for the issue of mortgage bonds:
   - loans granted for housing purposes in PLN, the sale of which was under an agency agreement with mBank S.A. – agency model,

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- loans in PLN, secured with a mortgage on housing property, acquired from mBank S.A. - pooling,
- loans to natural persons granted not in cooperation with mBank S.A. The Bank discontinued the sales in this segment in 2004.

3. Treasury Segment - a segment of Bank's activities, comprising financing acquisition, in particular issuance of mortgage bonds, liquidity management, and Bank's interest rate and currency risk management. The segment's revenues come from maintaining the liquidity portfolio and reallocating internal interest costs from the retail and corporate banking segments. The segment's costs relate to obtaining financing and, from 2018, they also include some administrative costs.

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

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

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

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

The gross result for individual operating segments of the Bank is presented in accordance with the items in the profit and loss account prepared for the needs of the financial statements.

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

Period from 01.01.2021 to 30.06.2021	**Corporate Banking**	**Retail Banking**	**Treasure Segment**	**Total**
Net interest income	**25 385**	**52 415**	**(7 297)**	**70 503**
Net fee and commission income	**(955)**	**(1 907)**	**(627)**	**(3 489)**
Other operating income/expenses	(189)	(282)	(14)	(485)
Net trading income	-	(19)	1 105	1 086
Result from non-substantial modificationj	(1 575)	(116)	-	(1 691)
Result on derecognition of financial instruments not measured at fair value through profit or loss	5	-	-	5
Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss	726	-	-	726
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss	(4 154)	3 611	-	(543)
Overhead costs	(13 200)	(13 384)	(3 286)	(29 870)
Depreciation	(1 325)	(4 873)	(469)	(6 667)
Tax on the Bank's balance sheet items	(4 063)	(11 232)	-	(15 295)
Segment result (gross)	**655**	**24 213**	**(10 588)**	**14 280**

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Period from 01.01.2020 to 30.06.2020	Corporate Banking	Retail Banking	Treasure Segment	Total
Net interest income	**39 604**	**46 643**	**(2 961)**	**83 286**
Net fee and commission income	**(1 057)**	**(671)**	**(1 780)**	**(3 508)**
Other operating income/expenses	(297)	338	(15)	26
Net trading income	-	-	240	240
Result from non-substantial modificationj	(3 051)	(256)	-	(3 307)
Result on derecognition of financial instruments not measured at fair value through profit or loss	(867)	-	-	(867)
Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss	(847)	-	-	(847)
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss	(16 683)	(888)	-	(17 571)
Overhead costs	(14 590)	(14 997)	(3 664)	(33 251)
Depreciation	(849)	(3 121)	(300)	(4 270)
Tax on the Bank's balance sheet items	(5 799)	(9 734)	-	(15 533)
Segment result (gross)	**(4 436)**	**17 314**	**(8 480)**	**4 398**

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

30.06.2021	Corporate Banking	Retail Banking	Treasure Segment	Other assets	Total
Segment Assets	2 869 402	9 004 768	1 037 807	108 891	13 020 868
Segment Liabilities	7 326	21 287	11 712 221	-	11 740 834

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

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

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5. Net interest income

period	from 01.01.2021 to 30.06.2021	from 01.01.2020 to 30.06.2020
Interest income		
Interest income calculated using the effective interest rate method	**118 567**	**190 710**
Interest income of financial assets at amortised cost, including:	**116 490**	**181 120**
- Loans and advances	116 089	180 741
- Cash and short-term placements	-	122
- Interest income on liabilities	401	257
Interest income on financial assets at fair value through other comprehensive income	2 077	9 590
- *Debt securities*	2 077	9 590
Income similar to interest on financial assets at fair value through profit or loss, including:	**13 598**	**17 389**
Non-trading financial assets mandatorily measured at fair value through profit or loss, including:	1 460	2 403
- *Loans and advances*	1 460	2 403
Interest income on derivatives classified into banking book	(233)	2 493
Interest income on derivatives concluded under hedge accounting	12 371	12 493
Total interest income	**132 165**	**208 099**

period	from 01.01.2021 to 30.06.2021	from 01.01.2020 to 30.06.2020
Interest expense		
Financial liabilities valued at amortized cost, including:	(53 207)	(110 825)
-Due to the issue of debt securities	(36 231)	(75 243)
-Loans received	(10 460)	(28 359)
-Due to subordinated loan	(1 594)	(4 807)
-Other financial liabilities with deferred payment	(4 896)	(2 162)
-Lease agreements	(26)	(19)
-Other financial liabilities	-	(235)
Interest expenses on derivatives classified into banking book	(3 081)	-
Interest expenses on derivatives condluded under the cash flow hedge	(5 374)	(13 988)
Total interest expense	**(61 662)**	**(124 813)**
Net interest income	**70 503**	**83 286**

In the first half of 2021, interest income related to financial assets measured at amortized cost, the impaired amounted to PLN 2,733 thousand (in the first half of 2020 PLN 4 002 thousand).

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6. Net fee and commission income

Period	from 01.01.2021 to 30.06.2021	from 01.01.2020 to 30.06.2020
Fee and commission income		
Credit-related fees and commissions	899	606
Total fee and commission income	**899**	**606**
Fee and commission expenses		
Cost of servicing loan products	(2 442)	(2 258)
Commission expense from loan received and stand-by credit line	(163)	(471)
Costs related to the debt securities issue program (covered bonds and bonds)	(412)	(1 256)
Costs of real estate analyses and valuations related to the lending activity	(40)	(62)
Commission for transfers, keeping bills	(52)	(53)
Bank guarantee premium	(1 267)	-
Other	(12)	(14)
Total fee and commission expense	**(4 388)**	**(4 114)**
Total fee and commission income	**(3 489)**	**(3 508)**

All fees and commission income and expenses presented in the table above relate to items not measured at fair value through profit or loss.

Costs of servicing credit products related to the outsourcing agreement with mBank S.A. for the after-sale service of the commercial portfolio amount to PLN 1,644 thousand. PLN, in the first half of 2020 amounted to 1 550 thou. PLN.

7. Net trading income

Period	from 01.01.2021 to 30.06.2021	from 01.01.2020 to 30.06.2020
Foreign exchange result	**941**	**47**
Net exchange differences on translation	13 745	2 267
Valuation of foreign currency derivatives	(12 804)	(2 220)
Other net trading income and result on hedge accounting	**145**	**193**
Interest rate risk instruments	-	(170)
Hedge accounting, including:	145	363
- net profit on hedged items	25 351	(25 811)
- net profit on hedging instruments	(25 184)	26 247
- ineffective portion of cash flow hedge accounting	(22)	(73)
Total net trading income	**1 086**	**240**

The result of the exchange item includes implemented and not implemented positive and negative exchange difference as well as profits and losses from the spot transaction and futures contracts. The result of interest instruments operations includes result of interest rates swap contracts that were not determined as securing instruments.

The Bank applies fair value hedge accounting. The interest rate risk is the only type of risk hedged for which hedge accounting is applied. The result on hedged items and hedging instruments is presented in the following tables. The hedge is assessed on an ongoing basis and determined to have been highly effective. The Bank documents its own assessment of the effectiveness of fair value hedging transactions, measured both prospectively and retrospectively from the time of their designation and throughout the period of duration of the hedging relationship between the hedging instrument and the hedged item.

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8. Result from non-substancial modification

In the first half of 2021 and 2020, the result on modifications was calculated only for assets measured at amortized cost, as the Bank did not have any instruments valued at amortized cost at fair value through other comprehensive income.

period from 01.01.2021 to 30.06.2021	Stage 1	Stage 2	Stage 3	Total
Financial assets modified during the period				
Amortized cost of financial assets before modification	239 923	345 685	125 122	**710 730**
Net income on modification	(63)	(100)	(1 528)	**(1 691)**

period from 01.01.2020 to 30.06.2020	Stage 1	Stage 2	Stage 3	Total
Financial assets modified during the period				
Amortized cost of financial assets before modification	2 011 724	443 157	147 209	**2 602 090**
Net income on modification	(2 340)	697	(1 664)	**(3 307)**

9. Result from derecognition of financial instruments not measured at fair value through profit or loss

Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss are broken down into accounting portfolios:

- measured at fair value through other comprehensive income,
- measured at amortized cost.

period	from 01.01.2021 to 30.06.2021	
	Gains	Losses
Loans and advances	5	-
Gains of losses on derecognistion of financial assets and liabilities not measured at fair value through profit or loss	**5**	**-**

period	from 01.01.2020 to 30.06.2020	
	Gains	Losses
Loans and advances	520	(1 387)
Gains of losses on derecognistion of financial assets and liabilities not measured at fair value through profit or loss	**520**	**(1 387)**

In the first half of 2020, the result was PLN 4,243 thousand. PLN on the sale of treasury bonds.

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

Period	from 01.01.2021 to 30.06.2021	from 01.01.2020 to 30.06.2020
Loans and advances	726	(847)
- Corporate customers	726	(847)
Gains or losses from non-trading financial assets mandatorily at fair value through profit or loss	**726**	**(847)**

11. Other operating income

Period	from 01.01.2021 to 30.06.2021	from 01.01.2020 to 30.06.2020
Income from release of prior year provisions	221	519
Income from sales of services	29	32
Income from recovering receivables designated previously as prescribed, remitted or uncollectible	1	8
Compensation, penalties and fines received		5
Other	43	20
Total other operating income	**294**	**584**

12. Overhead costs

Period	from 01.01.2021 to 30.06.2021	from 01.01.2020 to 30.06.2020
Staff-related costs	(11 129)	(12 730)
Material costs, including:	(7 758)	(8 432)
- costs of administration and real estate services	(2 513)	(2 658)
- IT cost	(4 097)	(4 514)
- marketing cost	(204)	(220)
- consulting services cost	(565)	(830)
- other overheads cost	(379)	(210)
Contributions and transfers to the Bank Guarantee Fund	(9 193)	(10 902)
Taxes and fees	(1 639)	(1 023)
Contributions to the Social Benefits Fund	(151)	(164)
Total overhead costs	**(29 870)**	**(33 251)**

The"costs of administration and real estate services" item includes costs related to short-term leasing contracts, costs related to low value assets leasing contracts and costs related to variable elements of remuneration (not included in the leasing obligation). The total cost of leasing included in general administrative costs as at 30 June 2021 amounted to PLN 140 thousand (as at 30 June 2020: PLN 201 thousand).

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Employee costs

Period	from 01.01.2021 to 30.06.2021	from 01.01.2020 to 30.06.2020
Wages and salaries	(8 867)	(10 400)
Social security expenses	(1 656)	(1 897)
Remuneration payment in the form of phantom shares settled in cash	(402)	(198)
Other employee benefits	(204)	(235)
Staff-related costs, total	**(11 129)**	**(12 730)**

13. Other operating expenses

Period	from 01.01.2021 to 30.06.2021	from 01.01.2020 to 30.06.2020
Costs of enforcement proceedings	(199)	(345)
Litigation reserves	(333)	-
Writing down investments	(204)	(18)
Loss on sales or liquidation of tangible fixed assets and intangible assets	-	(151)
Other	(43)	(44)
Total other operating expenses	**(779)**	**(558)**

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

Period	from 01.01.2021 to 30.06.2021	from 01.01.2020 to 30.06.2020
Financial assets at amortised cost, including:	**(733)**	**(18 670)**
- Loans and advances	**(733)**	**(18 670)**
Stage 1	(267)	7 094
Stage 2	4 490	(5 617)
Stage 3	(5 186)	(20 660)
POCI	230	513
Commitments and guarantees given	**190**	**1 099**
Stage 1	190	950
Stage 2	-	149
Net impairment losses on financial assets not measured at fair value through profit or loss	**(543)**	**(17 571)**
Changes due to warranty valuation	9 933	-
Other changes	(9 200)	(17 571)

In the first half of 2021, the result of impairment losses was positively affected by the guarantee valuation in the amount of PLN 9,933 thousand. PLN to cover the increase in credit risk (mainly in basket 2), which at the end of 2020 was covered by part of the commercial portfolio. Details on the guarantee are described in Note 22. As part of the portfolio of restructured and recovered loans, the level of write-offs was updated, respectively, in relation to changes in the value of collateral and developments in enforcement / bankruptcy proceedings. In the case of the retail portfolio, the significant reversal of provisions, especially in basket 3, is due to the implementation of the New Default Definition for this portfolio. Much higher - compared to the same period of the previous year - release of provisions in basket 2 is additionally due to changes in the Transfer Logic model, withdrawal of the so-called "Leading provision" for a part of the portfolio with a non-statutory moratorium as well as from real estate revaluation.

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

15. Earnings per share

Period	from 01.01.2021 to 30.06.2021	from 01.01.2020 to 30.06.2020
Basic:		
Net profit from activities attributable to shareholders of mBank Hipoteczny S.A.	7 842	1 194
Weighted average number of ordinary shares	3 360 000	3 295 359
Basic net profit per share (in PLN per share)	**2,33**	**0,36**
Diluted:		
Net profit attributable to shareholders of mBank Hipoteczny S.A., applied during the estimation of diluted earnings per share	7 842	1 194
Weighted average number of ordinary shares	3 360 000	3 295 359
Diluted net profit per share (in PLN per share)	**2,33**	**0,36**

The basic earnings per share are computed as the quotient of the Bank stockholders' share of the profit and the weighted average number of ordinary shares during the year.

Diluted profit is equal to base profit per single share, since there are no elements causing dilution.

Weighted average of number of ordinary shares during a period is a number of ordinary shares at the beginning of a given period, adjusted by the number of ordinary shares purchased or issued during this period weighted with an indicator that reflects period of the occurrence of these shares. The indicator reflecting the period of occurrence of particular shares is a number of days for which specified shares occur to the total number of days in a given period.

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

The Bank has the following derivative instruments in its portfolio:

Instruments for interest rate risk:

- interest rate risk instruments: IRS (Interest Rate Swap),

Instruments for the exchange rate risk:

- currency exchange rate risk instruments: FX SWAP contracts.

Instrument for interest rate risk and foreign exchange risk

- Cross Currency Interest Rate Swap (CIRS)

All derivative transactions are concluded for the purpose of securing the currency exchange and interest rate risk. The Bank is not engaged in trading; all derivative transactions are included in the Bank's portfolio.

	30.06.2021		31.12.2020	
	assets	liabilities	assets	liabilities
Derivative financial instruments held for trading classified into banking book	10 660	276	28 323	4 674
Derivatives held for hedging	178 894	-	258 843	-
Offsetting effect	(61 271)	-	(90 249)	45
Total derivative financial instruments assets/liabilities	**128 283**	**276**	**196 917**	**4 719**

As at June 30, 2021, the offsetting effect, apart from the valuation of derivative transactions, includes PLN 61 271 thousand of collateral accepted in connection with concluded transactions on derivative instruments subject to compensation (as at 31 December 2020 in the amount of PLN 90 204 thousand).

Fair value hedge accounting

The Bank applies fair value hedge accounting, where the only type of hedged risk is the interest rate risk.

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

Description of the hedging relation

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

Hedged items

The hedged items are mortgage bonds with a nominal value 546 900 thousand EUR, with a fixed interest rate.

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

Sources of ineffectiveness for hedging relationships for which ineffectiveness arises include mismatching the timing of cash flows, the credit risk of the hedged instrument and the mismatch due to the initial measurement of derivatives, if a derivative that was entered into before the relationship was included in the hedging relationship.

Hedging instruments

Interest Rate Swap transactions are the hedging instruments swapping the fixed interest rate for a variable interest rate.

Presentation of the result from hedged and hedging transactions

Fair value adjustment of hedged liabilities and valuation of hedging instruments is recognised in the income statement in the result of trade activity excluding profits and interest costs of the interest element of valuation of hedging instruments that are presented in the Interest incomes/costs on derivative instruments item included in the scope of hedging accounting.

The following tables present hedged items as at 30 June 2021, 31 December and 30 June 2020. The nominal value was presented in EUR thousands, while the liability amount measured at amortised cost, hedge accounting adjustments related to fair value of hedged items, the carrying amount of liability and change of fair value due to hedge accounting in PLN thousands. The item „Hedge accounting adjustments related to fair value of hedged items" concerning the adjustment to fair value mortgage covered bonds forming secured items within applied hedge accounting

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As at 30.06.2021

Debt financial instruments by type	Nominal value	Interest rate as at 30.06.2021	Redemption date	Liability amount measured at amortised cost	Hedge accounting adjustments related to fair value of hedged items	Carrying amount of liability	The change in the value of the hedged item from the date of designation used as the basis for recognizing the hedge ineffectiveness in a given period
Mortgage covered bonds (EUR)	8 000	3,5%	28.02.2029	36 166	6 016	42 182	1 263
Mortgage covered bonds (EUR)	15 000	3,5%	15.03.2029	67 815	11 337	79 151	2 383
Mortgage covered bonds (EUR)	20 000	3,2%	30.05.2029	89 671	15 169	104 939	3 231
Mortgage covered bonds (EUR)	20 000	1,135%	25.02.2022	90 679	599	91 279	483
Mortgage covered bonds (EUR)	11 000	1,285%	24.04.2025	49 684	1 604	51 289	473
Mortgage covered bonds (EUR)	13 000	1,18%	20.09.2026	59 170	1 391	60 561	640
Mortgage covered bonds (EUR)	35 000	1,183%	20.09.2026	159 342	4 828	164 170	1 846
Mortgage covered bonds (EUR)	24 900	0,94%	01.02.2024	112 881	2 693	115 574	792
Mortgage covered bonds (EUR)	100 000	0,61%	22.06.2022	451 922	2 783	454 705	1 598
Mortgage covered bonds (EUR)	300 000	1,07%	05.03.2025	1 358 776	50 507	1 409 283	12 641
Total hedged items				**2 476 106**	**96 927**	**2 573 133**	**25 350**

As at 31.12.2020

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

As at 30.06.2020

Debt financial instruments by type	Nominal value	Interest rate as at 30.06.2020	Redemption date	Liability amount measured at amortised cost	Hedge accounting adjustments related to fair value of hedged items	Carrying amount of liability	The change in the value of the hedged item from the date of designation used as the basis for recognizing the hedge ineffectiveness in a given period
Mortgage covered bonds (EUR)	30 000	2.75%	2020.07.28	137 359	132	137 491	885
Mortgage covered bonds (EUR)	8 000	3.5%	2029.02.28	35 683	7 161	42 845	(1 282)
Mortgage covered bonds (EUR)	15 000	3.5%	2029.03.15	66 901	13 495	80 397	(2 424)
Mortgage covered bonds (EUR)	20 000	3.2%	2029.05.30	88 457	18 065	106 522	(3 344)
Mortgage covered bonds (EUR)	20 000	1.135%	2022.02.25	89 447	1 289	90 736	124
Mortgage covered bonds (EUR)	11 000	1.285%	2025.04.24	49 043	1 963	51 007	(548)
Mortgage covered bonds (EUR)	35 000	1.183%	2026.09.20	58 431	1 894	60 324	(1 110)
Mortgage covered bonds (EUR)	13 000	1.18%	2026.09.20	157 355	6 365	163 720	(2 955)
Mortgage covered bonds (EUR)	24 900	0.94%	2024.02.01	111 463	3 446	114 909	(659)
Mortgage covered bonds (EUR)	100 000	0.612%	2022.06.22	446 211	5 090	451 301	(567)
Mortgage covered bonds (EUR)	300 000	1.073%	2025.03.05	1 341 710	64 191	1 405 901	(13 931)
Total hedged items				**2 582 060**	**123 092**	**2 705 153**	**(25 811)**

The following tables present hedging items as at June 30, 2021, December 31, 2020 and June 30, 2020. The nominal value was presented in EUR thousands while the fair value and the change in the fair value due to hedge accounting in PLN thousands.

As at 30.06.2021

Derivatives	Nominal value	End of transaction	Fair value of asset	The change in the value of the hedging item since designation used as the basis for recognizing the hedge ineffectiveness in a given period
IRS (EUR)	8 000	28.02.2029	6 645	(1 356)
IRS (EUR)	15 000	15.03.2029	12 269	(2 545)
IRS (EUR)	20 000	30.05.2029	14 132	(3 329)
IRS (EUR)	20 000	25.02.2022	748	(384)
IRS (EUR)	11 000	24.04.2025	1 512	(451)
IRS (EUR)	35 000	20.09.2026	5 789	(1 853)
IRS (EUR)	13 000	20.09.2026	1 754	(641)
IRS (EUR)	24 900	01.02.2024	3 010	(755)
IRS (EUR)	100 000	22.06.2022	2 705	(1 515)
IRS (EUR)	300 000	05.03.2025	51 653	(12 355)
Total hedging items			**100 217**	**(25 184)**

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As at 31.12.2020

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

As at 30.06.2020

Derivatives	Nominal value	End of transaction	Fair value of asset	The change in the value of the hedging item since designation used as the basis for recognizing the hedge ineffectiveness in a given period
IRS (EUR)	30 000	2020.07.28	2 266	(1 177)
IRS (EUR)	8 000	2029.02.28	7 915	1 330
IRS (EUR)	15 000	2029.03.15	14 662	2 526
IRS (EUR)	20 000	2029.05.30	17 086	3 420
IRS (EUR)	20 000	2022.02.25	1 242	(56)
IRS (EUR)	11 000	2025.04.24	1 777	541
IRS (EUR)	13 000	2026.09.20	2 238	1 144
IRS (EUR)	35 000	2026.09.20	7 281	3 051
IRS (EUR)	24 900	2024.02.01	3 648	693
IRS (EUR)	100 000	2022.06.22	4 824	580
IRS (EUR)	300 000	2025.03.05	64 498	14 197
Total hedging items			**127 437**	**26 247**

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

period	from 01.01.2021 to 30.06.2021	from 01.01.2020 to 30.06.2020
Interest income on derivatives as part of fair value hedge accounting (Note 5)	12 371	12 493
Result from the valuation of the hedged (Note 7)	25 351	(25 811)
Result on the valuation of hedging instruments (Note 7)	(25 184)	26 247
Total result on fair value hedge accounting	**12 538**	**12 929**

Cash flow hegde accounting

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

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

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

As hedging instruments, the Bank uses CIRS derivative transactions in which, as a party to the transaction, it pays variable interest flows in PLN increased by a margin, and receives fixed interest rates in EUR and the denominations are exchanged at the beginning and at the end of the transaction. As transactions concluded by a mortgage bank, CIRS transactions are subject to entry in the Register of covered bond collateral. In addition, if the bank's bankruptcy is announced by the court, it will not be immediately terminated, it will last until the end of the original maturity on the conditions specified on the date of the transaction (they will not be extended beyond the original maturity).
In accordance with the adopted methodology, the Bank hedges the interest rate risk and currency risk within one economic relationship between the concluded CIRS transactions and part of the loan portfolio in PLN and mortgage bonds financing them in EUR. For the purposes of cash flow hedge accounting, the Bank simultaneously establishes two hedging relationships:

- by decomposing the 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 Bank uses the "hypothetical derivative" method, which assumes the possibility of reflecting the hedged item and the characteristics of the risk being hedged
in the form of a derivative. The valuation principles are analogous to the principles for the valuation of interest rate derivatives.

Hedged items - cash flow hedge

SECURED POSITIONS	NOMINAL VALUE OF SECURED POSITIONS	CHANGE IN FAIR VALUE DUE TO HEDGE ACCOUNTING SINCE DESIGNATION OF HEDGED INSTRUMENT
30.06.2021		
Loans in PLN with a variable interest rate	1 278 930	(23 496)
Mortgage bonds issued in a convertible currency at a fixed rate	1 356 240	(56 088)

SECURED POSITIONS	NOMINAL VALUE OF SECURED POSITIONS	CHANGE IN FAIR VALUE DUE TO HEDGE ACCOUNTING SINCE DESIGNATION OF HEDGED INSTRUMENT
31.12.2020		
Loans in PLN with a variable interest rate	1 278 930	(70 742)
Mortgage bonds issued in a convertible currency at a fixed rate	1 384 440	(53 921)

Hedging items - cash flow hedge

SECURED POSITIONS	NOMINAL VALUE OF SECURED POSITIONS	CHANGE IN FAIR VALUE DUE TO HEDGE ACCOUNTING SINCE DESIGNATION OF HEDGED INSTRUMENT	OTHER EQUITY ITEMS EFFECTIVE PORTION OF CIRS MEASUREMENT
30.06.2021			
IRS decomposition FV	1 278 930	24 644	22 045
CIRS decomposition FV	1 356 240	55 436	(21 222)

SECURED POSITIONS	NOMINAL VALUE OF SECURED POSITIONS	CHANGE IN FAIR VALUE DUE TO HEDGE ACCOUNTING SINCE DESIGNATION OF HEDGED INSTRUMENT	OTHER EQUITY ITEMS EFFECTIVE PORTION OF CIRS MEASUREMENT
31.12.2020			
IRS decomposition FV	1 278 930	69 185	68 194
CIRS decomposition FV	1 384 440	53 246	(51 589)

The nominal weighted constant rate for the fixed leg was 0.24%. The average fixed rate weighted with the nominal value for the floating leg in PLN was 2.42%.

30.06.2021	Up to 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total
INTEREST RATE RISK						
Interest rate swap (CIRS) transaktions hedging the cash flows available from loans with variable interest rates denominated in PLN						
Nominal value (in thousand PLN)	-	-	-	1 356 240	-	**1 356 240**
Average interest rate on a fixed leg	-	-	-	0,242%	-	

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

In the case of established relationships, the period in which cash flows are expected and when they should be expected to influence the results is the period from July 2021 to September 2025.

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

The main sources of security inefficiencies may be:

- taking into account a change in the CVA/DVA adjustment only on the side of the hedging instrument,,
- differences in the construction method and basic parameters of hedging transactions and hedged positions resulting from different interest periods - 3 months for IRS transactions and 1 month for the credit portfolio.

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

The note below presents other comprehensive income from the cash flow hedge and the ineffective portion of the cash flow hedge for the period from January 1 to June 30, 2021. In the same period of 2020, the Bank did not apply cash flow hedge accounting.

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Accumulated other total revenue for protection of cash flows and impact on other total income	the period	
	from 01.01.2021 to 30.06.2021	from 01.01.2020 to 30.06.2020
Accumulated other comprehensive income from cash flow hedges at the beginning of the gross period	**16 605**	**(3 714)**
Profits / (Losses) recognized in other comprehensive income in the period	**7 023**	**61 200**
The amount transferred during the period from other comprehensive income to the profit and loss account	**(22 804)**	**(48 262)**
- Net interest income	5 396	13 988
- Result on exchange position	(28 200)	(62 250)
Accumulated other comprehensive income from cash flow hedges at the end of the gross period	**824**	**9 224**
Tax effect	(157)	(1 752)
Accumulated other comprehensive income from cash flow hedges at the end of the net period	**667**	**7 472**
Ineffective portion of cash flow hedges recognized in the income statement	(22)	(73)
Impact during the period on other gross comprehensive income	**(15 781)**	**12 938**
Deferred tax due to cash flow hedges	2 998	(2 458)
Impact during the period on other net comprehensive income	**(12 783)**	**10 480**

	the period	
	from 01.01.2021 to 30.06.2021	from 01.01.2020 to 30.06.2020
Gains/losses recognised in comprehensive income (gross) during the reporting period, including:		
Unrealised gains/losses included in other comprehensive income (gross)	**(15 781)**	**12 938**
Results of cash flow hedge accounting recognised in the income statement	**22 782**	**48 189**
- amount included as interest income in income statement during the reporting period (Note 5)	(5 396)	(13 988)
- foreign exchange result	28 200	62 250
- ineffective portion of hedge recognised included in other net trading income in income statement (Note 7)	(22)	(73)
Impact on other comprehensive income in the reporting period (gross)	**7 001**	**61 127**

NOMINAL VALUE OF SECURITY INSTRUMENTS BY DURATION FOR IMPLEMENTATION	up to 1 month	over 1 month to 3 months	over 1 year to 5 years	over 5 years Total	Total
30.06.2021 and 31.12.2020					
CIRS					
PLN float sale	-	-	1 278 930	-	**1 278 930**
Fixed EUR purchase (original currency)	-	-	300 000	-	**300 000**

IFRS Condensed Financial Statements for the first half of 2021 PLN (000's)

Estimates and evaluations

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

Calculation of estimates

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

ESTIMATED CHANGE IN VALUATION WITH A PARALLEL INCOME SHIFT	Scenario + 50 bp.	Scenario -50 bp.
30.06.2021		
CIRS	-28 292	28 305

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

RANGE OF SPREAD CURVES USED FOR CVA AND DVA CALCULATIONS	Min	Max
30.06.2021		
Credit spread	0,0040%	3,6651%

- and unobserved LGD levels, for which, in the case of determining CVA and DVA, the Bank adopts the levels of 60% and 100%, respectively. The asymmetric LGD levels for CIRS transactions result from the specific nature of this transaction, described in detail in the section "Derivatives designated as cash flow hedges".
The tables below present the estimated impact of the applied input parameters on the valuation of CIRS transactions - a parallel shift of the spread curves by 50 basis points and the impact of different levels of the LGD parameter on the amount of CVA and DVA adjustments.

ESTIMATED CHANGE IN THE VALUATION OF A CIRS TRANSFER WITH A PARALLEL SHIFT OF THE SPREAD CURVE	script +50pb.
30.06.2021	
CIRS transaction CVA change	-64
CIRS transaction DVA change	703
Total impact on the valuation of CIRS transactions	639

ESTIMATED VALUES OF THE VALUATION OF THE CVA AND DVA APPLYING DIFFERENT LAG LEVELS	40%	60%	80%	100%
30.06.2021				
CVA	-65	-98	-130	-163
DVA	413	620	826	1 033

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

	30.06.2021	31.12.2020
Loans	**128 928**	**133 838**
- corporate customers	128 928	133 838
Financial assets not held for trading mandatorily measured at fair value through net financial income	**128 928**	**133 838**

18. Financial assets at fair value through other comprehensive income

	30.06.2021	31.12.2020
Debt securities	**761 422**	**791 045**
- Central banks	-	34 999
- General governments, including::	761 422	756 046
pledged securities	*120 876*	*151 009*
Total financial assets at fair value through comprehensive income	**761 422**	**791 045**
Short-term (up to 1 year)	-	308 177
Long-term (over 1 year)	761 422	482 868
Based on fixed interest rate	279 442	188 047
Based on floating interest rate	481 980	602 998

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

As at June 30, 2021 and December 31, 2020, all debt securities were classified in stage 1.

19. Financial assets at amortised cost

30.06.2021	Carrying value	Gross carrying amount				Accumulated impairment			
		Stage 1	Stage 2	Stage 3	POCI	Stage 1	Stage 2	Stage 3	POCI
Loans and advances to banks	93 568	93 568	-	-	-	-	-	-	
Loans and advances to customers	**11 768 716**	**10 606 611**	**932 533**	**347 945**	**3 181**	**(4 889)**	**(34 246)**	**(102 934)**	**20 515**
Individual customers	9 017 422	8 852 020	140 865	42 467	1 017	(1 880)	(3 120)	(13 879)	(68)
Corporate customers	2 647 944	1 651 714	791 668	304 410	2 164	(2 985)	(31 126)	(88 484)	20 583
Public sector customers	79 878	79 405	-	1 068	-	(24)	-	(571)	-
Financial institutions	23 472	23 472	-	-	-	-	-	-	-
Financial assets at amortised cost, total	**11 862 284**	**10 700 179**	**932 533**	**347 945**	**3 181**	**(4 889)**	**(34 246)**	**(102 934)**	**20 515**

Short-term (up to 1 year)	215 372
Long-term (over 1 year)	11 646 912

In the first half of 2021, the Bank did not sell any loan receivables.

IFRS Condensed Financial Statements for the first half of 2021 PLN (000's)

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

Change in expected credit losses as at June 30, 2021

	Opening balance	Transfered to stage 1	Transfered to stage 2	Transfered to stage 3	Increase due to given and repossess	Decreases caused by deletion from the balance sheet	Change due to modyfications that do not result in removal from the balance sheet (net)	Closing balance
Loans	**(107 928)**	**-**	**-**	**-**	**(201)**	**781**	**(14 206)**	**(121 554)**
Stage 1	(4 368)	(3 866)	431	6	(175)	41	3 042	(4 889)
Stage 2	(29 842)	3 282	(1 547)	1 118	(26)	326	(7 556)	(34 245)
Stage 3	(95 531)	584	1 116	(1 124)	-	414	(8 394)	(102 935)
POCI	21 813	-	-	-	-	-	(1 298)	20 515
Provision related to financial assets, total	**(107 928)**	**-**	**-**	**-**	**(201)**	**781**	**(14 206)**	**(121 554)**

Explanation of the translation of significant changes in the gross carrying amount of financial instruments during the period into changes in the allowance for expected credit losses. A detailed description is provided in Note 14.

	Opening balance	Transfered to stage 1	Transfered to stage 2	Transfered to stage 3	Increase due to given and repossess	Decreases caused by deletion from the balance sheet	other adjustments	Closing balance
Receivables from banks	**11 425 684**	**-**	**-**	**-**	**-**	**-**	**(229 565)**	**93 568**
Stage 1	323 133	-	-	-	-	-	(229 565)	93 568
Loans	**1 627 931**	**-**	**-**	**-**	**1 114 862**	**(226 462)**	**(423 816)**	**11 890 268**
Stage 1	9 480 090	694 890	(105 454)	(5 841)	1 108 915	(186 818)	(379 171)	10 606 611
Stage 2	1 627 931	(690 761)	111 606	(49 811)	5 947	(38 196)	(34 185)	932 531
Stage 3	314 440	(4 129)	(6 152)	55 652	-	(1 448)	(10 418)	347 945
POCI	3 223	-	-	-	-	-	(42)	3 181
Gross carrying amount of financial assets at amortized cost	**11 748 817**	**-**	**-**	**-**	**1 114 862**	**(226 462)**	**(653 381)**	**11 983 836**

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

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

20. Intangible assets

	30.06.2021	31.12.2020
Concessions, patents, licences and similar assets, including:	48 686	45 431
- computer software	48 686	45 431
Intangible assets under development	5 350	8 505
Intangible assets, total	**54 036**	**53 936**

21. Tangible assets

	30.06.2021	31.12.2020
Technical equipment and machinery	6 927	6 014
Other fixed assets	671	982
Fixed assets under construction	1 715	1 403
The right to use under leasing contracts:	**22 440**	**5 419**
buildings	22 124	4 938
Means of transport	316	481
Tangible fixed assets, total	**31 753**	**13 818**

On June 8, 2021, the Bank concluded with mBank S.A. a sublease agreement for space in the Mennica Tower GGH MT building located at ul. Prosta 18 in Warsaw, to which the seat of the Bank has been transferred. The agreement was concluded for a fixed period from June 8, 2021 to February 28, 2031. The value of the rights to use due to the above-mentioned the agreement was recognized under the right of use under leasing agreements, where as at June 30, 2021 it amounted to PLN 17 858 thousand.

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22. Other assets

	30.06.2021	31.12.2020
Other, including:	**15 507**	**5 349**
- other prepayments	3 491	2 794
- receivables from the portfolio of retail loans acquired as part of cooperation with mBank S.A.	1 535	1 959
- income receivable	171	116
- debtors	374	466
- asset for return	9 933	-
- other	3	14
Total other assets	**15 507**	**5 349**
Short-term (up to 1 year)	5 574	3 422
Long-term (over 1 year)	9 933	1 927

The asset to be returned item relates to the financial guarantees received by the Bank from mBank S.A. in accordance with the agreement of 17 December 2020. In the first half of 2021, the guarantee mechanism triggered the creation of an asset to be repaid as a result of offsetting the increase in write-offs related to expected credit losses.

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

As at June 30, 2021 and December 31, 2020, the Bank did not have any foreclosed assets.

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

30.06.2021	Amount due to banks	Amount due to customers	Individual customers	Corporate customers	Public sector customers
Loans received	**2 294 205**	**-**	**-**	**-**	**-**
Other financial liabilities:	**2 111 844**	**1 649**	**94**	**1 514**	**41**
Liabilities with deferred payment term	1 413 659	-	-	-	-
Liabilities in respect of cash collateral	675 689	897	11	886	-
Leasing liabilities	22 496	321	-	321	-
Other liabilitie	-	431	83	307	41
Total	**4 406 049**	**1 649**	**94**	**1 514**	**41**
Short-term (up to 1 year)	980 596	658			
Long-term (over 1 year)	3 425 453	991			

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

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

In the first half of 2021, the Bank took over tranches of pooling, as a result of which a deferred liability was created in the total amount of PLN 1,136,920 thousand.

In the item other financial liabilities with deferred payment dates, they relate to the liabilities resulting from the agreement concluded with mBank S.A. on November 30, 2018, an agreement to transfer the retail mortgage-backed loan portfolio.

The lease liabilities item presents the value of liabilities for the agreement concluded with mBank S.A. contracts for sublet space in the Mennica Tower GGH MT building.

24. Debt securities in issue

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

Receivables in respect of loans granted to local government units and loans secured with warranties of local government units form the basis for the issue of public sector covered bonds.

Covered bonds may also be issued based on the Bank's funds invested in treasury securities, deposited with the National Bank of Poland or in cash, hereinafter referred to as the "Substitute collateral".

Principles for the admissible amount of the substitute collateral

The Bank is required to maintain, separately for mortgage covered bonds and public sector covered bonds, a surplus created from the funds forming the Substitute collateral, equal to or higher than the aggregate nominal value of interest on the outstanding mortgage covered bonds or public sector covered bonds, as applicable, due over the next 6 months (hereinafter referred to as the "Surplus"). Such surplus funds may not serve as a basis for issuing covered bonds.

Principles for the statutory over-collateralisation of covered bonds

The sum of the nominal amounts of the Bank's receivables under mortgage-backed loans and substitute collateral entered in the covered bond collateral register, constituting the basis for the issue of mortgage covered bonds, may not be lower than 110% of the total amount of the nominal values of outstanding mortgage covered bonds, with the sum of the nominal values the amounts of the Bank's claims secured with a mortgage, constituting the basis for the issue of mortgage covered bonds, may not be lower than 85% of the total amount of the nominal values of the outstanding mortgage covered bonds.

Principles for refinancing loans with means originating from issuance of covered bonds

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In accordance with the act on mortgage bonds and mortgage banks, the funds were obtained from the issue of covered bonds, the Bank may refinance loans secured with a mortgage and purchased receivables of other banks due to loans secured by mortgage extended by them; refinancing in respect of a single loan or debt may not, however, exceed an amount corresponding to 60% of the mortgage lending value of the property and, in the case of residential properties, 80% of the mortgage lending value of the property.

The table below presents data related to the issue of covered bonds as at June 30, 2021 and as at December 31, 2020.

Mortgage covered bonds	30.06.2021	31.12.2020
1. Nominal value of covered bonds listed on the market	6 943 666	7 554 014
2. The nominal value of receivables entered in the collateral register of covered bonds underlying the issue of covered bonds (value on not matured capital)	9 562 918	9 329 195
3. Cash in Bank, as a treasury bonds, entered in the collateral register of covered bonds additionaly underlying the issue of covered bonds (Substitute collateral)	98 633	104 889
4. Level of collateral the covered bonds by receivables (2/1)	137,72%	123,50%
5. Total covered bonds collateral level (2+3) / 1	139,14%	124,89%
6. The value of receivables as collateral issue of mortgage covered bonds to the part which not exceeding 60% of the mortgage lending value of real estate for commercial real estate	1 953 576	2 117 009
7. The value of receivables as collateral issue of mortgage covered bonds to the part which not exceeding 80% of the mortgage lending value of real estate for residential property	7 051 018	6 580 040

Permissible value of Substitute collateral	30.06.2021	31.12.2020
1. Cash invested in treasury bonds	120 000	150 000
2. Interests from covered bonds on the market which will be paid in the next 6 months (Surplus)	21 367	45 111
3. Permissible value of Substitute collateral (1-2)	98 633	104 889

The total nominal amount of covered bonds in circulation, both as at June 30, 2021 and as at December 31, 2020, was listed on two markets within CATALYST: the regulated market operated by BondSpot S.A. and the regulated parallel market operated by the Warsaw Stock Exchange S.A.

On July 11, 2019, the Polish Financial Supervision Authority in Luxembourg approved the new foreign basic issue prospectus of mBank Hipoteczny S.A. establishing a covered bond issue program in the amount of EUR 3,000,000,000.

<u>As at 30.06.2021</u>

Debt financial instruments by type	Nominal value	Interest rate as at 30.06.2021	Guarantee / collateral	Redemption date	Liability amount measured at amortised cost	Hedge accounting adjustments related to fair value of hedged items	Carrying amount of liability
Long-term issues (with original maturity of over 1 year)							
Mortgage covered bonds (EUR)	8 000	3,50%	Mortgage covered bonds register	28.02.2029	36 166	6 016	42 182
Mortgage covered bonds (EUR)	15 000	3,50%	Mortgage covered bonds register	15.03.2029	67 815	11 337	79 151
Mortgage covered bonds (EUR)	20 000	3,20%	Mortgage covered bonds register	30.05.2029	89 671	15 169	104 839
Mortgage covered bonds (PLN)	300 000	1,18%	Mortgage covered bonds register	28.07.2022	301 288	-	301 288
Mortgage covered bonds (PLN)	200 000	1,18%	Mortgage covered bonds register	20.02.2023	200 625	-	200 625
Mortgage covered bonds (PLN)	200 000	1,02%	Mortgage covered bonds register	28.04.2022	200 254	-	200 254
Mortgage covered bonds (EUR)	20 000	1,14%	Mortgage covered bonds register	25.02.2022	90 679	599	91 279
Mortgage covered bonds (PLN)	250 000	1,12%	Mortgage covered bonds register	16.10.2023	250 229	-	250 229
Mortgage covered bonds (EUR)	11 000	1,29%	Mortgage covered bonds register	24.04.2025	49 684	1 604	51 289
Mortgage covered bonds (PLN)	255 000	1,36%	Mortgage covered bonds register	20.09.2021	255 059	-	255 059

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Mortgage covered bonds (PLN)	35 000	1,18%	Mortgage covered bonds register	20.09.2026	59 170	1 391	60 561
Mortgage covered bonds (EUR)	13 000	1,18%	Mortgage covered bonds register	20.09.2026	159 342	4 828	164 170
Mortgage covered bonds (EUR)	24 900	0,94%	Mortgage covered bonds register	01.02.2024	112 881	2 693	115 574
Mortgage covered bonds (EUR)	500 000	0,96%	Mortgage covered bonds register	10.09.2022	499 908	-	499 908
Mortgage covered bonds (EUR)	1 000 000	1,03%	Mortgage covered bonds register	15.09.2023	999 100	-	999 100
Mortgage covered bonds (PLN)	100 000	0,61%	Mortgage covered bonds register	22.06.2022	451 922	2 783	454 705
Mortgage covered bonds (PLN)	300 000	1,07%	Mortgage covered bonds register	05.03.2025	1 358 776	50 507	1 409 283
Mortgage covered bonds (EUR)	208 000	0,790%	Mortgage covered bonds register	10.06.2024	207 892		207 892
Mortgage covered bonds (EUR)	51 100	0,79%	Mortgage covered bonds register	10.06.2024	50 998		50 998
Mortgage covered bonds (PLN)	40 000	0,79%	Mortgage covered bonds register	10.06.2024	39 979		39 979
Mortgage covered bonds (PLN)	900	0,79%	Mortgage covered bonds register	10.06.2024	900		900
Mortgage covered bonds (PLN)	10 000	0,79%	Mortgage covered bonds register	10.06.2024	9 973		9 973
Mortgage covered bonds (PLN)	100 000	1,010%	Mortgage covered bonds register	20.12.2028	99 796		99 796
Mortgage covered bonds (PLN)	300 000	0,242%	Mortgage covered bonds register	15.09.2025	1 356 377		1 356 377
Bonds (PLN)	65 000	0,85%	Unsecured	21.01.2022	65 225		65 225
Bonds (PLN)	35 000	0,67%	Unsecured	03.01.2022	35 047		35 047
Bonds (PLN)	60 000	0,82%	Unsecured	03.01.2023	60 072		60 072
Debt securities in issue (carrying value)				**1 228 833**	**7 108 828**	**96 927**	**7 205 756**

As at 31.12.2020

Debt financial instruments by type	Nominal value	Interest rate as at 31.12.2020	Guarantee / collateral	Redemption date	Liability amount measured at amortised cost	Hedge accounting adjustments related to fair value of hedged items	Carrying amount of liability
Long-term issues (with original maturity of over 1 year)							
Mortgage covered bonds (EUR)	8 000	3,50%	Mortgage covered bonds register	28.02.2029	37 564	7 279	44 843
Mortgage covered bonds (EUR)	15 000	3,50%	Mortgage covered bonds register	15.03.2029	70 417	13 720	84 137
Mortgage covered bonds (EUR)	20 000	3,20%	Mortgage covered bonds register	30.05.2029	92 974	18 400	111 374
Mortgage covered bonds (PLN)	300 000	1,21%	Mortgage covered bonds register	28.07.2022	301 262	-	301 262
Mortgage covered bonds (PLN)	200 000	1,20%	Mortgage covered bonds register	20.02.2023	200 609	-	200 609
Mortgage covered bonds (PLN)	200 000	1,03%	Mortgage covered bonds register	28.04.2022	200 201	-	200 201
Mortgage covered bonds (EUR)	20 000	1.14%	Mortgage covered bonds register	25.02.2022	93 031	1 083	94 114
Mortgage covered bonds (PLN)	250 000	1,120%	Mortgage covered bonds register	16.10.2023	250 161	-	250 161
Mortgage covered bonds (EUR)	11 000	1,29%	Mortgage covered bonds register	24.04.2025	51 033	2 077	53 110
Mortgage covered bonds (PLN)	255 000	1,360%	Mortgage covered bonds register	20.09.2021	254 989	-	254 989
Mortgage covered bonds (PLN)	300 000	1,42%	Mortgage covered bonds register	05.03.2021	300 259	-	300 259
Mortgage covered bonds (EUR)	50 000	0,330%	Mortgage covered bonds register	21.06.2021	230 704	-	230 704
Mortgage covered bonds (EUR)	35 000	1,180%	Mortgage covered bonds register	20.09.2026	161 684	6 675	168 359
Mortgage covered bonds (EUR)	13 000	1,18%	Mortgage covered bonds register	20.09.2026	60 040	2 031	62 071
Mortgage covered bonds (EUR)	24 900	0,94%	Mortgage covered bonds register	01.02.2024	115 751	3 484	119 235
Mortgage covered bonds (PLN)	500 000	0,97%	Mortgage covered bonds register	10.09.2022	499 773	-	499 773
Mortgage covered bonds (PLN)	1 000 000	1,040%	Mortgage covered bonds register	15.09.2023	998 833	-	998 833
Mortgage covered bonds (EUR)	100 000	0,61%	Mortgage covered bonds register	22.06.2022	462 630	4 381	467 011

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Mortgage covered bonds (EUR)	300 000	1,07%	Mortgage covered bonds register	05.03.2025	1 394 280	63 148	1 457 428
Mortgage covered bonds (PLN)	208 000	0,800%	Mortgage covered bonds register	10.06.2024	207 864	-	207 864
Mortgage covered bonds (PLN)	51 100	0,80%	Mortgage covered bonds register	10.06.2024	50 978	-	50 978
Mortgage covered bonds (PLN)	40 000	0,80%	Mortgage covered bonds register	10.06.2024	39 974	-	39 974
Mortgage covered bonds (PLN)	900	0,80%	Mortgage covered bonds register	10.06.2024	899	-	899
Mortgage covered bonds (PLN)	10 000	0,80%	Mortgage covered bonds register	10.06.2024	9 968	-	9 968
Mortgage covered bonds (PLN)	100 000	1,010%	Mortgage covered bonds register	20.12.2028	99 784	-	99 784
Mortgage covered bonds (EUR)	300 000	0,240%	Mortgage covered bonds register	15.09.2025	1 382 685	-	1 382 685
Bonds (PLN)	65 000	0,88%	Unsecured	21.01.2022	65 222	-	65 222
Bonds (PLN)	100 000	0,81%	Unsecured	28.06.2021	99 984	-	99 984
Bonds (PLN)	35 000	0,67%	Unsecured	03.01.2022	35 038	-	35 038
Bonds (PLN)	60 000	0,82%	Unsecured	03.01.2023	60 059	-	60 059
Debt securities in issue (carrying value)					**7 828 652**	**122 278**	**7 950 930**

25. Provisions

	30.06.2021	31.12.2020
Provision (due to)	**4 421**	**3 392**
- off-balance sheet contingent liabilities granted	34	224
- provisions for future liabilities	3 786	2 900
- provisions for retirement and disability benefits	158	158
- provisions for legal proceedings	443	110
Provision, in total	**4 421**	**3 392**
Short-term (up to 1 year)	356	410
Long-term (over 1 year)	4 065	2 982

	2021			
	Off-balance sheet contingent liabilities granted	Provisions for future liabilities	Provisions for legal proceedings	Provisions for retirement and disability benefits
Provisions as at the beginning of the period	**224**	**2 900**	**110**	**158**
- increase on provisions	-	886	333	-
- release of provisions	(190)	-	-	-
Provisions as at the end of the period	**34**	**3 786**	**443**	**158**
Expected settlement period of provisions:				
Short-term (up to 1 year)	17	186	110	43
Long-term (over 1 year)	17	3 600	333	115

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	2020			
	Off-balance sheet contingent liabilities granted	Provisions for future liabilities	Provisions for legal proceedings	Provisions for retirement and disability benefits
Provisions as at the beginning of the period	**1 568**	**473**	**88**	**147**
- increase on provisions	702	2 427	25	11
- release of provisions	(2 080)	-	(3)	3
- other changes	34	-	-	(3)
Provisions as at the end of the period	**224**	**2 900**	**110**	**158**
Expected settlement period of provisions:				
Short-term (up to 1 year)	71	186	110	43
Long-term (over 1 year)	153	2 714	-	115

Change in provisions for off-balance sheet loan commitments impaired

Change in the period from 1 January to 30 June 2021	Bilans otwarcia	Transfer do Koszyka 1	Transfer do Koszyka 2	Transfer do Koszyka 3	Zwiększenia spowodowane udzieleniem oraz przejęciem	Zmniejszenia spowodowane usunięciem z bilansu	Zmiany spowodowane zmianą ryzyka kredytowego (netto)	Zmniejszenia odpisu z tytułu spisania	Bilans zamknięcia
Commitments to extend credit									
Stage 1	224	-	-	-	-	(20)	(170)	-	34
Stage 2	-	-	-	-	-	-	-	-	-
Stage 3	-	-	-	-	-	-	-	-	-
POCI	-	-	-	-	-	-	-	-	-
Total	**224**	**0**	**0**	**0**	**0**	**(20)**	**(170)**	**0**	**34**

Change in the period from 1 January to 31 December 2020	Bilans otwarcia	Transfer do Koszyka 1	Transfer do Koszyka 2	Transfer do Koszyka 3	Zwiększenia spowodowane udzieleniem oraz przejęciem	Zmniejszenia spowodowane usunięciem z bilansu	Zmiany spowodowane zmianą ryzyka kredytowego (netto)	Zmniejszenia odpisu z tytułu spisania	Bilans zamknięcia
Commitments to extend credit									
Stage 1	1 418	-	-	-	194	(952)	(436)	-	224
Stage 2	150	-	-	-	-	(146)	(4)	-	-
Stage 3	-	-	-	-	-	-	-	-	-
POCI	-	-	-	-	-	-	-	-	-
Total	**1 568**	**-**	**-**	**-**	**194**	**(1 098)**	**(440)**	**0**	**224**

26. Other liabilities

	30.06.2021	31.12.2020
Other liabilities (due to)	**22 543**	**15 728**
- accrued expenses	16 869	9 918
- settlements due to tax from Bank balance sheet items	2 596	2 500
- provision for holiday equivalents	953	983
- deferred income	6	80
- settlements with insurers	926	979
- liabilities due to income tax on salaries, Social Security contributions and VAT	19	73
- lease settlement	36	-
- other	1 138	1 195
Other liabilities, in total	**22 543**	**15 728**
Short-term (up to 1 year)	22 543	15 728

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27. Assets and liabilities for deferred income tax

Deferred income tax assets	30.06.2021	31.12.2020	30.06.2020
As at the beginning of the period	**71 025**	**64 344**	**64 344**
- Changes recognized in the income statement	(3 052)	(2 643)	891
- Changes recognized in other comprehensive income	(4 902)	9 058	12 439
- Otcher changes	-	266	-
As at the end of the period	**63 071**	**71 025**	**77 674**

Deferred income tax liabilities	30.06.2021	31.12.2020	30.06.2020
As at the beginning of the period	**(67 014)**	**(54 221)**	**(54 221)**
- Changes recognized in the income statement	1 823	451	6 523
- Changes recognized in other comprehensive income	9 136	(13 244)	(15 783)
As at the end of the period	**(56 055)**	**(67 014)**	**(63 481)**

Income tax	30.06.2021	31.12.2020	30.06.2020
Current income tax	(7 669)	(15 210)	(10 543)
Adjustments in respect of current income tax from previous years	2 460	(75)	(75)
Deferred income tax recognised in the income statement	(1 229)	(2 192)	7 414
Income tax recognised in the income statement	**(6 438)**	**(17 477)**	**(3 204)**
Recognised in other comprehensive income	4 234	(4 186)	(3 611)
Total income tax	**(2 204)**	**(21 663)**	**(6 815)**

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

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

Following market practices the Bank 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 Bank. All significant open positions in derivatives (currency or interest rates) are valued by marked-to-model using prices or parameters observable in the market.

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

The Bank 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 Bank 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.

Loans and advances to banks

The Bank assumed that the fair value of deposits of variable interest rates and deposits of fixed interest rates below 1 year is their carrying value. The Bank does not hold deposits opened for a period longer than 1 year.

<u>Receivables due to loans and advances granted to clients</u>

The fair value for loans and advances to customers is disclosed as the present 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 Bank. To reflect the fact that the majority of the Bank's exposures is collateralised whereas the median of market quotation is centred around unsecured issues, the Bank applied appropriate adjustments.

Receivables due to loans and advances granted to clients are presented on the level 3 in the hierarchy of fair value.

<u>Financial assets at fair value through other comprehensive income.</u>

During initial recognition in books the fair value of payment are reported. Costs of transaction are included in valuation of initial value using effective interest rate method.

On the balance sheet day, the Bank valuates debt security listed on stock exchange or for which there is an active market according to the fair value (current market price), the valuation is made on the basis of the closing price of the session.

Any increases or loss of values are accounted for the day of valuation, i.e. at the end of a month, separately for each type of securities.

Securities in the Bank's portfolio of the same issuer, of the same series, and purchased in different periods and at different prices are sold by the Bank using the FIFO principle - outflow of securities takes place in the order of their purchase.

<u>Financial instruments representing liabilities include the following:</u>

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

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

The Bank assumed that the fair value of liabilities arising from received loans, other financial liabilities with deferred payment term, received subordinated loans, liabilities in respect of cash collateral and other liabilities due to customers is equal to their carrying value since these are liabilities with variable interest rates.

<u>Liabilities arising from issuing of securities (covered bonds and bonds)</u>

The Bank estimated fair value for issued covered bonds and unsecured corporate bonds of high rating using credit spread. For trenches subject to secondary trade issued so far it was assumed that the value of credit spread is the same as for issuing on the primary market with the same period until maturity. Clean price of particular trenches of covered bonds in trade was estimated taking into account the period remaining until maturity, value of expected credit spread for issuing on secondary market and quotations from swap curve.

Liabilities arising from issuing of debt securities are presented on the level 3 in the hierarchy of fair value.

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

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Financial assets and liabilities	30.06.2021		31.12.2020	
	Carrying value	Fair value	Carrying value	Fair value
Financial assets measured at amortized cost				
Cash and balances with the central bank	**31 061**	**31 061**	**29 393**	**29 393**
Amounts due from other banks	**93 568**	**93 568**	**323 133**	**323 133**
Loans and advances to customers, including:	**11 768 716**	**12 446 808**	**11 317 756**	**11 972 924**
Individual customers	9 017 421	9 624 299	8 346 281	8 933 414
Corporate customers	2 647 944	2 716 689	2 856 501	2 921 918
Public sector customers	79 879	82 348	85 731	88 349
Other financial institutes	23 472	23 472	29 243	29 243
Total financial assets	**11 893 345**	**12 571 437**	**11 670 282**	**12 325 450**
Financial liabilities at amortised cost				
Amounts due to other banks	**4 406 049**	**4 406 049**	**3 500 673**	**3 500 673**
Amounts due to customers, including:	**1 649**	**1 649**	**3 477**	**3 477**
Corporate customers	1 514	1 514	3 353	3 353
Individual customers	94	94	114	114
Public sector customers	41	41	10	10
Debt securities in issue	**7 205 756**	**7 198 320**	**7 950 930**	**7 956 838**
Subordinated liabilities	**100 140**	**100 140**	**100 149**	**100 149**
Total financial liabilities	**11 713 594**	**11 706 158**	**11 555 229**	**11 561 137**

The table below presents the fair value hierarchy of financial assets and liabilities recognised in the statement of financial position of the Bank at their fair values as of 30 June 2021.

30.06.2021	including:	Level 1	Level 2	Level 3
		Prices quoted in active markets	Valuation techniques based on observable market data	Other valuation techniques
RECURRING FAIR VALUE MEASUREMENTS				
FINANCIAL ASSETS				
Financial assets held for trading and derivatives held for hedges	**189 554**	**-**	**110 876**	**78 678**
Derivative financial instruments, including:	**189 554**	**-**	**110 876**	**78 678**
Derivative financial instruments held for trading:	**10 660**	**-**	**10 660**	**-**
- Interest rate derivatives	-	-	-	-
- Foreign exchange derivatives	10 660	-	10 660	-
Derivative financial instruments held for hedging:	**178 894**	**-**	**100 216**	**78 678**
Derivatives designated as fair value hedges	100 216	-	100 216	-
- Derivatives designated as cash flow hedges	78 678	-	-	78 678
Non-trading financial assets mandatorily at fair value through profit or loss	**128 928**	**-**	**-**	**128 928**
Loans and advances to custumers	**128 928**	**-**	**-**	**128 928**
Corporate customers	128 928	-	-	128 928
Financial assets at fair value through other comprehensive income	**761 422**	**761 422**	**-**	**-**
- Treasury bonds	761 422	761 422	-	-
- Money bills	-	-	-	-
TOTAL FINANCIAL ASSETS	**1 079 904**	**761 422**	**110 876**	**207 606**

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30.06.2021	including:	Level 1 Prices quoted in active markets	Level 2 Valuation techniques based on observable market data	Level 3 Other valuation techniques
FINANCIAL LIABILITIES				
Derivative financial instruments, including:	**276**	**-**	**276**	**-**
Derivative financial instruments held for trading:	**276**	**-**	**276**	**-**
- Interest rate derivatives	-	-	-	-
- Foreign exchange derivatives	276	-	276	-
Derivative financial instruments held for hedging:	**-**	**-**	**-**	**-**
-Derivatives designated as fair value hedges	-	**-**	-	-
TOTAL FINANCIAL LIABILITIES	**276**	**-**	**276**	**-**
RECURRING FAIR VALUE MEASUREMENTS				
TOTAL FINANCIAL ASSETS	**1 079 904**	**761 422**	**110 876**	**207 606**
TOTAL FINANCIAL LIABILITIES	**276**	**-**	**276**	**-**

The table below presents the fair value hierarchy for financial assets and liabilities that were disclosed in the Bank's statement of financial position at fair value as at December 31, 2020.

31.12.2020	including:	Level 1 Prices quoted in active markets	Level 2 Valuation techniques based on observable market data	Level 3 Other valuation techniques
RECURRING FAIR VALUE MEASUREMENTS				
FINANCIAL ASSETS				
Financial assets held for trading and derivatives held for hedges	**196 917**	**-**	**75 888**	**-**
Derivative financial instruments, including:	**196 917**	**-**	**75 888**	**-**
Derivative financial instruments held for trading:	**28 323**	**-**	**28 323**	**-**
- Interest rate derivatives	-	-	-	-
- Foreign exchange derivatives	28 323	-	28 323	-
Derivative financial instruments held for hedging:	**168 594**	**-**	**47 565**	**121 029**
Derivatives designated as fair value hedges	47 565	-	47 565	-
- Derivatives designated as cash flow hedges	121 029	-	-	121 029
Non-trading financial assets mandatorily at fair value through profit or loss	**133 838**	**-**	**-**	**133 838**
Loans and advances to custumers	**133 838**	**-**	**-**	**133 838**
Corporate customers	133 838	-	-	133 838
Financial assets at fair value through other comprehensive income	**791 045**	**756 046**	**34 999**	**-**
- Treasury bonds	756 046	756 046	-	-
- Money bills	34 999	-	34 999	-
TOTAL FINANCIAL ASSETS	**1 121 800**	**756 046**	**110 887**	**133 838**

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31.12.2020	including:	Level 1	Level 2	Level 3
		Prices quoted in active markets	Valuation techniques based on observable market data	Other valuation techniques
FINANCIAL LIABILITIES				
Derivative financial instruments, including:	**4 719**	**-**	**4 719**	**-**
Derivative financial instruments held for trading:	**4 674**	**-**	**4 674**	**-**
- Interest rate derivatives	-	-	-	-
- Foreign exchange derivatives	4 674	-	4 674	-
Derivative financial instruments held for hedging:	**45**	**-**	**45**	**-**
-Derivatives designated as fair value hedges	**45**	**-**	**45**	**-**
TOTAL FINANCIAL LIABILITIES	**4 719**	**-**	**4 719**	**-**
RECURRING FAIR VALUE MEASUREMENTS				
TOTAL FINANCIAL ASSETS	**1 121 800**	**756 046**	**110 887**	**133 838**
TOTAL FINANCIAL LIABILITIES	**4 719**	**-**	**4 719**	**-**

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

In the reporting period, there were no changes in the classification of the components of the statement of financial position in the hierarchy of fair value.

The fair value of loans and advances to customers was calculated on the basis of discounted expected cash flows, taking into account potential losses due to credit risk, due to credit exposure determined taking into account, inter alia:

- repayment schedule,

- uncertainty of flows over the entire forecast life of the exposure, resulting from credit risk, by modifying contractual flows using long-term credit risk parameters Lt PD and Lt LGD,

-in the discount rate of risk factors, excluding the credit component (risk-free rate, liquidity margin, cost of capital, fixed costs mark-up)

- other factors that would be taken into account by the potential buyer of the exposure (cost mark-ups and the profit margin expected by market participants) when calibrating the discount rate used in the valuation process - the so-called calibration margin.

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

Portfolio	Fair value 30.06.2021	Sensitivity to the change of the unobservable parameterego		Description
		(-)	(+)	
Loans and advances to customers are obligatorily measured at fair value through profit or loss in a non-default situation	113 638	146	(142)	The valuation model uses the PD credit risk parameters Sensitivity calculated assuming a PD change of +/- 10%
Loans and advances to customers obligatorily measured at fair value through profit or loss in the def	15 290	(1 529)	906	The valuation model uses individual estimates of expected cash flows. Sensitivity calculated assuming a change in flows of +/- 10%

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

<u>Derivatives designated as cash flow hedges</u>

The derivative instrument designated as a cash flow hedge is CIRS (Cross-Currency Interest Rate Swap), which was classified at level 3 of the fair value hierarchy, where the Bank pays a floating rate based on the WIBOR rate and receives a fixed rate in EUR. In the event of the declared bankruptcy of mBank Hipoteczny S.A. the CIRS transaction is not completed and continues until the transaction is completed in accordance with the parameters determined on the transaction date. In addition, the transaction in question is characterized by a high nominal value and a unilateral obligation to provide a margin, where mBank Hipoteczny S.A. is released from the obligation to submit it.

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

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

- by decomposing the part of the actual CIRS transaction securing the obligation in EUR (hedging against currency risk).

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

Due to the characteristics of the CIRS transaction concluded by the Bank, containing non-standard and unquoted price components, the margin on the leg paid by the Bank was higher than the margin of the standard, analogous CIRS transaction, terminated in the event of a counterparty's bankruptcy with a bilateral exchange of the margin. This fact was confirmed by the independent CIRS quotation obtained by the Bank. At the same time, before concluding the transaction, the Bank checked other market quotations of high-rated counterparties and they showed compliance with the finally obtained transaction quotation. Thus, the transaction was classified as an arm's length transaction, not having an option nature, free of additional fees at the time of its conclusion, and was considered a transaction in which there are parameters that are unobservable in an active market, affecting its valuation.
Due to the non-standard nature of the CIRS transaction concluded by the Bank, the valuation of this transaction consists of three elements - the value of discounted expected cash flows from CIRS transactions, CVA / DVA adjustments and linear amortization over time to the maturity date of the difference between the valuation of the non-standard CIRS transaction (taking into account CVA / DVA adjustments). DVAs corresponding to the nature of this transaction) and the standard CIRS transaction valuation (including CVA / DVA adjustments resulting from the profile of this transaction) determined on the transaction date. The straight-line amount, included in the valuation of IRS transactions, determined at the time of concluding the transaction is PLN 7,216 thousand. Due to the fact that at the moment of establishing the NPV relation of the original transaction, CIRS was transferred to the IRS transaction, hence DVA was included in its valuation as a significant component of the valuation, and CVA, due to its insignificant value, was included in the valuation of the CIRS transaction.

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

		30.06.2021	31.12.2020
Fair value measurement of CIRS transactions		**78 678**	**121 029**
including:	CVA of the CIRS transaction	(98)	(76)
	DVA of the CIRS transaction	1 033	468
	Value of the valuation of the CIRS transaction to be settled over time	5 183	5 794

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

Selected explanatory information

1. Compliance with international financial reporting standards

The presented condensed financial statements for the first half of 2021 and comparative data for 6 months of 2020, as at 31 December 2020, fulfil 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 half-year report and the last annual financial statements

The accounting principles adopted by the Bank have been applied consistently for all periods presented in the financial statements. The Bank's accounting principles are presented in Notes 2 and 3 to these condensed financial statements for the first half of 2021.

3. Seasonal or cyclical nature of the business

In the first half of 2021, as well as in the comparative periods presented, business operations of the Bank did 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 first half of 2021, the Bank's results were significantly affected by the Covid-19 pandemic. Detailed information in this respect is presented in Note 3 "Major estimates and judgments made in connection with the application of accounting 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

Events as indicated above did not occur in the Bank.

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

In the first half of 2021, the Bank did not issue any mortgage bonds or long-term bonds, but redeemed long-term bonds in the amount of PLN 100,000 thousand. PLN and covered bonds in the amount of 527 210 thousand. Information on the issue of debt securities is presented in Note 24 of these condensed financial statements.

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

On 26 May 2021, the Ordinary General Shareholders' Meeting of mBank Hipoteczny S.A., adopted the resolution on division of the 2020 net profit which does not provide for the payment of dividend for the year 2020.

8. Significant events after the end of the first half of 2020, which are not reflected in the condensed financial statements

Events as indicated above did not occur in the Bank.

9. Effect of changes in the structure of the entity in the first half 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 Bank.

10. Changes in contingent liabilities

In the first half of 2021, as well as in the comparative periods presented, there were no significant changes in contingent liabilities of credit nature, i.e., guarantees, letters of credit or unutilised loan amounts, other than resulting from current operating activities of the Bank. Neither there were also any material changes in contingent liabilities of nature other than credit liabilities.

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

In the first half of 2021, events as indicated above did not occur in the Bank.

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 first half of 2021, as well as in the comparative periods presented, events as indicated above did not occur at the Bank.

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

Data regarding write-offs on account of impairment of financial assets are presented under Note 14 of these condensed financial statements.

14. Reversals of provisions against restructuring costs

In the first half of 2021, as well as in the comparative periods presented, events as indicated above did not occur at the Bank.

15. Acquisitions and disposals of tangible fixed asset items

In the first half of 2021, as well as in the comparative periods presented, there were no material transactions of acquisition or disposal of any tangible fixed assets.

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

In the first half of 2021, as well as in the comparative periods presented, events as indicated above did not occur at the Bank.

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

In the reporting period, as as well as in the comparative periods presented, 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, as as well as in the comparative periods presented, 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 first half of 2021, events as indicated above did not occur in the Bank

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 activities undertaken in Poland and worldwide in connection with the Covid-19 pandemic in March and April 2020, the Monetary Policy Council reduced interest rates by a total of 100 basis points, which affected the valuation of assets and liabilities to fair value. The Covid-19 pandemic also caused a rapid slowdown in economic activity in the second quarter of 2020. Measures aimed at reducing the spread of the virus, introduced gradually since mid-March, froze activity in many sectors of the economy. This also affected the fair value of loans and credits. For more information on the impact on the valuation of loans, see note 3 "Major estimates and judgments made in connection with the application of accounting rules".

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

In the first half of 2021, as well as in the comparative periods presented, events as indicated above did not occur at the Bank.

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 halfly report compared to the forecast

mBank Hipoteczny S.A. did not publish a performance forecast for the year 2021.

23. Registered share capital

The total number of ordinary shares as at June 30, 2021 and December 31, 2020 was 3,360,000 with a par value of PLN 100 per share. All issued shares are fully paid up.

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REGISTERED SHARE CAPITAL (STRUCTURE) AS AT 30 JUNE 2021							
Share type	**Type of preference**	**Type of restrictions**	**Number of shares**	**Series / issue at par value (PLN)**	**Means of covering share capital**	**Registration date**	**Right to dividend**
registered	-	-	500 000	50 000 000	cash	16.04.1999	01.01.2000
registered	-	-	850 000	85 000 000	cash	20.09.2000	01.01.2001
registered	-	-	400 000	40 000 000	cash	24.04.2006	01.01.2006
registered	-	-	1 000 000	100 000 000	cash	08.01.2013	01.01.2013
registered	-	-	100 000	10 000 000	cash	30.12.2014	01.01.2015
registered	-	-	140 000	14 000 000	cash	19.08.2015	01.01.2016
registered	-	-	100 000	10 000 000	cash	01.08.2016	01.01.2017
registered	-	-	120 000	12 000 000	cash	03.04.2017	01.01.2017
registered	-	-	150 000	15 000 000	cash	09.05.2019	01.01.2019
Total number of shares			**3 360 000**				
Total registered share capital				**336 000 000**			

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

As at the date of publishing the condensed financial statements for the first half of 2021 and as the end of the previous periods presented in the statements, the Members of the Bank's Management Board had no and they have no options for the Bank's shares.

In the first half of 2021, as well as in the comparative periods presented, Member of the Bank's Supervisory Board held no shares of the Bank and no options for the Bank's shares.

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

In the first half of 2021, as well as in the comparative periods presented, the Bank was not involved in any proceedings before a court, arbitration body, or public administration authority which represent at least 10% of the Bank's equity. In the presented reporting periods there were no significant cases brought by the Bank or against the Bank, nor has the Bank created any provisions for pending litigation.

26. Off-balance sheet liabilities

Off-balance sheet liabilities as at 30 June 2021 and 31 December 2020.

	30.06.2021	**31.12.2020**
1. Off-balance sheet liabilities granted and received	**1 145 134**	**1 458 274**
Liabilities granted	**27 956**	**66 576**
1. Financial liabilities::	**27 956**	66 576
a) Lending commitments	27 956	66 576
Liabilities received:	**1 117 178**	**1 391 698**
a) Financial liabilities received	551 528	781 789
b) Guarantee		609 909
2. Derivative financial instruments (nominal value of contracts)	**9 561 029**	**10 154 069**
1. Interest rate derivatives	4 944 851	5 047 668
2. Foreign exchange derivatives	4 616 178	5 106 401
Total off-balance sheet items	**10 706 163**	**11 612 343**

27. Transactions with related parties

The direct parent entity of mBank Hipoteczny S.A. is mBank S.A. The direct parent entity of mBank S.A. is Commerzbank AG.

All transactions between the Bank and related parties were typical and routine transactions, according to the Management board concluded on conditions that did not vary from the market conditions, and their nature and conditions resulted from current operational activity conducted by the Bank. Transactions with related parties concluded in the scope of ordinary operational activity cover loans, debt securities issued, subordinated liabilities, other financial liabilities with deferred payment date, the derivative transactions and liabilities related to cash collaterals related to the derivative transactions.

The values of the Bank's transactions with related entities are presented in the tables below. The amounts of transactions include assets, liabilities as at 30 June 2021, 31 December 2020 and and related costs and income in the periods from 1 January to 30 June 2021, 1 January to 30 June 2020.

The total cost of remuneration of Members of the Bank's Supervisory Board, Members of the Bank's Management Board in the period from 1 January to 30 June 2021 recognized in the Bank's profit and loss account for this period amounted to PLN 1,349 thousand. PLN (in the period from 1 January to 30 June 2020: PLN 1,772 thousand). With regard to Members of the Bank's Management Board, the cost of remuneration also includes the cost of the provision for remuneration under the incentive scheme.

The table below presents the amounts of the Bank's transactions with related entities. The amounts of transactions include assets, liabilities as at 30 June 2021 and 31 December 2020 and related costs and income in the periods from 1 January to 30 June 2021 and 1 January to 30 June 2020.

(PLN '000)	Supervisory and Management Board members of mBank Hipoteczny S.A./mBank S.A., management personnel of mBank Hipoteczny S.A.		Other persons and entities related*		mBank Group companies***		mBank S.A.		Commerzbank Group companies***	
As at the end of the period	**30.06.2021**	**31.12.2020**	**30.06.2021**	**31.12.2020**	**30.06.2021**	**31.12.2020**	**30.06.2021**	**31.12.2020**	**30.06.2021**	**31.12.2020**
Statement of finacial position										
Total assets	**-**	**-**	**189**	**251**	**316**	**481**	**161 709**	**402 994**	**-**	-
Receivables from Banks	-	-	-	-	-	-	93 568	323 133	-	-
Derivative financial instruments held for trading	-	-	-	-	-	-	10 660	28 323	-	-
Receivables from credits	-	-	189	251	-	-	-	-	-	-
Derivative hedging instruments	-	-	-	-	-	-	35 307	47 564	-	-
Intangible assets	-	-	-	-	-	-	49	49	-	-
Other assets	-	-	-	-	-	-	2	7	-	-
Fixed assets	-	-	-	-	316	481	22 123	3 918	-	-
Total liabilities	**-**	**-**	**-**	**-**	**321**	**487**	**5 022 472**	**4 061 185**	**297 631**	**535 683**
Derivative financial instruments held for trading	-	-	-	-	-	-	273	4 642	-	-
Liabilities due to loans received from the financial sector	-	-	-	-	-	-	2 294 205	2 455 117	-	-
Cash collateral liabilities	-	-	-	-	-	-	608 173	672 126	-	-
Liabilities due to deferred payment (retail pooling)	-	-	-	-	-	-	1 413 659	275 907	-	-
Subordinated loan	-	-	-	-	-	-	100 140	100 150	-	-
Covered bonds and bonds	-	-	-	-	-	-	583 490	549 097	297 631	535 683
Liabilities for the right of use - buildings	-	-	-	-	-	-	22 532	4 146	-	-
Liabilities due to the right to use - means of transport	-	-	-	-	321	487	-	-	-	-
Contingent liabilities										
Liabilities received	-	-	-	-	-	-	551 528	781 789	-	-
Commitment granted	-	-	-	-	-	-	-	-	-	-
Guarantee received	-	-	-	-	-	-	565 650	609 909	-	-
Derivatives (purchase, sales)										
IRS contracts	-	-	-	-	-	-	669 078	682 990	-	-
FX SWAP contracts	-	-	-	-	-	-	1 976 490	2 437 063	-	-

Property, plant and equipment include lease contracts classified in accordance with IFRS 16, relating to buildings, i.e. rental of office space in Warsaw and Łódź and redemption of the above-mentioned assets.
The item "Off-balance sheet liabilities granted and received - Guarantee received" relates to a bank guarantee agreement concluded on December 17, 2020 with mBank S.A. on selected commercial credit exposures.

(PLN '000)	Supervisory and Management Board members of mBank Hipoteczny S.A./mBank S.A., management personnel of mBank Hipoteczny S.A.		Other persons and entities related*		mBank Group companies***		mBank S.A.		Commerzbank Group companies***	
Year ended	**30.06.2021**	**30.06.2020**	**30.06.2021**	**30.06.2020**	**30.06.2021**	**30.06.2020**	**30.06.2021**	**30.06.2020**	**30.06.2021**	**30.06.2020**
Income statement										
Interest income	-	-	2	-	149	161	2 955	6 059	-	-
Interest expense	-	-	-	-	(4)	(6)	(20 281)	(41 821)	(1 328)	(2 013)
Fee and commission income	-	-	-	-	-				-	-
Fee and commission expenses	-	-	-	-	(3)	(4)	(3 872)	(2 720)	-	-
Net trading income	-	-	-	-	-	-	(20 899)	4 164	-	-
Other operating income	-	-	-	-	-	-	29	-	-	-
Other operating expenses	-	-	-	-	-	-		-	-	-
Overhead costs, amortisation and depreciation	-	-	-	-	(176)	(257)	(1 088)	(670)	-	-

*Other persons and related entities include a loan granted to a close family member of a Member of the Supervisory Board of mBank S.A.
** mBank Group's position includes transactions with the following mBank Group companies: mFinanse S.A., mCentrum Operacji Sp. z o.o., mCorporate Finance S.A., mLeasing Sp. z o.o.
***The position of a Commerzbank Group company includes purchases of mortgage covered bonds by Commerzbank AG and Comdirect Bank AG on the secondary market.

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28. Credit and loan guarantees, other guarantees granted in excess of 10% of the equity

In the first half of 2021, as well as in the comparative periods presented, events as indicated above did not occur at the Bank.

29. 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

- Changes in the composition of the Bank's Supervisory Board.

On May 26, 2021, the Ordinary General Meeting of Shareholders elected the Supervisory Board of mBank Hipoteczny S.A. new term.

Composition of the Supervisory Board of mBank Hipoteczny S.A. as of June 30, 2021 is as follows:

1.	Andreas Boeger	-	Chairman of the Supervisory Boar
2.	Marek Lusztyn	-	Vice-chairman of the Supervisory Board
3.	Aleksandra Buczkowska	-	Member of the Supervisory Board
4.	Frank Bock	-	Member of the Supervisory Board
5.	Paweł Graniewski	-	Independent Member of the Supervisory Board
6.	Michał Popiołek	-	Member of the Supervisory Board
7.	Mikołaj Tatarkiewicz	-	Member of the Supervisory Board
8.	Mariusz Tokarski	-	Independent Member of the Supervisory Board

30. Other information

- Profit distribution for 2020

On May 26, 2021, the Ordinary General Meeting of mBank Hipoteczny S.A. adopted a resolution on the distribution of the net profit for 2020. The Bank's net profit in 2020 in the amount of PLN 4 878 thousand was allocated entirely to the supplementary capital of the Bank.