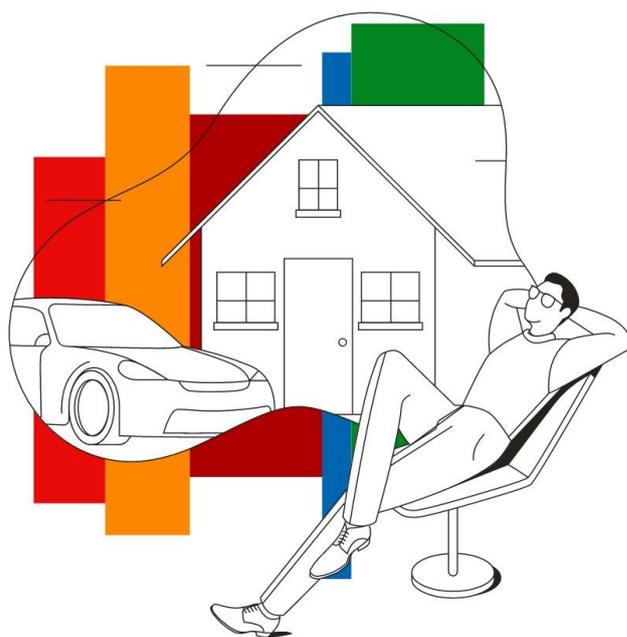


Information on the implemented tax strategy for mBank S.A.

Tax report for 2020



Key information

- mBank S.A. ("Bank") considers paying taxes not only as an obligation but also as an important part of its **social responsibility**.
- Bank's tax strategy is consistent with the principles of social justice, the strategy of the mBank Group and the ethical values we follow. The bank considers the payment of taxes as a **due return of part of its profit to society**.
- In 2020, the Bank's situation was largely determined by the **COVID-19 pandemic**. It affected the whole society, including employees, customers, partners, tax authorities. We adapted to the new conditions, also in the area of taxation, in order to duly perform all the obligations stipulated by the tax law.
- **The Bank's fiscal burden was heavy in 2020**. In particular, CIT on the balance sheet totalled PLN 479.9 million. The Bank closed the year with a pre-tax profit of PLN 573.0 million. In accordance with the Bank's annual report for 2020 the effective tax rate calculated as CIT to pre-tax profit was 83.76%. The nominal CIT rate was 19%.
- In 2020, we followed **processes and procedures** for managing the performance of our obligations under tax law. This allowed the Bank to properly fulfil its tax obligations in the Republic of Poland.
- As of 1 January 2020, the Bank and the companies mBank Hipoteczny S.A., mFinanse S.A. and mLeasing Sp. z o. o. formed **Podatkowa Grupa Kapitałowa mBank** ("PGK"). The companies entered into an agreement for four years. According to the tax law, the entire tax capital group was a corporate income tax (CIT) taxpayer in 2020. The Bank was the parent company and, in particular, calculated, collected and paid CIT on behalf of PGK.
- In 2020, the Bank acted as a **taxpayer** of value added tax (VAT), tax on certain financial institutions (bank tax), tax on civil law transactions (PCC), and real estate tax. The Bank also performed the function of a **remitter** of corporate income tax (CIT) and personal income tax (PIT). The Bank also performed other duties required by tax law. Those included information, recording, and documentation obligations.

Entity drawing up the information

Name:	mBank Spółka Akcyjna
Tax Identification Number:	5260215088
KRS number:	0000025237
REGON number:	001254524
Registered office:	18 Prosta Street, 00-850 Warsaw
Fiscal year:	1 January 2020 – 31 December 2020
Date of preparation of the information:	30 September 2021

Scope of information

We have prepared and publish this **information on the implemented tax strategy for 2020** ("Tax Report"), in accordance with Article 27c of the Corporate Income Tax Act of 15 February 1992 ("CIT Act").

In the Tax Report, we refer in particular to:

- information on the processes and procedures followed by the Bank to manage and ensure the proper performance of its obligations under tax law,
- information on voluntary forms of cooperation with bodies of the National Revenue Administration applied by the Bank,
- information on the fulfilment of tax obligations by the Bank in the territory of the Republic of Poland, including the number of tax scheme notifications provided to the Head of the National Revenue Administration in accordance with the relevant provisions of tax law, including a breakdown by the taxes to which they relate,
- information on transactions with related parties within the meaning of the relevant tax law, whose value exceeds 5% of the total assets within the meaning of the accounting regulations, determined on the basis of the last approved financial statements of the Bank, including information on transactions with entities which are not tax residents of the Republic of Poland,
- information on restructuring activities planned or undertaken by the Bank, which may affect the amount of tax liabilities of the Bank or of related parties within the meaning of the relevant tax law,
- information on applications submitted by the Bank for the issuance, in accordance with the relevant provisions of tax law, of a general tax interpretation, an individual tax interpretation, binding tax rate information or binding excise information,
- information concerning the Bank's tax payments in territories or countries applying harmful tax competition as defined in the relevant tax law.

We have not presented information covered by trade, industrial, professional or manufacturing process secrecy in the Tax Report.

General information about the Bank

The Bank was established on 20 June 1986 under the name Bank Rozwoju Eksportu Spółka Akcyjna. On 4 March 1999, the name was changed to BRE Bank Spółka Akcyjna. On 22 November 2013, the name of the Bank was changed to its current name: mBank Spółka Akcyjna (mBank S.A.).

In 2020, the Bank carried out business activities within the scope defined in the Bank's Bylaws. Primarily, it provided **banking and financial services**. It provided services to corporate, institutional and retail customers (including private banking) throughout the country. It carried out trading and investment activities, as well as brokerage activities. It provided services to legal and natural persons, domestic and foreign, both in PLN and in foreign currencies. In 2020, the Bank also operated in the Czech Republic and Slovakia through its retail branches.

We have described the nature, type and size of the Bank's activities in detail in the Annual Report: [LINK](#).

Principles of sustainable development

The Bank is a **public trust institution** which complies with all laws, rules and standards applicable to business. We strive to make our business transparent to all our stakeholders. We strive to meet the highest standards of sustainability (ESG: Environmental, Social, Governance). Compliance with laws and regulations, as well as transparent reporting, are key to our credibility with shareholders and other stakeholders.

Tax issues are also part of our social responsibility. We treat the payment of taxes as a due return of part of the Bank's profit to society.

We have posted an overview of all our sustainability standards on our website www.mbank.pl: [LINK](#).

Business strategy

In 2020, we implemented the mBank Group Strategy 2020-2023 "**We grow with and thanks to our clients**". We adopted it in December 2019 as a response to changes in the market and regulatory environment and expected future trends. We took into account, among other things, the economic outlook, technological advances, local constraints, as well as internal conditions.

Over the past years, the macroeconomic and regulatory environment in Europe has become increasingly challenging for the banking sector. Poland remained a leader in economic growth and the central bank maintained positive interest rates but the introduction of additional fiscal burdens severely reduced profitability. The ageing population was also a challenge in the longer term. These factors and the new circumstances triggered by the **COVID-19 pandemic** suggest that the financial market was undergoing an increasingly rapid transformation.

We have provided more information on the Bank's business strategy in the Annual Report: [LINK](#).

Tax strategy

In 2020, it was the Bank's objective to duly perform all the obligations provided for by the tax law ("Tax Strategy"). We pursued this objective based on Bank's internal regulations, in particular tax risk management rules.

We managed tax risks in the following areas:

1/ **Integrity of tax law with balance sheet law and financial reporting in the Bank's internal regulations**

We kept accounting books and other records required by law. Proper recording of economic events ensured the calculation and payment of taxes and performance of other duties required by tax law. It also resulted in the presentation of tax liabilities in the financial statements. All figures shown in tax returns and other information required by law were supported by appropriate documentation.

2/ **Correct tax processes in accordance with current tax law**

We used appropriate resources to pay or remit taxes and file required information in accordance with tax law. We were guided by conscientiousness and professionalism in interpreting the relevant legislation. We improved our knowledge, monitored changes in tax law, and used external opinions to avoid the risk of non-compliance. We maintained good relations with tax authorities and other state bodies. To the extent provided by law, we supported customers in clarifying doubts concerning tax payments related to the Bank's products. At the same time, we did not provide tax advice and we refrained from activities which could be considered as such advice.

3/ **Cooperation of organisational units preparing, giving opinions on, and offering products to the Bank's customers**

We relied on the cooperation of staff from different business units, from planning to implementation of the Bank's products. In this way, we wanted to avoid unintended tax, legal, or reputational risks. We did not use solutions contrary to the law.

4/ **Correct identification and monitoring of tax risks**

We did not offer tax avoidance products or transactions. We sought to avoid tax disputes through proper interpretation of tax law and thorough explanation of tax matters. We sought individual tax interpretations or opinions from reputable advisory firms to better understand the tax consequences of planned transactions. We actively participated in tax audit activities, thoroughly evaluated their results, and talked to tax authorities in order to minimise the risk that the amount of tax liabilities would be challenged and the Bank's reputation harmed. We used specialised training, monitored changes in the law, followed the positions of tax authorities and administrative courts.

5/ **Rules on customer transactions**

We followed a zero tolerance policy for transactions designed to avoid taxation. Thus, we did not enter into agreements with customers if the underlying business assumptions did not include any significant business objectives other than tax avoidance, the tax consequences of

the transaction were not consistent with the substance or purpose of the tax law, or the product design allowed for unjustified tax benefits in whole or in significant part.

6/ **Monitoring changes in tax legislation and case law**

We contributed to various forums professionally dealing with taxes (including the Polish Bank Association). We monitored changes in the practice of application of tax law which could affect tax compliance management at the Bank.

We made sure that the Bank's Tax Strategy was in line with the Bank's sustainability standards and with socially acceptable **ethical values**. In 2018, we appointed an ethics officer to co-create ethical standards for the Bank. We considered violations of ethical rules as fraud which requires analysis on a par with regulatory violations.

The implementation of the Tax Strategy depended on the implementation of the **Business Strategy** to the extent allowed by applicable tax law. The Bank did not engage in transactions and structures based solely or mainly on tax benefits. We treated tax liabilities as one of the effects of economic events. We made efforts to adapt as best we could to economic realities, including the introduction of new fiscal obligations or burdens.

We also guarded **legally protected secrets**. As a rule, we did not disclose information related to the performance of tax obligations. As a public trust institution, we took into account good relations with our stakeholders and the obligations imposed by law. We wanted to demonstrate our approach to transparency also in this Tax Report.

Processes and procedures in the area of taxation

In 2020, the Bank pursued the Tax Strategy with its resources (human, technical, financial) and with appropriate processes and procedures.

We organised the tax risk management roles and tasks in the Bank according to **a model of three lines of defence**. The first line of defence was Business (business lines). Its responsibility was to take tax obligations and tax risks into account when making decisions in relations with customers and partners. The second line of defence was primarily the compliance function and the tax function. The second line of defence was responsible for creating risk management frameworks and guidelines, supporting Business and executing tax payments. The third line of defence was internal audit. Its responsibility was to independently assess the tax risk management activities carried out by the first and second lines of defence.

Tax-related tasks were carried out by all Bank employees. The correct performance of tax obligations was ensured by the commitment and competence of the Bank's staff: their knowledge, skills, experience. The Bank also had in place adequate technical and IT resources. Those not only helped to comply with the requirements of the law but also streamlined the processing of very large amounts of data and reduced the level of risk, among others including tax risk.

Processes and procedures arose from various internal regulations (policies, rules, regulations, circular letters, work procedures). The tax function covered in particular:

- **Tax settlements:** The Bank complied with the rules regarding the payment of income taxes (CIT, PIT), value added tax (VAT), tax on certain financial institutions (bank tax), tax on civil law transactions (PCC), and real estate tax. It followed instructions in the event of inspection activities by tax authorities. Appropriate internal regulations defined the responsibility of the Bank's employees and organisational units for the implementation of tax obligations.
- **Tax risk management:** The Bank managed tax risk. Policies were in place regarding, among others, the circulation of information on tax risks, taking preventive or corrective measures, disclosing or keeping confidential information on tax obligations.
- **Due diligence:** The Bank followed special rules of conduct regarding withholding tax (WHT), including checking the status of beneficial owner and conducting real business activity. With regard to due diligence concerning VAT, the Bank thoroughly checked the data and credibility of counterparties in the KRS or CEIDG database. It monitored whether the counterparties are actively registered for VAT purposes. It checked whether the bank accounts presented in invoices were in the list of VAT payers. It also verified the tax identification numbers of counterparties from the European Union in the VIES system as well as the tax status of such entities. The Bank also attached great importance to transactions using the split payment mechanism.
- **Transfer pricing:** The Bank followed a set of rules on preparing, storing, and making available transfer pricing documentation, i.e., tax documentation concerning transactions concluded by related parties or transactions with entities established in a country in the list of tax havens.
- **Information on tax schemes:** The Bank's employees followed the instructions on the performance of the Bank's obligations to identify and provide information on tax schemes. An analytical team was active at the Bank to which employees reported concerns related to tax schemes.
- **Accounting for foreign branches:** In connection with the operations of the Bank's branches in the Czech Republic and Slovakia, there were specific rules in place concerning, among others, the allocation of assets, liabilities, expenses and income to those branches.

We ensured that our processes and procedures complied with applicable law. We monitored changes in tax law and the practice of its application. The Bank's objective was to duly perform all obligations under the tax law.

Cooperation with tax authorities

In 2020, the Bank **did not participate** in any of the voluntary forms of cooperation with bodies of the National Revenue Administration, among others, the Bank did not enter into a tax cooperation agreement pursuant to Article 20s of the Tax Ordinance Act of 29 August 1997 ("Tax Ordinance").

Fiscal burdens

In 2020, the Bank **performed its tax obligations** in the territory of the Republic of Poland in accordance with tax law. It performed the role of a taxpayer of value added tax (VAT), tax on certain financial institutions (bank tax), tax on civil law transactions (PCC), and real estate tax. It also performed the function of a remitter of corporate income tax (CIT) and personal income tax (PIT). The Bank also performed other duties required by tax law. Those included information, recording, and documentation obligations.

The fiscal burden was heavy in 2020, in particular:

- The Bank paid bank tax in accordance with the Act of 15 January 2016 on tax on certain financial institutions. The tax for the periods from January to December 2020 totalled **PLN 492.8 million** as at the date of the Tax Report;
- The Bank paid VAT in accordance with the Value Added Tax Act of 11 March 2004. The total amount of VAT for the periods from January to December 2020 was **PLN 160.1 million** as at the date of the Tax Report;
- The Bank, as the parent company, paid CIT on behalf of PGK in accordance with the CIT Act. For the year 2020, CIT for PGK, including the Bank, amounted to **PLN 478.0 million** as at the date of the Tax Report;
- The Bank paid a total of **PLN 1,130.9 million** in bank tax, VAT and CIT for 2020. The Bank's pre-tax profit amounted to PLN 573.0 million.

Tax schemes (MDR)

In 2020, the Bank complied with its reporting obligations regarding the reporting of tax schemes. Under the current regulations, tax schemes could relate to arrangements which did not constitute tax avoidance.

In 2020, the Bank provided the Head of the National Revenue Administration with **15 notifications** on tax schemes (MDR-1, MDR-2, MDR-3, and MDR-4). The notifications consisted of information on civil law transaction tax (PCC), personal income tax (PIT), and corporate income tax (CIT).

We were careful not to act as a promoter of tax schemes. However, the Bank may have acted as an supporter of another entity's tax scheme or as a beneficiary of a tax scheme.

Transactions with related parties

In 2020, the Bank **carried out transactions** with related parties within the meaning of Article 11a(1)(4) of the CIT Act, the value of which exceeded 5% of the total of assets within the meaning of accounting regulations, determined on the basis of the last approved financial statements. The Bank's transactions with related parties exceeded in total PLN 8.6 billion (determined in accordance with the Bank's annual report). The value of those transactions was significant due to transactions on financial markets (high-value transactions) and financing transactions.

The Bank remained the parent company of the mBank S.A. Group. The ultimate parent and direct parent of the Bank was Commerzbank AG. As a result, related party transactions also included transactions with entities which were not tax residents of the Republic of Poland.

All transactions between the Bank and related parties were typical and routine transactions. The Bank entered into such transactions on terms that did not differ from market terms. Their nature and terms resulted from the ongoing operational activities conducted by the Bank. We carried them out as part of our normal banking activities (e.g., loans, deposits, and foreign currency transactions).

In 2020, related party transactions included, among others:

- Financial market transactions - standardised purchases/sales of financial instruments on market conditions (e.g., swap, FX swap, purchase/sale of Polish Treasury bills, purchase/sale of greenhouse gas emission allowances);
- Financing transactions typical of the Bank's activities - granting loans, advances, accepting deposits, issuing guarantees, letters of credit, maintaining accounts;
- Purchase of services from related parties (e.g., risk support services, insurance services, financial intermediation services, IT services).

Restructuring activities

In 2020, the Bank **did not undertake and did not plan** any restructuring activities which could affect the amount of tax liabilities of the Bank or related parties within the meaning of Article 11a(1)(4) of the CIT Act. Thus, the Bank did not undertake and did not plan any merger of companies, transformation of a company into another company, contribution to a company in the form of a company's enterprise or its organised part (including as part of a company split), or exchange of shares. We followed the principle that the Bank does not undertake and does not plan restructuring activities whose main or only purpose is to avoid taxation.

With regard to the restructuring measures offered to our clients, including forbearance measures also undertaken during the crisis caused by the COVID-19 pandemic, we presented more information in the Bank's Annual Report: [LINK](#).

Requests to tax authorities

In 2020, we submitted **12 requests** for tax law interpretations referred to in Article 14b of the Tax Ordinance (individual interpretations). We made such requests in justified cases. We considered obtaining such interpretations as one of the preventive measures necessary to correctly pay taxes or limit the risk of non-compliance. Each application for an interpretation was preceded by a thorough analysis of the practice of tax authorities and administrative courts. Our requests were related to the Bank and resulted from significant interpretation doubts.

In 2020, we did not file applications for a general tax interpretation referred to in Article 14a(1) of the Tax Ordinance. We also did not apply for binding tax rate information referred to in Article 42a of the VAT Act of 11 March 2004. We submitted no requests for binding excise tax information referred to in Article 7d(1) of the Excise Tax Act of 6 December 2008.

Tax payments in tax havens

In 2020, the Bank **did not make** tax payments in territories or countries applying harmful tax competition listed in the implementing regulations issued pursuant to Article 11j(2) of the CIT Act and in announcement of the minister responsible for public finance issued pursuant to Article 86a(10) of the Tax Ordinance.

Additional information

The Tax Report is attached to the information on the implemented tax strategy for Podatkowa Grupa Kapitałowa mBank available on the website: <https://www.mbank.pl/o-nas/informacje-wymagane-przepisami-prawa/informacja-o-realizowanej-strategii-podatkowej>.

Read other important documents:

- 1/ *Information on the implemented tax strategy for Podatkowa Grupa Kapitałowa mBank*
- 2/ *Annual report of mBank S.A. Group for 2020*
- 3/ *Annual report of mBank S.A. for 2020*
- 4/ *mBank's sustainability standards.*