mBank S.A. Group

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.

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

SELECTED FINANCIAL DATA

The selected financial data presented below are supplementary information to the condensed consolidated financial statements of mBank S.A. Group for the first half of 2021.

SELECTED FINANCIAL DATA FOR THE GROUP		in PLN ths		in EUR ths	
		Period from 01.01.2021 to 30.06.2021	Period from 01.01.2020 to 30.06.2020 - restated	Period from 01.01.2021 to 30.06.2021	Period from 01.01.2020 to 30.06.2020 - restated
I.	Interest income	2 054 556	2 545 593	451 829	573 164
II.	Fee and commission income	1 292 272	1 079 913	284 191	243 152
III.	Net trading income	106 765	84 350	23 479	18 992
IV.	Operating profit	1 028 813	632 617	226 252	142 440
V.	Profit before income tax	742 827	362 370	163 359	81 591
VI.	Net profit attributable to Owners of mBank S.A.	425 808	177 900	93 642	40 056
VII.	Net profit attributable to non-controlling interests	(41)	(63)	(9)	(14)
VIII.	Net cash flows from operating activities	18 457 170	7 281 168	4 059 019	1 639 423
IX.	Net cash flows from investing activities	(324 982)	(191 566)	(71 469)	(43 133)
X.	Net cash flows from financing activities	(2 062 194)	(1 185 508)	(453 509)	(266 928)
XI.	Total net increase / decrease in cash and cash equivalents	16 069 994	5 904 094	3 534 042	1 329 362
XII.	Basic earnings per share (in PLN/EUR)	10.05	4.20	2.21	0.95
XIII.	Diluted earnings per share (in PLN/EUR)	10.04	4.20	2.21	0.95
XIV.	Declared or paid dividend per share (in PLN/EUR)	-	-	-	-

SELECTED FINANCIAL DATA FOR THE GROUP		in PLN ths		in EUR ths	
		30.06.2021	31.12.2020 - restated	30.06.2021	31.12.2020 - restated
I.	Total assets	198 470 892	178 871 617	43 901 719	38 760 427
II.	Amounts due to other banks	2 820 649	2 399 740	623 927	520 010
III.	Amounts due to customers	156 583 517	137 698 668	34 636 241	29 838 491
IV.	Equity attributable to Owners of mBank S.A.	16 691 714	16 673 133	3 692 204	3 612 970
V.	Non-controlling interests	1 889	1 934	418	419
VI.	Share capital	169 468	169 468	37 486	36 723
VII.	Number of shares	42 367 040	42 367 040	42 367 040	42 367 040
VIII.	Book value per share (in PLN/EUR)	393.98	393.54	87.15	85.28
IX.	Total capital ratio	17.55	19.86	17.55	19.86

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

- for items of the statement of financial position – exchange rate announced by the National Bank of Poland as at 30 June 2021: EUR 1 = 4.5208 PLN, 31 December 2020: EUR 1 = 4.6148 PLN.
- for items of the income statement – exchange rate calculated as the arithmetic mean of exchange rates announced by the National Bank of Poland as at the end of each month of the first half of 2021 and 2020: EUR 1 = 4.5472 PLN and EUR 1 = 4.4413 PLN respectively.

CONTENTS

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

CONDENSED CONSOLIDATED INCOME STATEMENT

	Note	Period from 01.04.2021 to 30.06.2021	Period from 01.01.2021 to 30.06.2021	Period from 01.04.2020 to 30.06.2020	Period from 01.01.2020 to 30.06.2020
Interest income, including:	5	1 035 175	2 054 556	1 210 616	2 545 593
Interest income accounted for using the effective interest method		*917 868*	*1 815 757*	*1 084 924*	*2 313 030*
Income similar to interest on financial assets at fair value through profit or loss		*117 307*	*238 799*	*125 692*	*232 563*
Interest expenses	5	(73 638)	(146 124)	(204 005)	(473 518)
Net interest income		**961 537**	**1 908 432**	**1 006 611**	**2 072 075**
Fee and commission income	6	646 334	1 292 272	535 487	1 079 913
Fee and commission expenses	6	(193 765)	(371 643)	(172 550)	(354 300)
Net fee and commission income		**452 569**	**920 629**	**362 937**	**725 613**
Dividend income	7	3 472	3 912	4 179	4 479
Net trading income	8	43 587	106 765	39 545	84 350
Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss	9	4 594	(6 879)	16 509	(43 706)
Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss	10	2 991	92 115	5 530	2 258
Other operating income	11	53 021	108 008	74 934	116 065
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss	12	(225 324)	(380 984)	(344 115)	(713 914)
Costs of legal risk related to foreign currency loans	3	(248 537)	(314 805)	(188 972)	(201 883)
Overhead costs	13	(467 894)	(1 020 660)	(455 147)	(1 093 960)
Depreciation		(112 336)	(224 227)	(116 362)	(213 872)
Other operating expenses	14	(82 010)	(163 493)	(48 802)	(104 888)
Operating profit		**385 670**	**1 028 813**	**356 847**	**632 617**
Taxes on the Group balance sheet items		(147 165)	(285 986)	(138 417)	(270 247)
Profit before income tax		**238 505**	**742 827**	**218 430**	**362 370**
Income tax expense		(129 831)	(317 060)	(131 499)	(184 533)
Net profit		**108 674**	**425 767**	**86 931**	**177 837**
Net profit attributable to:					
- Owners of mBank S.A.		108 683	425 808	86 983	177 900
- Non-controlling interests		(9)	(41)	(52)	(63)
Net profit attributable to Owners of mBank S.A.	**15**	**108 683**	**425 808**	**86 983**	**177 900**
Weighted average number of ordinary shares	**15**	**42 367 040**	**42 367 040**	**42 350 367**	**42 350 367**
Earnings per share (in PLN)	**15**	**2.57**	**10.05**	**2.05**	**4.20**
Weighted average number of ordinary shares for diluted earnings	**15**	**42 429 506**	**42 429 506**	**42 386 009**	**42 386 009**
Diluted earnings per share (in PLN)	**15**	**2.56**	**10.04**	**2.05**	**4.20**

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

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Period from 01.04.2021 to 30.06.2021	Period from 01.01.2021 to 30.06.2021	Period from 01.04.2020 to 30.06.2020	Period from 01.01.2020 to 30.06.2020
Net profit	**108 674**	**425 767**	**86 931**	**177 837**
Other comprehensive income net of tax, including:	**(165 946)**	**(410 773)**	**238 484**	**577 309**
Items that may be reclassified subsequently to the income statement				
Exchange differences on translation of foreign operations (net)	(207)	357	158	(303)
Cash flows hedges (net)	(91 403)	(251 334)	82 441	367 235
Debt instruments at fair value through other comprehensive income (net)	(85 772)	(171 232)	155 885	210 377
Items that will not be reclassified to the income statement				
Investment properties	11 436	11 436	-	-
Total comprehensive income (net)	**(57 272)**	**14 994**	**325 415**	**755 146**
Total comprehensive income (net), attributable to:				
- Owners of mBank S.A.	(57 263)	15 035	325 467	755 209
- Non-controlling interests	(9)	(41)	(52)	(63)

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

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

ASSETS	Note	30.06.2021	31.12.2020 - restated	01.01.2020 - restated
Cash and balances with the Central Bank		16 523 318	3 968 691	7 897 010
Financial assets held for trading and hedging derivatives	16	3 071 575	2 586 721	2 866 034
Non-trading financial assets mandatorily at fair value through profit or loss, including:	17	1 676 705	1 784 691	2 267 922
Equity instruments	17	*209 502*	*202 304*	*162 616*
Debt securities	17	*82 064*	*76 068*	*133 774*
Loans and advances to customers	17	*1 385 139*	*1 506 319*	*1 971 532*
Financial assets at fair value through other comprehensive income	18	32 046 002	35 498 061	22 773 921
Financial assets at amortised cost, including:	19	139 646 009	130 179 902	118 412 330
Debt securities	19	*15 083 951*	*15 952 501*	*11 234 873*
Loans and advances to banks	19	*9 750 443*	*7 354 268*	*4 341 758*
Loans and advances to customers	19	*114 811 615*	*106 873 133*	*102 835 699*
Fair value changes of the hedged items in portfolio hedge of interest rate risk		161 103	-	-
Non-current assets and disposal groups classified as held for sale		-	-	10 651
Intangible assets	20	1 207 765	1 178 698	955 440
Tangible assets	21	1 553 987	1 514 577	1 262 397
Investment properties		127 510	-	-
Current income tax assets		15 461	23 957	12 662
Deferred income tax assets	25	1 018 246	853 880	937 712
Other assets		1 423 211	1 282 439	956 949
TOTAL ASSETS		**198 470 892**	**178 871 617**	**158 353 028**
LIABILITIES AND EQUITY				
LIABILITIES				
Financial liabilities held for trading and hedging derivatives	22	1 803 770	1 338 564	948 764
Financial liabilities measured at amortised cost, including:		175 007 387	156 673 052	137 763 369
Amounts due to banks	23	*2 820 649*	*2 399 740*	*1 166 871*
Amounts due to customers	23	*156 583 517*	*137 698 668*	*116 661 138*
Debt securities issued		*13 060 997*	*13 996 317*	*17 435 143*
Subordinated liabilities		*2 542 224*	*2 578 327*	*2 500 217*
Fair value changes of the hedged items in portfolio hedge of interest rate risk		33 788	59 624	136
Liabilities included in disposal groups classified as held for sale		-	-	1 315
Provisions	24	562 789	501 691	371 741
Current income tax liabilities		92 239	225 796	161 534
Deferred income tax liabilities	25	87	690	82
Other liabilities		4 277 229	3 397 133	2 952 782
TOTAL LIABILITIES		**181 777 289**	**162 196 550**	**142 199 723**
EQUITY				
Equity attributable to Owners of mBank S.A.		**16 691 714**	**16 673 133**	**16 151 303**
Share capital:		**3 587 035**	**3 587 035**	**3 579 818**
Registered share capital		169 468	169 468	169 401
Share premium		3 417 567	3 417 567	3 410 417
Retained earnings:	26	**12 930 951**	**12 501 597**	**12 394 775**
Profit from the previous years		12 505 143	12 397 766	12 394 775
Profit for the current year		425 808	103 831	-
Other components of equity	27	**173 728**	**584 501**	**176 710**
Non-controlling interests		**1 889**	**1 934**	**2 002**
TOTAL EQUITY		**16 693 603**	**16 675 067**	**16 153 305**
TOTAL LIABILITIES AND EQUITY		**198 470 892**	**178 871 617**	**158 353 028**

Total capital ratio (in %)		**17.55**	**19.86**	**19.46**
Common Equity Tier 1 capital ratio (in %)		**15.18**	**16.99**	**16.51**
Book value		**16 691 714**	**16 673 133**	**16 151 303**
Number of shares		**42 367 040**	**42 367 040**	**42 350 367**
Book value per share (in PLN)		**393.98**	**393.54**	**381.37**

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

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Changes in equity from 1 January to 30 June 2021

	Share capital		Retained earnings		Other components of equity	Equity attributable to Owners of mBank S.A.	Non-controlling interests	Total equity
	Registered share capital	Share premium	Profit from the previous years	Profit for the current year				
Equity as at 1 January 2021	**169 468**	**3 417 567**	**12 501 597**	**-**	**584 501**	**16 673 133**	**1 934**	**16 675 067**
Total comprehensive income	**-**	**-**	**-**	**425 808**	**(410 773)**	**15 035**	**(41)**	**14 994**
Other increase or decrease in equity	-	-	-	-	-	-	(4)	(4)
Stock option program for employees	**-**	**-**	**3 546**	**-**	**-**	**3 546**	**-**	**3 546**
- *value of services provided by the employees*	-	-	*3 546*	-	-	*3 546*	-	*3 546*
- *settlement of exercised options*	-	-	-	-	-	-	-	-
Equity as at 30 June 2021	**169 468**	**3 417 567**	**12 505 143**	**425 808**	**173 728**	**16 691 714**	**1 889**	**16 693 603**

Changes in equity from 1 January to 31 December 2020

	Share capital		Retained earnings		Other components of equity	Equity attributable to Owners of mBank S.A.	Non-controlling interests	Total equity
	Registered share capital	Share premium	Profit from the previous years	Profit for the current year				
Equity as at 1 January 2020	**169 401**	**3 410 417**	**12 394 775**	**-**	**176 710**	**16 151 303**	**2 002**	**16 153 305**
Total comprehensive income	**-**	**-**	**-**	**103 831**	**407 791**	**511 622**	**(74)**	**511 548**
Issuance of ordinary shares	67	-	-	-	-	67	-	67
Other increase or decrease in equity	-	-	(18)	-	-	(18)	6	(12)
Stock option program for employees	**-**	**7 150**	**3 009**	**-**	**-**	**10 159**	**-**	**10 159**
- *value of services provided by the employees*	-	-	*10 159*	-	-	*10 159*	-	*10 159*
- *settlement of exercised options*	-	*7 150*	*(7 150)*	-	-	-	-	-
Equity as at 31 December 2020	**169 468**	**3 417 567**	**12 397 766**	**103 831**	**584 501**	**16 673 133**	**1 934**	**16 675 067**

Changes in equity from 1 January to 30 June 2020

	Share capital		Retained earnings		Other components of equity	Equity attributable to Owners of mBank S.A.	Non-controlling interests	Total equity
	Registered share capital	Share premium	Profit from the previous years	Profit for the current year				
Equity as at 1 January 2020	**169 401**	**3 410 417**	**12 394 775**	**-**	**176 710**	**16 151 303**	**2 002**	**16 153 305**
Total comprehensive income	**-**	**-**	**-**	**177 900**	**577 309**	**755 209**	**(63)**	**755 146**
Other increase or decrease in equity	-	-	26	-	-	26	6	32
Stock option program for employees	**-**	**-**	**4 246**	**-**	**-**	**4 246**	**-**	**4 246**
- *value of services provided by the employees*	-	-	*4 246*	-	-	*4 246*	-	*4 246*
- *settlement of exercised options*	-	-	-	-	-	-	-	-
Equity as at 30 June 2020	**169 401**	**3 410 417**	**12 399 047**	**177 900**	**754 019**	**16 910 784**	**1 945**	**16 912 729**

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

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Period from 01.01.2021 to 30.06.2021	Period from 01.01.2020 to 30.06.2020 - restated
Profit before income tax	**742 827**	**362 370**
Adjustments:	***17 714 343***	***6 918 798***
Income taxes paid	(457 082)	(203 328)
Depreciation, including depreciation of fixed assets provided under operating lease	242 831	234 567
Foreign exchange (gains) losses related to financing activities	(368 124)	421 141
(Gains) losses on investing activities	(187)	(4 018)
Dividends received	(3 912)	(4 479)
Interest income (income statement)	(2 054 556)	(2 545 593)
Interest expense (income statement)	146 124	473 518
Interest received	2 091 635	2 715 350
Interest paid	(124 452)	(521 009)
Changes in loans and advances to banks	1 103 634	73 702
Changes in financial assets and liabilities held for trading and hedging derivatives	(507 313)	(50 607)
Changes in loans and advances to customers	(7 762 383)	(3 251 372)
Changes in financial assets at fair value through other comprehensive income	3 156 836	(12 727 400)
Changes in securities at amortised cost	844 270	(1 315 767)
Changes of non-trading equity securities mandatorily at fair value through profit or loss	(7 474)	(7 680)
Changes in other assets	(103 823)	(347 856)
Changes in amounts due to banks	431 482	834 625
Changes in amounts due to customers	20 101 720	22 966 629
Changes in issued debt securities	(110 699)	(203 734)
Changes in provisions	61 098	31 492
Changes in other liabilities	1 034 718	350 617
A. Cash flows from operating activities	**18 457 170**	**7 281 168**
Disposal of shares in subsidiaries, net of cash disposed	4 280	-
Disposal of intangible assets and tangible fixed assets	39 839	45 618
Dividends received	3 912	4 479
Acquisition of shares in subsidiaries	(10 000)	-
Purchase of intangible assets and tangible fixed assets	(363 013)	(241 663)
B. Cash flows from investing activities	**(324 982)**	**(191 566)**
Proceeds from issue of debt securities	598 949	95 000
Repayments of other loans and advances	(1 358 250)	-
Redemption of debt securities	(1 227 210)	(1 179 973)
Payments of lease liabilities	(47 382)	(56 984)
Interest paid from loans and advances received from banks and from subordinated liabilities	(28 301)	(43 551)
C. Cash flows from financing activities	**(2 062 194)**	**(1 185 508)**
Net increase / decrease in cash and cash equivalents (A+B+C)	**16 069 994**	**5 904 094**
Effects of exchange rate changes on cash and cash equivalents	8 958	22 640
Cash and cash equivalents at the beginning of the reporting period	4 249 046	8 279 388
Cash and cash equivalents at the end of the reporting period	**20 327 998**	**14 206 122**

EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

The head office of the Bank is located at 18 Prosta St., Warsaw. Until 19 November 2020, the head office of the Bank was at 18 Senatorska St., Warsaw.

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

As at 30 June 2021, mBank S.A. Group covered by the Consolidated Financial Statements comprised the following companies:

mBank S.A. – the parent entity

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

On 22 November 2013, the District Court for the Capital City of Warsaw, 12th Commercial Division of the National Court Register, registered the amendments to the Bank's by-laws arising from Resolutions No 26 and Resolutions No 27 of the 26th Annual General Meeting of mBank S.A., which was held on 11 April 2013. With the registration of changes in company by-laws, the name of the Bank has changed from BRE Bank Spółka Akcyjna on mBank Spółka Akcyjna (abbreviated mBank S.A.).

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

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

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

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

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

As at 30 June 2021 the headcount of mBank S.A. amounted to 5 983 FTEs (Full Time Equivalents) and of the Group to 6 641 FTEs (30 June 2020: Bank 6 114 FTEs, Group 6 827 FTEs).

As at 30 June 2021 the employment in mBank S.A. was 7 003 persons and in the Group 9 291 persons (30 June 2020: Bank 7 151 persons, Group 9 477 persons).

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

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

Retail Banking

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

Corporate and Investment Banking

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

Treasury and Other

- mBank Hipoteczny S.A. – subsidiary (with regard to activities concerning funding)
- mLeasing Sp. z o.o. – subsidiary (with regard to activities concerning funding)
- Future Tech Fundusz Inwestycyjny Zamknięty – subsidiary

Other information concerning companies of the Group

As of December 2020, the consolidation of mFinance France S.A. was discontinued. The business activities of the company was conducted in the bussines segment "Treasury and Other". Discontinuation of consolidation resulted from the substitution described in detail in Note 28 of Consolidated financial statement of mBank Group S.A., published on 25 February 2021. In November 2020, the liquidation of the company began. On 22 April 2021, the Ordinary General Shareholders' Meeting of the subsidiary decided to end the liquidation of the subsidiary on 22 April 2021 and thus to submit an application for the removal of the subsidiary from the French register of enterprises.

On 16 December 2020, mBank S.A. and Archicom Polska S.A. signed a share sale agreement, under which mBank sold 100% of shares in the share capital of BDH Development Sp. z o.o. The business activities of the company was presented in the business segment "Treasury and Other". The sale transaction was described in Note 24 of Consolidated financial statement of mBank Group S.A., published on 25 February 2021.

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

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

Company	30.06.2021		31.12.2020		30.06.2020	
	Share in voting rights (directly and indirectly)	Consolidation method	Share in voting rights (directly and indirectly)	Consolidation method	Share in voting rights (directly and indirectly)	Consolidation method
mBank Hipoteczny S.A.	100%	full	100%	full	100%	full
mLeasing Sp. z o.o.	100%	full	100%	full	100%	full
mFinanse S.A.	100%	full	100%	full	100%	full
mFaktoring S.A.	100%	full	100%	full	100%	full
Future Tech Fundusz Inwestycyjny Zamknięty	98.04%	full	98.04%	full	98.04%	full
Tele-Tech Investment Sp. z o.o.	100%	full	100%	full	100%	full
G-Invest Sp. z o.o. (previously Garbary Sp. z o.o.)	100%	full	100%	full	100%	full
Asekum Sp. z o.o.	100%	full	100%	full	100%	full
LeaseLink Sp. z o.o.	100%	full	100%	full	100%	full
mElements S.A.	100%	full	100%	full	100%	full
mFinance France S.A.	-	-	99.998%	-	99.998%	full
BDH Development Sp. z o.o.	-	-	-	-	100%	full

The Management Board of mBank S.A. approved these condensed consolidated financial statements for issue on 2 August 2021.

2. Description of relevant accounting policies

Accounting basis

The Condensed Consolidated Financial Statements of mBank S.A. Group have been prepared for the 6-month period ended 30 June 2021. Comparative data include the period from 1 January 2020 to 30 June 2020 for the condensed consolidated income statement, condensed consolidated statement of comprehensive income, the condensed consolidated statement of cash flows and condensed consolidated statement of changes in equity, additionally for the period from 1 January to 31 December 2020 for the condensed consolidated statement of changes in equity, and in the case of the condensed consolidated statement of financial position, data as at 31 December 2020.

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

The data for the year 2020 before the restatement, described further in the section "Comparative data", presented in these mBank S.A. Group condensed consolidated financial statements was audited by the auditor.

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

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

These condensed consolidated financial statements were prepared under the assumption that all the entities of the Group continues as a going concern in the foreseeable future, i.e. in the period of at least 12 months following the reporting date. As of the date of approving these statements, the Bank Management Board has not identified any events that could indicate that the continuation of the operations by the Group is endangered in the period of 12 months from the reporting date.

Detailed accounting principles applied to the preparation of these condensed consolidated financial statements are presented in Note 2 to the Consolidated Financial Statements of mBank S.A. Group for 2020, published on 25 February 2021. These principles were applied consistently over all presented periods, except for the new accounting policy regarding the investment properties and change in accounting policies described below.

Investment properties are defined as land and buildings held for the purpose of earning rental income or because they are expected to increase in value. On initial recognition investment properties are measured at cost including directly attributable transaction costs. In subsequent measurements, investment properties are measured at fair value. Current income and expenses are recognised in other operating income or expenses. Remeasurement changes arising from changes in fair value are also shown under other operating income or expenses in the income statement for the period. As at the date of reclassification of the property occupied by the Group to investment property, the difference between the carrying amount of the property determined in accordance with IAS 16 or IFRS 16 and its fair value is recognized by the Group (i) in the profit or loss account in the event of a decrease in the carrying amount or reversal of a previously recognised impairment loss on this property, or (ii) in other comprehensive income, in the event of an increase in the current value above the amount of the reversed impairment loss. On subsequent disposal of the investment property, the revaluation reserve in other comprehensive income is transferred to retained earnings. The transfer from other comprehensive income to retained earnings is not made through the income statement.

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

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

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.

Comparative data

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

Starting from 2021, the Group changed the accounting policy for recognizing the impact of the legal risk related to individual court cases concerning indexation clauses in mortgage and housing loans in CHF. Until the end of 2020 the Group recognized provisions for legal proceedings in accordance with IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" in relation to both active and repaid loans. In view of changes in conditions, such as the growing number of court cases and the predominantly unfavorable court judgments stating the invalidity of the contract in whole or certain provisions thereof the Group expects that it will not obtain the full amount of contractual cash flow. Therefore in relation to active loans the Group revised its estimates of cash flows and ajusted the gross carrying amount of those loans in accordance with IFRS 9 "Financial Instruments" paragraph B5.4.6. as the change in expected cash flows is not related to credit risk and therefore is not recognised as expected credit losses. The comparative data as at 1 January 2020, 30 June 2020 and 31 December 2020 and for the period from 1 January to 30 June 2020 have been restated accordingly. The recognition of the impact of legal risk related to repaid loans remained unchanged.

- Cash equivalents

Since the end of 2020, the Group adjusted the classification of financial assets into cash equivalents. Previously, under cash equivalents, the Bank incorrectly disclosed debt securities issued by the State Treasury held for trading with maturity over 3 months at acquisition date. Since the end of 2020, the Group has also changed the accounting principles governing the classification of financial assets into cash equivalents and any debt securities issued by the State Treasury held for trading are not presented as cash equivalents. The change was caused by adjusting the presentation of cash equivalents to the prevailing market practice. The comparative data for the period from 1 January to 31 June 2020 has been restated accordingly.

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

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

Restatements in consolidated statement of financial position at 1 January 2020

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

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

Restatements in consolidated statement of financial position at 30 June 2020

ASSETS	30.06.2020 before restatement	restatement	30.06.2020 after restatement
Financial assets at amortised cost, including:	126 393 560	(547 100)	125 846 460
Debt securities	*12 551 206*	-	*12 551 206*
Loans and advances to banks	*6 921 359*	-	*6 921 359*
Loans and advances to customers	*106 920 995*	*(547 100)*	*106 373 895*
Other assets	56 549 241	-	56 549 241
TOTAL ASSETS	**182 942 801**	**(547 100)**	**182 395 701**

LIABILITIES AND EQUITY	30.06.2020 before restatement	restatement	30.06.2020 after restatement
Provisions	950 333	(547 100)	403 233
Other liabilities	165 079 739	-	165 079 739
TOTAL LIABILITIES	**166 030 072**	**(547 100)**	**165 482 972**
TOTAL EQUITY	**16 912 729**	**-**	**16 912 729**
TOTAL LIABILITIES AND EQUITY	**182 942 801**	**(547 100)**	**182 395 701**

Restatements in consolidated statement of financial position at 31 December 2020

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

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

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

Restatements in consolidated statement of cash flows for the period from 1 January to 30 June 2020

	Period from 01.01.2020 to 30.06.2020 before restatement	restatement	Period from 01.01.2020 to 30.06.2020 after restatement
Profit before income tax	**362 370**	**-**	**362 370**
Adjustments, including:	***7 051 377***	***(132 579)***	***6 918 798***
Changes in financial assets and liabilities held for trading and hedging derivatives	81 972	(132 579)	(50 607)
Changes in loans and advances to customers	(3 430 917)	179 545	(3 251 372)
Changes in provisions	211 037	(179 545)	31 492
Other adjustments	10 189 285	-	10 189 285
A. Cash flows from operating activities	**7 413 747**	**(132 579)**	**7 281 168**
B. Cash flows from investing activities	**(191 566)**	**-**	**(191 566)**
C. Cash flows from financing activities	**(1 185 508)**	**-**	**(1 185 508)**
Net increase / decrease in cash and cash equivalents (A+B+C)	**6 036 673**	**(132 579)**	**5 904 094**
Effects of exchange rate changes on cash and cash equivalents	22 640	-	22 640
Cash and cash equivalents at the beginning of the reporting period	9 609 929	(1 330 541)	8 279 388
Cash and cash equivalents at the end of the reporting period	**15 669 242**	**(1 463 120)**	**14 206 122**

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

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

Legal risk related to individual court cases concerning indexation clauses in mortgage and housing loans in CHF

The Group closely observes the developments in courts verdicts in legal proceedings regarding mortgage and housing loans in CHF, including impact of the Court of Justice of the European Union (CJEU) and Supreme Court judgments as well as analyses the PFSA's Chairman proposal, what was described in details in the Note 26.

The impact of the legal risk related to individual court cases concerning indexation clauses in mortgage and housing loans in CHF is reflected as decrease of gross carrying amount of loans recognised under IFRS 9 "Financial Instruments" paragraph B5.4.6 in relation to active loans and as provisions under IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" in relation to repaid loans (hereinafter collectively referred to as "the impact of the legal risk"). Starting from 2021, the Group changed the accounting policy for recognizing the impact of the legal risk related to individual court cases concerning indexation clauses in mortgage and housing loans in CHF. Until the end of 2020 the Group recognized provisions for legal proceedings in accordance with IAS 37 in relation to both active and repaid loans. In view of changes in conditions, such as the growing number of court cases and the predominantly unfavorable court judgments stating the invalidity of the contract in whole or certain provisions thereof the Group expects that it will not obtain the full amount of contractual cash flow. Therefore in relation to active loans the Group has decided that the more appropriate way to recognize this legal risk is to revise its estimates of cash flows and adjusted the gross carrying amount of those loans in accordance with IFRS 9 paragraph B5.4.6. as the change in expected cash flows is not related to credit risk and therefore is not recognised as expected credit losses. The recognition of impact of legal risk related to repaid loans remained unchanged.

As of 30 June 2021 the cummulative impact of the legal risk amounted to PLN 1 688 957 thousand (as of 31 December 2020: PLN 1 426 563 thousand), of which PLN 1 468 469 thousand decreased the gross carrying amount of loans by adjusting the expected cash flows from these assets and PLN 220 488 thousand was included in the item "Provisions for legal proceedings" (31 December 2020: PLN 1 264 677 thousand and PLN 161 886 thousand, respectively). Total costs of legal risk related to foreign currency loans recognised in the income statement for the first half of 2021 amounted to PLN 314 805 thousand (first half of 2020: PLN 201 883 thousand).

The methodology of calculation of the impact of the legal risk applied by the Bank depends on numerous assumptions that take into account historical data adjusted with the Bank's expectations regarding the future and associated with significant degree of expert judgement. The most important assumptions are: an expected population of borrowers who will file a lawsuit against the Bank, the probability of losing the case having final and binding judgement, the distribution of expected verdicts judged by the courts and the loss to be incurred by the Bank in case of a losing the case in court.

The increase of the impact of the legal risk in the first half of 2021 resulted mainly from (i) higher than expected inflow of cases in the first half of 2021 (ii) changes in level of loss on loan exposure in case of losing the case by the Bank. The Bank believes that since the current line of jurisprudence in CHF cases is inconsistent, the probability of losing court cases must, to a large extent, be based on professional judgement supported by external legal opinion until Polish Supreme Court and the CJEU address all the legal uncertainties (in particular, whether abusive provisions can be replaced with other provisions, whether the theory of balance or the theory of two conditionalities will apply, what is a limitation period for parties' claims and whether banks may receive a compensation for usage of the principal granted).

The population of borrowers who will file a lawsuit against the Bank has been projected over the remaining life of the portfolio based on the Bank's history of legal cases in the past and assumes a further inflow of new cases. The Bank assumes that inflow of plaintiffs will be significant in the next 5 years. The Bank assumes that vast majority of the projected cases will be filed until the end of 2022, and then their number will decrease following the expected clarification of the legal environment.

For the purpose of calculating the impact of legal risk mBank assumes that approximately 22% of FX borrowers (i.e. 18.6 thousand borrowers with both, active and repaid loans) filed or will file a lawsuit against the Bank. The Bank observes that clients with higher loan amounts were the first ones to file the claims (22% of customers represent 29% of the total CHF loan portfolio, both active and repaid), and therefore that average ticket of the suing population will be decreasing over time. The assumption, due to significant legal uncertainties surrounding CHF cases as well as other external factors that may shape clients preferences to file the lawsuits, is highly judgmental and may be a subject to an adjustment in future. Compared to the assumptions for the end of 2020, in the second quarter of 2021 the Bank increased the assumed number of court cases by 18.9%. This was due to an increase in the forecast of lawsuits that the Bank estimates will be filed with the Bank in the future, and greater than expected number of lawsuits that were filed with the Bank. If an additional 1% of the borrowers (both holding active loans in CHF as well as borrowers who already repaid their loans in CHF) filed a lawsuit against the Bank, the impact of the legal risk would increase by approximately PLN 57.8 million (while other relevant assumptions remain constant) as compared to 30 June 2021, of which PLN 39.6 million would reduce gross carrying amount of the loans, and PLN 18.2 million would increase the "Provisions for legal proceedings".

The probability of losing in court has been calculated taking into account, among others, data from the Bank's history of final and binding positive and negative verdicts. As of 30 June 2021 mBank received 229 final rulings in individual lawsuits (31 December 2020: 173 final rulings), out of which 79 rulings were favourable to the Bank and 150 rulings were unfavourable (31 December 2020: 70 rulings favourable and 103 unfavourable).

At the same time 367 proceedings (as of 30 June 2021) at the second instance courts have remained suspended due to the legal issues referred to the Supreme Court and the CJEU. The Bank submits cassation appeals to the Supreme Court against legally binding judgments unfavorable for the Bank. Unfavorable judgments were issued based on the same patterns of facts which resulted in different verdicts. Approximately 54% of unfavourable verdicts led to the invalidation of the loan agreement, others led to the conversion of the agreement into PLN + LIBOR / WIBOR.

Since, in the opinion of the Bank, the number of final verdicts is not statistically representative (too few binding verdicts have been issued by courts in cases related to mBank) the assumption of probability of losing in court takes also into account expert judgements of the Bank supported by legal opinion about the future trends in the court verdicts as well as upcoming verdicts of the Supreme Court and CJEU. As of 30 June 2021 the Bank assumes probability of losing in court at the level of 50%, basing on its own judgement supported by the external legal opinion. If the assumed probability of losing in court changed by +/- 1 percentage point and all other relevant assumptions remained constant, the impact of the legal risk would change by +/- PLN 32.6 million, of which PLN 29.3 million would change gross carrying amount of the loans, and PLN 3.3 million would change the "Provisions for legal proceedings".

The projected loss rate was calculated using the probabilities of different verdicts that may be issued. As currently there is still no homogenous line of verdicts taken by the courts the Bank took into account three possible losing scenarios: (i) the contract remains valid but the indexation mechanism is eliminated, which transforms a loan indexed to CHF into a PLN loan subject to the interest rate of the loan indexed to CHF, (ii) the contract is invalid in whole because deleting the exchange rate clause would be too far-reaching change (based on assumption that this clause defines the main subject matter of the contract), and (iii) the contract remains a mortgage indexed to CHF, but the FX clause is substituted by the fixing rate of the NBP. Under scenario (ii), the Bank takes into account two versions of the invalidity, assuming that the parties settle accounts in a formula similar to the settlement on a net basis. The first version assumes that the consumer is obliged to return the disbursed capital together with the remuneration for using it, and the second assumes that the consumer is only obliged to return the capital without remuneration. Each of these scenarios is associated with a different level of predicted losses for the Bank. The Bank calculated the average level of loss weighted with the probabilities of occurrence of the given scenario in case of negative final and binding judgement, with invalidity scenario assumed to be most probable. The probabilities of those scenarios applied by the Bank has been based on the assessment of the Bank consulted with the legal advisor.

If the assumed weighted average loss changed by +/- 1 percentage point and all other relevant assumptions remained constant the impact of the legal risk would change by +/- PLN 27.5 million, of which PLN 24.7 million would change gross carrying amount of the loans, and PLN 2.8 million would change the "Provisions for legal proceedings".

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

As at the date of approval these consolidated financial statements the Bank has not made any decisions on offering settlements according to the PFSA's Chairman proposal nor has taken any steps to acquire any corporate consents in that matter. It will be a subject of further analysis and discussions with financial authorities. The PFSA's proposal has not been taken into consideration when calculating the impact of the legal risk.

More information on individual court proceedings concerning indexation clauses in mortgage and housing loans in CHF is presented in the Note 26.

Impairment of loans and advances

The Group reviews its loan portfolio in terms of possible impairments at least once per quarter. In order to determine whether any impairment loss should be recognised in the income statement, the Group assesses whether any evidence exists that would indicate some measurable reduction of estimated future cash flows attached to the loan portfolio. The methodology and the assumptions, on the basis of which the estimated cash flow amounts and their anticipated timing are determined, are regularly verified. If the current value of estimated cash flows (discounted recoveries from payments of capital, discounted recoveries from interests, discounted recoveries from off-balance sheet liabilities and discounted recoveries from collaterals for on-balance and off-balance sheet loans and advances, weighed by the probability of realization of specific scenarios) for portfolio of loans and advances which are impaired, change by +/- 10%, the estimated loans and advances impairment would either decrease by PLN 63.2 million or increase by PLN 72.2 million as at 30 June 2021, respectively (as at 31 December 2020: PLN 57.6 million and PLN 64.2 million, respectively). This estimation was performed for portfolio of loans and advances and for off-balance sheet liabilities individually assessed for impairment on the basis of future cash flows due to repayments and recovery from collateral – Stage 3. The rules of determining write-downs and provisions for impairment of credit exposures have been described under Note 3.3.6 to the Consolidated Financial Statements of mBank S.A. Group for 2020, published on 25 February 2021.

The Group is planning to introduce dedicated model for specialized lending portfolio for mBank and mLeasing in the third quarter of 2021. The estimated impact of the model implementation on the expected credit loss is increase of PLN 101 million. Main part of the impact is a result of change in staging structure of this portfolio (increase of Stage 2 share), due to pandemic situation. The Group decided to include this effect in the income statement in the first half of 2021.

Impact of the New Definition of Default on Group`s operation

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

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

The 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, Investment and Development of 3 October 3 2019;
- guidelines on forced restructuring. The materiality threshold from which the Group considers a reduced financial liability to be defaulted is 1%. Group adopted adequate mechanisms in order to ensure that all exposures classified as forborne non-performing are classified as default and subject to distressed restructuring; any concession extended to an obligor already in default, lead to classify the obligor as a distressed restructuring;

- introducing a quarantine (trial period), the time during which the Group assesses the behavior and financial situation of the debtor;
- consistent application of the definition of default - the EBA guidelines oblige institutions to implement appropriate processes ensuring that the default of one obligor is consistently identified across the entire capital group; in order to meet the above requirement within the Group, for the retail portfolio an automatic system to the daily process of exchanging information on the default status has been implemented within the companies of the capital group. In terms of the corporate and investment banking portfolio, the already existing process has been optimized, so that information can be exchanged on a weekly basis;
- detailed rules for the treatment of joint credit obligations - the Group uses the definition of default at the level of the obligor in the retail area, therefore it is obliged to apply the rules of paragraphs 95-105 EBA guidelines, on the basis of which it defined in its internal rules and procedures the rules for the treatment of joint credit obligations and for the transfer of default status between exposures.

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

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

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

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

The impact of the implementation of the EBA/GL/2016/07 guidelines on the costs of credit risk, recognized by the Group in the profit and loss in the first half of 2021 amounted to PLN 37.8 million.

Group estimates that in following reporting periods the introduced changes will not have a material effect on the burden on the financial result.

COVID-19 pandemic impact on the mBank Group activities

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

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

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

The COVID-19 moratoria in Poland covered supporting instruments granted from 13 March 2020 to 30 September 2020 and afterwards – from 18 January 2021 to 31 March 2021 – supporting instruments dedicated to businesses representing crafts which suffered most due to COVID-19 pandemic.

The COVID-19 moratoria in Czech Republic covered supporting instruments granted from 1 April 2020 to 31 October 2020 and in Slovakia from 1 April 2020 to 31 March 2021. In the second quarter of the year 2021 no new moratoria programs have been announced.

The moratorium reopened in Poland in January 2021 and in Retail Banking area was offered by the Group for SME operating in crafts especially hit by pandemic, mentioned in PFR Financial Shield 2.0. program regulations. It enabled changes in the schedule of payments by suspending the payments of principal amounts or full instalments for the limited period up to 9 months, including the moratorium periods granted in 2020, with the possibility of extending the loan period by the duration of the moratorium. Examination of applications that meet the conditions set by the moratorium took place in a simplified process, i.e. without the verification of the client's repayment ability. The application process was supported by the mechanism of automated verification of boundary conditions (i.a. industry registration, no delay in payment of more than one instalment, at least 6-month repayment history, contract date before 13 March 2020).

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

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

The Group in Poland also offers to retail clients support under so-called Crisis Shield 4.0, effective from 23 June 2020. The customers who lost their job or another major source of income after 13 March 2020, have the right to suspend the loan repayment for up to 3 months without charging interest during the period of suspension of the agreement. This assistance tool is considered as a legislative moratorium within the meaning of the EBA guidelines. The scale of applications submitted for this form of assistance is still not significant. From 1 January 2021 till 30 June 2021 the moratorium was granted to 100 borrowers. The gross accounting amount of these loans and advances under moratorium as of 30 June 2021 amounted to PLN 19.2 million.

The moratorium offered by the Group in Corporate Banking area, was based on EBA reactivated guidelines on legislative and non-legislative moratoria on loan repayments applied due to another wave of COVID-19 pandemic. This regulation was renewed by EBA on 2 December 2020. In spite of EBA actions, Polish Bank Association (ZBP) decided to resume the non-legislative moratorium and offered supporting instruments from 18 January to 31 March 2021. The renewed moratorium was notified by the EBA through UKNF (the Polish Financial Supervision Authority), but it's scale is significantly reduced than that of the first moratorium. Till the end of June 2021 the Bank submitted the support to 4 clients. The gross accounting amount of these loans and advances amounted to PLN 156 million.

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

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

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

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

Number of obligors subject to assistance tools in Poland in the period 13.03.2020 – 30.06.2021	
Moratoria	63 706
Government guarantees (BGK)	83

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

Value of the loans in Poland with assistance tools granted in the period 13.03.2020 – 30.06.2021	30.06.2021				
	Gross carrying amount	of which: gross carrying amount of contracts with expired moratoria	of which: gross carrying amount of contracts with active moratoria	Accumulated impairment, accumulated negative changes in fair value due to credit risk – active moratoria	Net carrying amount risk – active moratoria
Moratoria	**13 189 706**	**12 620 941**	**568 765**	**(52 841)**	**515 924**
- Individual customers	5 932 194	5 928 363	3 831	(692)	3 139
- Corporate customers	7 257 512	6 692 578	564 934	(52 149)	512 785
Government guarantees (BGK)	**715 677**	**-**	**715 677**	**(4 345)**	**711 332**
- Individual customers	-	-	-	-	-
- Corporate customers	715 677	-	715 677	(4 345)	711 332

The tables below present information on total assistance tools in Poland broken down into active help and expired help at the date of 30 June 2021.

a) active assistance tools as of 30 June 2021

Active assistance tools in Poland as of 30.06.2021, granted in the period 13.03.2020 – 30.06.2021	Performing				
	Gross carrying amount	Of which: exposures with forbearance measures	Of which: grace period of capital and interest	Of which: instruments with significant increase in credit risk since initial recognition but not credit-impaired (Stage 2)	Accumulated impairment
Moratoria	**233 709**	**4 766**	**6 489**	**185 925**	**(17 152)**
- Individual customers	1 654	126	1 654	1 561	(23)
- Corporate customers	232 055	4 640	4 835	184 364	(17 129)
Government guarantees (BGK)	**715 677**	**4 215**	**-**	**293 687**	**(4 345)**
- Individual customers	-	-	-	-	-
- Corporate customers	715 677	4 215	-	293 687	(4 345)

Active assistance tools in Poland as of 30.06.2021, granted in the period 13.03.2020 – 30.06.2021	Gross carrying amount	Non-performing			Gross carrying amount – Inflows to non-performing exposures
		Of which: exposures with forbearance measures	Of which: unlikely to pay that are not past-due or past-due <= 90 days	Accumulated impairment	
Moratoria	**335 056**	**449**	**-**	**(35 689)**	**2 076**
- Individual customers	2 177	441	-	(669)	2 014
- Corporate customers	332 879	8	-	(35 020)	62
Government guarantees (BGK)	**-**	**-**	**-**	**-**	**-**
- Individual customers	-	-	-	-	-
- Corporate customers	-	-	-	-	-

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

b) expired assistance tools as of 30 June 2021

Expired assistance tools in Poland as of 30.06.2021, granted in the period 13.03.2020 – 30.06.2021	**Performing**				
	Gross carrying amount	of which: exposures with forbearance measures	of which: instruments with significant increase in credit risk since initial recognition but not credit-impaired (Stage 2)	**Accumulated impairment**	of which: instruments with significant increase in credit risk since initial recognition but not credit-impaired (Stage 2)
Moratoria	**12 313 295**	**131 564**	**2 324 225**	**(139 068)**	**(106 088)**
- Individual customers	5 780 915	53 740	448 805	(42 760)	(28 194)
- Corporate customers	6 532 380	77 824	1 875 420	(96 308)	(77 894)
Government guarantees (BGK)	**-**	**-**	**-**	**-**	**-**
- Individual customers	-	-	-	-	-
- Corporate customers	-	-	-	-	-

Expired assistance tools in Poland as of 30.06.2021, granted in the period 13.03.2020 – 30.06.2021	**Non-performing**				
	Gross carrying amount	of which: exposures with forbearance measures	of which: unlikely to pay that are not past-due or past-due <= 90 days	**Accumulated impairment**	**Gross carrying amount – Inflows to non-performing exposures**
Moratoria	**307 646**	**29 577**	**23 251**	**(104 499)**	**55 035**
- Individual customers	147 448	6 383	4 838	(69 893)	45 053
- Corporate customers	160 198	23 194	18 413	(34 606)	9 982
Government guarantees (BGK)	**-**	**-**	**-**	**-**	**-**
- Individual customers	-	-	-	-	-
- Corporate customers	-	-	-	-	-

The tables below present information on total assistance tools, in Czech Republic and Slovakia, broken down into active help and expired help at the date of 30 June 2021.

Number of obligors subject to assistance tools in Czech Republic and Slovakia in the period 01.04.2020 – 30.06.2021	
Moratoria	6 563

Value of the loans in Czech Republic and Slovakia with assistance tools granted in the period 01.04.2020 – 30.06.2021	**30.06.2021**				
	Gross carrying amount	of which: gross carrying amount of contracts with expired moratoria	of which: gross carrying amount of contracts with active moratoria	**Accumulated impairment, accumulated negative changes in fair value due to credit risk – active moratoria**	**Net carrying amount risk – active moratoria**
Moratoria	**470 625**	**456 872**	**13 753**	**(88)**	**13 665**
- Individual customers	470 625	456 872	13 753	(88)	13 665
- Corporate customers	-	-	-	-	-

a) active assistance tools as of 30 June 2021

Active assistance tools in Czech Republic and Slovakia as of 30.06.2021, granted in the period 01.04.2020 – 30.06.2021	**Performing**				
	Gross carrying amount	of which: exposures with forbearance measures	of which: grace period of capital and interest	of which: instruments with significant increase in credit risk since initial recognition but not credit-impaired (Stage 2)	**Accumulated impairment**
Moratoria	**13 753**	**-**	**13 753**	**678**	**(88)**
- Individual customers	13 753	-	13 753	678	(88)
- Corporate customers	-	-	-	-	-

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

All loans subject to active COVID-19 assistance tools, in Czech Republic and Slovakia, were classified to the category of 'performing loans' as of 30 June 2021.

b) expired assistance tools as of 30 June 2021

Expired assistance tools in Czech Republic and Slovakia as of 30.06.2021, granted in the period 01.04.2020 – 30.06.2021	Performing				
	Gross carrying amount	of which: exposures with forbearance measures	of which: instruments with significant increase in credit risk since initial recognition but not credit-impaired (Stage 2)	Accumulated impairment	of which: instruments with significant increase in credit risk since initial recognition but not credit-impaired (Stage 2)
Moratoria	**448 487**	**51 098**	**25 051**	**(2 533)**	**(1 454)**
- Individual customers	448 487	51 098	25 051	(2 533)	(1 454)
- Corporate customers	-	-	-	-	-

Expired assistance tools in Czech Republic and Slovakia as of 30.06.2021, granted in the period 01.04.2020 – 30.06.2021	Non-performing				
	Gross carrying amount	of which: exposures with forbearance measures	of which: unlikely to pay that are not past-due or past-due <= 90 days	Accumulated impairment	Gross carrying amount – Inflows to non-performing exposures
Moratoria	**8 385**	**1 078**	**1 330**	**(4 045)**	**-**
- Individual customers	8 385	1 078	1 330	(4 045)	-
- Corporate customers	-	-	-	-	-

In Poland, in the Czech Republic and in Slovakia, vast majority of loans subject to COVID-19 repayment moratoria, benefited only from the suspension of the principal repayments (it accounted for about 92% of the total exposure covered by the moratoria, value recorded on 30 June 2021). Consequently the customers are still obligated to make repayments but in a lower amount. The delay in the interest payments is subject to the standard days-past-due calculation. Overdue interest payment exceeding 30 days results in the reclassification of exposure to Stage 2, and exceeding 90 days - to Stage 3.

The comparative data as at 31 December 2020 were presented in Note 4 to the Consolidated Financial Statements of mBank S.A. Group for 2020, published on 25 February 2021.

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

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

The process of client and transaction risk monitoring takes into account the impact of the COVID-19 pandemic on the client's situation and the strength of the impact (i.e. temporary turbulence, long-term problem for the business model, etc.) as well as the plan to mitigate this impact implemented by the client.

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

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

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

According to the statement of the European Banking Authority on the prudential framework regarding Default, Forbearance and IFRS 9 in light of COVID-19 measures published on 25 March 2020, saying that the use of COVID-19 aid tools in the form of repayment moratorium, meeting the EBA guidelines on legislative and non-legislative moratoria on loan repayments applied in the light of the COVID-19 crisis published on 2 April 2020 does not automatically classify exposures to default and forbearance, as well as according to the UKNF (Polish Financial Supervision Authority) statement published as a part of the

Supervisory Impulse Package for Security and Development that UKNF will apply a flexible approach to the application of EBA guidelines for unsupported and restructured exposures, the Group does not classify the granting of the moratoria due to the COVID-19 crisis as forbearance.

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

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

1. review of sectors and individual clients of the corporate portfolio, in particular clients under observation, in order to verify the potential increase in the probability of failure to implement the restructuring plans, which was already carried out in March 2020 as the first activity of the Group as part of taking into account the impact of the epidemic on clients' financial situation,
2. modification of the weight of macroeconomic scenarios, consisting in assigning a 100% weight to the pessimistic scenario, in the expected credit loss model, applied in the first quarter of 2020,
3. updating models of the relationship between the long-term PD parameter and macroeconomic variables, based on historical data and the currently observed economic situation, in the second quarter of 2020,
4. updating macroeconomic forecasts, taking into account the impact of COVID-19 and state aid actions, affecting long-term PD, EAD and LGD parameters, as well as the level of exposure allocation to Stage 2, in particular by increasing the expected level of allocation for some portfolios due to the expected increase in the loss ratio, in the second quarter of 2020,
5. restoration of macroeconomic scenario weights of 60% for the baseline scenario, 20% for the optimistic and 20% for the pessimistic respectively, in the expected credit loss model, while taking into account the current macroeconomic forecasts implemented directly in the risk parameters, in the second quarter of 2020,
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. There was no basis for changing the macroeconomic forecasts within the risk parameters, in the third and fourth quarter of 2020 and the first half of 2021.

Additional cost of risk due to COVID-19 pandemic:

- actions taken in 2020 and in first half of 2021 regarding clients subject to non-legislative moratoria

Due to the uncertainty related to the difficulties in observation of the timeliness of repayment of loans covered by moratoria, Group also decided in the third quarter of 2020 to reclassify, some of the exposures of retail clients covered by this form of support, selected on the basis of behavioural characteristics, to Stage 2 despite no evidence of a significant increase of credit risk, which resulted in the recognition of additional cost of credit risk at the end of 2020 in the amount of PLN 53.1 million. The total gross carrying amount of the reclassified portfolio as at 31 December 2020 was PLN 3 227.57 million.

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

In the first half of 2021, Group withdrew gradually from using additional premisses for maintaining loans subject to the moratoria in Stage 2. In the following months of first half of the year 2021 Group changed the stage classification for Stage 2 exposures which were repaid on time after moratoria period and for which there were no other transfer logic premisses. As of 30 June 2021 classification to Stage 2 for all retail exposures previously subject to the moratoria were consistent with qualitative and quantitative criteria of transfer logic. The reclassification resulted in the recognition of additional income in the amount of PLN 43.9 million. The total gross carrying amount reclassified to the Stage 1 due to cancellation of additional premisses, amounted to PLN 3 161 million.

- actions taken in 2020 and in first half of 2021 regarding clients subject to legislative moratoria

Group decided to automatically and temporarily reclassify exposures subject to the relief in the form of the statutory moratorium starting from 31 December 2020 to Stage 3, or, in justified cases, to Stage 2. The final allocation of the exposure to Stage 2 was possible after conducting additional analyses taking into account quantitative and qualitative factors, such as: co-borrower in the contract, credit quality of all customer exposures, the amount of cash flow after the date of the application for a moratorium. The reclassification resulted in the recognition of additional cost of credit risk in the amount of PLN 1.7 million in 2020, and additional amount of PLN 2.2 million in the first half of 2021. The total gross carrying amount of the temporarily reclassified portfolio as at 30 June 2021 was PLN 16.3 million.

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

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

The above-mentioned activities resulted in recognition of additional cost of credit risk in the amount of PLN 330.3 million in the portfolio measured at amortized cost. In addition, these activities had an impact on the valuation of the loan portfolio at fair value through profit or loss, for which the Group recognized an additional cost of PLN 10.3 million. In the first half of 2021 a total of PLN 31.6 million of additional cost of expected credit losses was released.

Net impairment losses and fair value change on loans and advances	2020		
	Individual customers	Corporate customers	Total
Financial asset measured at amortised cost	**(134 973)**	**(195 349)**	**(330 322)**
Stage 1	(3 060)	(4 138)	(7 198)
Stage 2	(114 869)	(51 397)	(166 266)
Stage 3	(17 044)	(139 814)	(156 858)
Financial assets measured at fair value through profit or loss	**(9 414)**	**(838)**	**(10 252)**

Net impairment losses and fair value change on loans and advances	Period from 01.01.2021 to 30.06.2021		
	Individual Customers	Corporate customers	Total
Financial asset measured at amortised cost	**41 344**	**(9 712)**	**31 632**
Stage 1	-	73	73
Stage 2	43 780	(2 462)	41 318
Stage 3	(2 436)	(7 323)	(9 759)
Financial assets measured at fair value through profit or loss	**-**	**(3)**	**(3)**

As of 30 June 2021, the Group did not applied management corrections (overlays).

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

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

Apart from the activities related to the updating of the credit risk models mentioned above, the Group did not introduce any other dedicated changes into the models used for the purposes of calculating the expected credit risk losses, due to:

- lack of significant impact of the current economic situation (resulting mainly from the applied support measures) on parameters such as default rate or level of portfolio losses,
- results of consultations with other units of the Bank's Group risk division indicating that there is no need to take into account additional effects of the COVID-19 impact on the models.

In the model management process, the Group has carried out cyclical and one-off activities such as:

- cyclical recalibration of the long-term PD models and quantitative staging model,
- adjustment of the LLP models to the EBA new definition of default,
- improvement of the sensitivity of the quantitative staging model,
- redevelopment of Limit Utilization and Prepayment Ratio components within EAD model,
- recalibration of macroeconomic component of ECL models for foreign branches of the Bank in the Czech Republic and in Slovakia.

Prepayments of retail loans

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

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

As of 30 June 2021 the provision recorded within other provisions (Note 24) related to potential reimbursements of commissions in relation to early repayments of loans before the date of the verdict amounted to PLN 8.5 million (PLN 13.8 million as of 31 December 2020).

The total negative impact of early repayments of retail loans on the Group's gross profit for the first half of 2021 amounted to PLN 43.6 million (first half of 2020: PLN 29.1 million).

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

Fair value of derivatives and other financial instruments

The fair value of financial instruments not listed on active markets is determined by applying valuation techniques. All the models are approved prior to being applied and they are also calibrated in order to assure that the obtained results indeed reflect the actual data and comparable market prices. As far as possible, observable market data originating from an active market are used in the models. Methods for determining the fair value of financial instruments are described in Note 2.7 to the Consolidated Financial Statements of mBank S.A. Group for 2020, published on 25 February 2021.

Deferred tax assets

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

Income tax in interim financial statements

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

The calculation of the average annual effective income tax rate requires the use of a pre-tax income forecast for the entire fiscal year and permanent differences between the carrying amounts of assets and liabilities and their tax base. The projected annual effective tax rate used to calculate the income tax expense during the first half of 2021 was 42.7% (50.9% in the first half of 2020).

Revenue and expenses from sale of insurance products bundled with loans

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

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

The Group leads in case of insurance policies bundled with loans to upfront recognition less than 8% of bancassurance income associated with cash and car loans and 0% to approximately 20% of bancassurance income associated with mortgage loans. Recognition of the remaining part of the income is spread over the economic life of the associated loans. Expenses directly linked to the sale of insurance products are recognised using the same pattern.

Liabilities due to post-employment employee benefits

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

Leasing classification

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

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

4. Business segments

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

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

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

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

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

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

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

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

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

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

The primary basis used by the Group in the segment reporting is business line division. In addition, the Group's activity is presented by geographical areas reporting broken down into Poland and foreign countries because of the place of origin of income and expenses. Foreign countries segment includes activity of mBank's foreign branches in Czech Republic and Slovakia as well as activity of foreign subsidiary mFinance France S.A. until the date of deconsolidation (November 2020). The activity of the company mFinance France S.A., after the elimination of income and expenses and assets and liabilities related to the issue of bonds under the EMTN programme, is presented in the "Foreign countries" segment. The cost of the EMTN programme as well as the related assets and liabilities are presented in the segment "Poland".

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

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

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

Business segment reporting on the activities of mBank S.A. Group for the period from 1 January to 30 June 2021 – data regarding consolidated income statement.

period from 1 January to 30 June 2021	Retail Banking	Corporate and Investment Banking	Treasury and Other	FX Mortgage Loans	Total figure for the Group
Net interest income	1 265 645	524 427	53 401	64 959	1 908 432
- sales to external clients	1 010 718	510 327	316 736	70 651	1 908 432
- sales to other segments	254 927	14 100	(263 335)	(5 692)	-
Net fee and commission income	459 339	477 808	(17 592)	1 074	920 629
Dividend income	-	-	3 912	-	3 912
Trading income	17 239	129 957	(9 955)	(30 476)	106 765
Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss	(7 177)	244	41	13	(6 879)
Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss	(2 217)	2 430	91 902	-	92 115
Other operating income	36 468	58 553	12 974	13	108 008
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss	(221 434)	(173 904)	3 804	10 550	(380 984)
Costs of legal risk related to foreign currency loans	-	-	-	(314 805)	(314 805)
Overhead costs	(608 948)	(381 200)	(21 865)	(8 647)	(1 020 660)
Amortisation	(146 851)	(72 656)	(4 296)	(424)	(224 227)
Other operating expenses	(39 566)	(71 168)	(48 328)	(4 431)	(163 493)
Operating profit	**752 498**	**494 491**	**63 998**	**(282 174)**	**1 028 813**
Taxes on Group balance sheet items	(131 400)	(105 465)	(21 483)	(27 638)	(285 986)
Gross profit of the segment	**621 098**	**389 026**	**42 515**	**(309 812)**	**742 827**
Income tax					(317 060)
Net profit attributable to Owners of mBank S.A.					425 808
Net profit attributable to non-controlling interests					(41)

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

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

period from 1 January to 30 June 2020 - restated	Retail Banking	Corporate and Investment Banking	Treasury and Other	FX Mortgage Loans	Total figure for the Group
Net interest income	1 329 160	574 488	94 213	74 214	2 072 075
- sales to external clients	1 061 604	601 556	324 019	84 896	2 072 075
- sales to other segments	267 556	(27 068)	(229 806)	(10 682)	-
Net fee and commission income	363 523	379 574	(19 378)	1 894	725 613
Dividend income	-	-	4 479	-	4 479
Trading income	16 751	104 341	(36 899)	157	84 350
Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss	(44 456)	(748)	1 498	-	(43 706)
Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss	(507)	(6 311)	9 076	-	2 258
Other operating income	47 465	65 664	2 936	-	116 065
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss	(317 617)	(366 108)	1 820	(32 009)	(713 914)
Costs of legal risk related to foreign currency loans	-	-	-	(201 883)	(201 883)
Overhead costs	(628 700)	(420 692)	(34 695)	(9 873)	(1 093 960)
Amortisation	(143 206)	(65 654)	(4 905)	(107)	(213 872)
Other operating expenses	(44 914)	(49 848)	(10 126)	-	(104 888)
Operating profit	**577 499**	**214 706**	**8 019**	**(167 607)**	**632 617**
Taxes on Group balance sheet items	(105 785)	(93 622)	(41 586)	(29 254)	(270 247)
Gross profit of the segment	**471 714**	**121 084**	**(33 567)**	**(196 861)**	**362 370**
Income tax					(184 533)
Net profit attributable to Owners of mBank S.A.					177 900
Net profit attributable to non-controlling interests					(63)

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

30.06.2021	Retail Banking	Corporate and Investment Banking	Treasury and Other	FX Mortgage Loans	Total figure for the Group
Assets of the segment	62 194 480	48 142 263	74 798 770	13 335 379	**198 470 892**
Liabilities of the segment	107 679 180	50 047 228	23 801 554	249 327	**181 777 289**

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

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

Information about geographical areas on the activities of mBank S.A. Group for the period from 1 January to 30 June 2021 and for the period from 1 January to 30 June 2020

	from 1 January to 30 June 2021			from 1 January to 30 June 2020 - restated		
	Poland	Foreign Countries	Total	Poland	Foreign Countries	Total
Net interest income	1 789 205	119 227	**1 908 432**	1 948 194	123 881	**2 072 075**
Net fee and commission income	904 776	15 853	**920 629**	717 153	8 460	**725 613**
Dividend income	3 912	-	**3 912**	4 479	-	**4 479**
Trading income	104 821	1 944	**106 765**	83 934	416	**84 350**
Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss	(6 879)	-	**(6 879)**	(43 706)	-	**(43 706)**
Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss	92 128	(13)	**92 115**	2 234	24	**2 258**
Other operating income	105 910	2 098	**108 008**	115 531	534	**116 065**
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss	(387 099)	6 115	**(380 984)**	(723 840)	9 926	**(713 914)**
Costs of legal risk related to foreign currency loans	(314 805)	-	**(314 805)**	(201 883)	-	**(201 883)**
Overhead costs	(949 485)	(71 175)	**(1 020 660)**	(1 024 963)	(68 997)	**(1 093 960)**
Amortisation	(217 755)	(6 472)	**(224 227)**	(207 130)	(6 742)	**(213 872)**
Other operating expenses	(161 902)	(1 591)	**(163 493)**	(104 042)	(846)	**(104 888)**
Operating profit	**962 827**	**65 986**	**1 028 813**	**565 961**	**66 656**	**632 617**
Taxes on Group balance sheet items	(266 929)	(19 057)	**(285 986)**	(252 155)	(18 092)	**(270 247)**
Gross profit of the segment	**695 898**	**46 929**	**742 827**	**313 806**	**48 564**	**362 370**
Income tax			(317 060)			(184 533)
Net profit attributable to Owners of mBank S.A.			425 808			177 900
Net profit attributable to non-controlling interests			(41)			(63)

Information about geographical areas on the activities of mBank S.A. Group as at 30 June 2021 and as at 31 December 2020

	30.06.2021			31.12.2020 - restated		
	Poland	Foreign Countries	Total	Poland	Foreign Countries	Total
Assets of the segment, including:	189 276 621	9 194 271	**198 470 892**	171 585 621	7 285 996	**178 871 617**
- tangible assets	2 858 660	30 602	**2 889 262**	2 662 301	30 974	**2 693 275**
- deferred income tax assets	1 015 644	2 602	**1 018 246**	851 308	2 572	**853 880**
Liabilities of the segment	166 176 470	15 600 819	**181 777 289**	148 275 155	13 921 395	**162 196 550**

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

5. Net interest income

the period	from 01.01.2021 to 30.06.2021	from 01.01.2020 to 30.06.2020
Interest income		
Interest income accounted for using the effective interest method	**1 815 757**	**2 313 030**
Interest income of financial assets at amortised cost, including:	1 731 197	2 096 948
- Loans and advances	*1 580 213*	*1 959 105*
- Debt securities	*151 168*	*123 971*
- Cash and short-term placements	*1 329*	*20 383*
- Gains or losses on non-substantial modification (net)	*(5 739)*	*(9 254)*
- Other	*4 226*	*2 743*
Interest income on financial assets at fair value through other comprehensive income	84 560	216 082
- Debt securities	*84 560*	*216 082*
Income similar to interest on financial assets at fair value through profit or loss, including:	**238 799**	**232 563**
Financial assets held for trading	8 626	22 701
- Loans and advances	*1 888*	*3 026*
- Debt securities	*6 738*	*19 675*
Non-trading financial assets mandatorily at fair value through profit or loss, including:	26 897	61 634
- Loans and advances	*26 897*	*61 634*
Interest income on derivatives classified into banking book	43 207	74 288
Interest income on derivatives concluded under the fair value hedge	53 055	40 095
Interest income on derivatives concluded under the cash flow hedge	107 014	33 845
Total interest income	**2 054 556**	**2 545 593**

the period	from 01.01.2021 to 30.06.2021	from 01.01.2020 to 30.06.2020
Interest expenses		
Financial liabilities held for trading	(2 880)	-
Financial liabilities measured at amortised cost, including:	(132 621)	(464 921)
- Deposits	*(27 328)*	*(281 443)*
- Loans received	*(2 479)*	*(5 394)*
- Issue of debt securities	*(73 433)*	*(135 461)*
- Subordinated liabilities	*(26 860)*	*(37 677)*
- Lease liabilities	*(1 324)*	*(1 217)*
- Other financial liabilities	*(1 197)*	*(3 729)*
Other	(10 623)	(8 597)
Total interest expense	**(146 124)**	**(473 518)**

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

6. Net fee and commission income

the 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	256 386	225 979
Payment cards-related fees	207 814	226 527
Commissions from bank accounts	194 262	97 397
Commissions from currency transactions	188 036	161 641
Fees from brokerage activity and debt securities issue	128 447	93 285
Commissions from money transfers	87 917	70 216
Commissions for agency service regarding sale of insurance products of external financial entities	62 235	54 948
Commissions due to guarantees granted and trade finance commissions	48 506	47 522
Commissions for agency service regarding sale of other products of external financial entities	43 784	36 589
Fees from cash services	20 668	21 685
Commissions on trust and fiduciary activities	16 511	16 130
Fees from portfolio management services and other management-related fees	14 028	6 201
Other	23 678	21 793
Fee and commission income	**1 292 272**	**1 079 913**

the period	from 01.01.2021 to 30.06.2021	from 01.01.2020 to 30.06.2020
Fee and commission expense		
Payment cards-related fees	(118 866)	(107 989)
Commissions paid to external entities for sale of the Group's products	(79 445)	(86 681)
Commissions of insurance products	(8 015)	(5 368)
Commissions paid for sale of external financial entities	(15 236)	(10 319)
Discharged brokerage fees	(21 106)	(17 911)
Cash services	(19 654)	(20 292)
Fees to NBP, KIR and GPW Benchmark	(6 984)	(6 747)
Other discharged fees	(102 337)	(98 993)
Total fee and commission expense	**(371 643)**	**(354 300)**

7. Dividend income

the period	from 01.01.2021 to 30.06.2021	from 01.01.2020 to 30.06.2020
Financial assets at fair value through profit and loss	3 612	4 479
Investments in subsidiaries, joint ventures and associates accounted for using the equity method	300	-
Total dividend income	**3 912**	**4 479**

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

8. Net trading income

the period	from 01.01.2021 to 30.06.2021	from 01.01.2020 to 30.06.2020
Foreign exchange result	**69 596**	**8 449**
Net exchange differences on translation	(11 454)	(218 715)
Net transaction gains/(losses)	81 050	227 164
Gains or losses on financial assets and liabilities held for trading	**46 348**	**77 626**
Derivatives, including:	36 776	32 711
- Interest-bearing instruments	*27 258*	*31 952*
- Market risk instruments	*9 518*	*759*
Debt securities	6 554	48 425
Loans and advances	3 018	(3 510)
Gains or losses from hedge accounting	**(9 179)**	**(1 725)**
Net profit on hedged items	257 109	(99 910)
Net profit on fair value hedging instruments	(264 136)	96 361
Ineffective portion of cash flow hedge	(2 152)	1 824
Net trading income	**106 765**	**84 350**

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

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

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

the period	from 01.01.2021 to 30.06.2021	from 01.01.2020 to 30.06.2020
Equity instruments	41	1 498
Debt securities	5 164	2 320
Loans and advances	(12 084)	(47 524)
Total gains or losses on non-trading financial assets mandatorily at fair value through profit or loss	**(6 879)**	**(43 706)**

10. Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss

the period	from 01.01.2021 to 30.06.2021	from 01.01.2020 to 30.06.2020
Gains less losses from derecognition, including:	91 529	6 410
- Financial assets measured at fair value through other comprehensive income	*91 699*	*1 225*
- Financial assets at amortised cost	*(243)*	*(3 174)*
- Financial liabilities at amortised cost	*73*	*8 359*
Gains less losses related to sale and revaluation of investments in subsidiaries and associates	586	(4 152)
Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss	**92 115**	**2 258**

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

11. Other operating income

the period	from 01.01.2021 to 30.06.2021	from 01.01.2020 to 30.06.2020
Income from sale or liquidation of fixed assets, intangible assets, assets held for sale and inventories	40 604	49 988
Income from services provided	5 822	4 685
Net income from operating lease	2 744	1 927
Income due to release of provisions for future commitments	6 778	22 533
Income from recovering receivables designated previously as prescribed, remitted or uncollectible	1 274	2 015
Income from compensations, penalties and fines received	238	495
Net revenues from the sale of an organised part of the company mFinanse S.A.	16 400	12 167
Other	34 148	22 255
Total other operating income	**108 008**	**116 065**

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

Net revenues from the sale of an organised part of the company mFinanse S.A. concern to the transaction described in detail in Note 12 of the Consolidated Financial Statements of mBank S.A. Group for 2020 published on 25 February 2021.

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

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

the period	from 01.01.2021 to 30.06.2021	from 01.01.2020 to 30.06.2020
Net income from operating lease, including:		
- Income from operating lease	17 946	20 501
- Income from right-of-use assets in sublease	3 402	2 121
- Depreciation cost of fixed assets provided under operating lease and right-of-use assets in sublease	(18 604)	(20 695)
Total net income from operating lease	**2 744**	**1 927**

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

the period	from 01.01.2021 to 30.06.2021	from 01.01.2020 to 30.06.2020
Financial assets at amortised cost, including:	**(388 338)**	**(683 346)**
- Debt securities	16	(8)
Stage 1	*16*	*(8)*
- Loans and advances	(388 354)	(683 338)
Stage 1	*(75 787)*	*9 903*
Stage 2	*(14 646)*	*(82 991)*
Stage 3	*(316 896)*	*(604 972)*
POCI	*18 975*	*(5 278)*
Financial assets at fair value through other comprehensive income, including:	**1 857**	**485**
- Debt securities	1 857	485
Stage 1	*(9)*	*732*
Stage 2	*1 866*	*(247)*
Commitments and guarantees given	**5 497**	**(31 053)**
Stage 1	*2 017*	*(4 451)*
Stage 2	*17 557*	*(3 925)*
Stage 3	*(17 693)*	*(23 159)*
POCI	*3 616*	*482*
Net impairment losses on financial assets not measured at fair value through profit or loss	**(380 984)**	**(713 914)**

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

13. Overhead costs

the period	from 01.01.2021 to 30.06.2021	from 01.01.2020 to 30.06.2020
Staff-related expenses	(498 749)	(522 982)
Material costs, including:	(321 407)	(324 072)
- costs of administration and real estate services	*(126 912)*	*(124 081)*
- IT costs	*(89 181)*	*(90 807)*
- marketing costs	*(62 407)*	*(60 774)*
- consulting costs	*(35 865)*	*(41 346)*
- other material costs	*(7 042)*	*(7 064)*
Taxes and fees	(16 619)	(12 732)
Contributions and transfers to the Bank Guarantee Fund	(178 459)	(229 957)
Contributions to the Social Benefits Fund	(5 426)	(4 217)
Total overhead costs	**(1 020 660)**	**(1 093 960)**

Staff-related expenses for the first half of 2021 and for the first half of 2020 is presented below.

the period	from 01.01.2021 to 30.06.2021	from 01.01.2020 to 30.06.2020
Wages and salaries	(399 863)	(422 501)
Social security expenses	(74 526)	(75 644)
Remuneration concerning share-based payments, including:	(3 948)	(4 444)
- share-based payments settled in mBank S.A. shares	*(3 546)*	*(4 246)*
- cash-settled share-based payments	*(402)*	*(198)*
Other staff expenses	(20 412)	(20 393)
Staff-related expenses, total	**(498 749)**	**(522 982)**

14. Other operating expenses

the period	from 01.01.2021 to 30.06.2021	from 01.01.2020 to 30.06.2020
Costs arising from sale or liquidation of fixed assets, intangible assets, assets held for resale and inventories	(38 037)	(48 066)
Provisions for future commitments	(71 982)	(12 510)
Costs arising from provisions created for other receivables (excluding loans and advances)	(2 657)	(258)
Donations made	(4 564)	(3 071)
Compensation, penalties and fines paid	(7 146)	(345)
Debt collection expenses	(17 768)	(18 886)
Other operating costs	(21 339)	(21 752)
Total other operating expenses	**(163 493)**	**(104 888)**

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

15. Earnings per share

the period	from 01.01.2021 to 30.06.2021	from 01.01.2020 to 30.06.2020
Basic:		
Net profit attributable to Owners of mBank S.A.	425 808	177 900
Weighted average number of ordinary shares	42 367 040	42 350 367
Net basic profit per share (in PLN per share)	**10.05**	**4.20**
Diluted:		
Net profit attributable to Owners of mBank S.A., applied for calculation of diluted earnings per share	425 808	177 900
Weighted average number of ordinary shares	42 367 040	42 350 367
Adjustments for:		
- share options	62 466	35 642
Weighted average number of ordinary shares for calculation of diluted earnings per share	42 429 506	42 386 009
Diluted earnings per share (in PLN per share)	**10.04**	**4.20**

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

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

	30.06.2021	31.12.2020
Derivatives, including:	**1 699 144**	**1 722 353**
- Held for trading derivative financial instruments classified into banking book	146 918	145 107
- Held for trading derivative financial instruments classified into trading book	1 488 841	1 620 288
- Derivative financial instruments held for fair value hedging	248 706	330 455
- Derivative financial instruments held for cash flow hedging	467 230	748 948
- Offsetting effect	(652 551)	(1 122 445)
Debt securities	**1 327 844**	**676 466**
- General governments, including:	949 596	366 517
pledged securities	*326 369*	*19 021*
- Credit institutions	86 937	109 109
- Other financial corporations	165 430	72 785
- Non-financial corporations	125 881	128 055
Loans and advances	**44 587**	**187 902**
- Corporate customers	44 587	187 902
Total financial assets held for trading	**3 071 575**	**2 586 721**

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

Derivative financial instruments

The Group has the following types of derivative instruments:

Forward currency transactions represent commitments to purchase foreign and local currencies, including outstanding spot transactions.

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

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

Currency and interest rate swap contracts are commitments to exchange one cash flow for another cash flow. Such a transaction results in swap of currencies or interest rates (e.g. fixed to variable interest rate) or combination of all these factors (e.g. cross-currency interest rate swaps – CIRS). Except from CIRS there is no exchange of principal at the origin and maturity of the transaction. The credit risk of the Group consists of the potential cost of replacing swap contracts if the parties fail to discharge their liabilities. This risk is monitored daily by reference to the current fair value, proportion of the face value of the contracts and market liquidity. The Group evaluates the parties to such contracts using the same methods as for its credit business, to control the level of its credit exposure.

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

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

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

Hedge accounting

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

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

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

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

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

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

Fair value hedge accounting

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

At the end of each month, the Group evaluates effectiveness of the applied hedging by carrying out analysis of changes in fair value of the hedged and hedging instruments in respect of the hedged risk in order to confirm that hedging relationships are effective in accordance with the accounting policy described in Note 2.13 of Consolidated financial statements for 2020, published on 25 February 2021.

<u>Description of the hedging relation</u>

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

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

<u>Hedged items</u>

The hedged items are:

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

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

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

Hedging instruments

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

Presentation of the result from hedged and hedging transactions

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

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

the period	from 01.01.2021 to 30.06.2021	from 01.01.2020 to 30.06.2020
Interest income on derivatives concluded under the fair value hedge accounting (Note 5)	53 055	40 095
Net profit on hedged items (Note 8)	257 109	(99 910)
Net profit on fair value hedging instruments (Note 8)	(264 136)	96 361
The total results of fair value hedge accounting recognised in the income statement	**46 028**	**36 546**

Cash flow hedge accounting

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

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

The period from July 2021 to August 2029 is the period in which the cash flows are expected, and when they are expected to have an impact on the result.

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

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

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

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

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

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

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

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

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

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

The following note presents other comprehensive income due to cash flow hedges for the period from 1 January to 30 June 2021 and for the period from 1 January to 30 June 2020.

the period	from 01.01.2021 to 30.06.2021	from 01.01.2020 to 30.06.2020
Other gross comprehensive income from cash flow hedge at the beginning of the period	**517 444**	**147 088**
Unrealised gains/losses included in other gross comprehensive income during the reporting period	(231 474)	549 472
Profits / (Losses) recognized in other comprehensive income in the period	(78 814)	(96 095)
net interest income	*(107 014)*	*(33 845)*
foreign exchange result	*28 200*	*(62 250)*
Accumulated other gross comprehensive income at the end of the reporting period	**207 156**	**600 465**
Deferred income tax on accumulated other comprehensive income at the end of the reporting period	(39 360)	(114 088)
Accumulated other net comprehensive income at the end of the reporting period	**167 796**	**486 377**
Impact on other comprehensive income in the reporting period (gross)	(310 288)	453 377
Deferred tax on cash flow hedges	58 954	(86 142)
Impact on other comprehensive income in the reporting period (net)	**(251 334)**	**367 235**

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)	(310 288)	453 377
Results of cash flow hedge accounting recognised in the income statement	76 662	97 919
- amount included as interest income in income statement during the reporting period (Note 5)	*107 014*	*33 845*
- ineffective portion of hedge recognised included in other net trading income in income statement (Note 8)	*(2 152)*	*1 824*
foreign exchange result	*(28 200)*	*62 250*
Impact on other comprehensive income in the reporting period (gross)	**(233 626)**	**551 296**

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

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

	30.06.2021	31.12.2020
Equity instruments	**209 502**	**202 304**
- Other financial corporations	151 013	139 718
- Non-financial corporations	58 489	62 586
Debt securities	**82 064**	**76 068**
- Other financial corporations	82 064	76 068
Loans and advances	**1 385 139**	**1 506 319**
- Individual customers	1 099 292	1 216 809
- Corporate customers	285 525	288 777
- Public sector customers	322	733
Total non-trading financial assets mandatorily at fair value through profit or loss	**1 676 705**	**1 784 691**

Short-term (up to 1 year)	1 025 254	1 083 487
Long-term (over 1 year)	651 451	701 204

18. Financial assets at fair value through other comprehensive income

30.06.2021	Carrying amount	Gross carrying amount				Accumulated impairment			
		Stage 1	Stage 2	Stage 3	POCI	Stage 1	Stage 2	Stage 3	POCI
Debt securities	**32 046 002**	**32 049 765**	**-**	**-**	**-**	**(3 763)**	**-**	**-**	**-**
- Central banks	679 979	679 979	-	-	-	-	-	-	-
- General governments, including:	29 075 309	29 075 402	-	-	-	(93)	-	-	-
pledged securities	*671 335*	*671 335*	-	-	-	-	-	-	-
- Credit institutions	251 865	252 056	-	-	-	(191)	-	-	-
- Other financial institutions	1 584 468	1 586 185	-	-	-	(1 717)	-	-	-
pledged securities	*102 984*	*102 984*	-	-	-	-	-	-	-
- Non-financial corporations	454 381	456 143	-	-	-	(1 762)	-	-	-
Total financial assets at fair value through other comprehensive income	**32 046 002**	**32 049 765**	**-**	**-**	**-**	**(3 763)**	**-**	**-**	**-**

Short-term (up to 1 year) gross	6 351 175
Long-term (over 1 year) gross	25 698 590

31.12.2020	Carrying amount	Gross carrying amount				Accumulated impairment			
		Stage 1	Stage 2	Stage 3	POCI	Stage 1	Stage 2	Stage 3	POCI
Debt securities	**35 498 061**	**35 392 158**	**111 568**	**-**	**-**	**(3 754)**	**(1 911)**	**-**	**-**
- Central banks	184 996	184 996	-	-	-	-	-	-	-
- General governments, including:	33 177 825	33 177 912	-	-	-	(87)	-	-	-
pledged securities	*1 243 749*	*1 243 749*	-	-	-	-	-	-	-
- Credit institutions	222 380	222 570	-	-	-	(190)	-	-	-
- Other financial institutions	1 373 371	1 374 996	-	-	-	(1 625)	-	-	-
- Non-financial corporations	539 489	431 684	111 568	-	-	(1 852)	(1 911)	-	-
Total financial assets at fair value through other comprehensive income	**35 498 061**	**35 392 158**	**111 568**	**-**	**-**	**(3 754)**	**(1 911)**	**-**	**-**

Short-term (up to 1 year) gross	12 582 844
Long-term (over 1 year) gross	22 920 882

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

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

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

Change from 1 January to 30 June 2021	As at the beginning of the period	Transfer to Stage 1	Transfer to Stage 2	Transfer to Stage 3	New financial assets originated or purchased	Financial assets derecognised during the period	Changes in credit risk	As at the end of the period
Debt securities	**(5 665)**	**-**	**-**	**-**	**(1 210)**	**3 422**	**(310)**	**(3 763)**
Stage 1	(3 754)	(125)	-	-	(1 210)	1 110	216	(3 763)
Stage 2	(1 911)	125	-	-	-	2 312	(526)	-
Expected credit losses allowance, total	**(5 665)**	**-**	**-**	**-**	**(1 210)**	**3 422**	**(310)**	**(3 763)**

Change from 1 January to 31 December 2020	As at the beginning of the period	Transfer to Stage 1	Transfer to Stage 2	Transfer to Stage 3	New financial assets originated or purchased	Financial assets derecognised during the period	Changes in credit risk	As at the end of the period
Debt securities	**(4 362)**	**-**	**-**	**-**	**(1 978)**	**2 210**	**(1 535)**	**(5 665)**
Stage 1	(3 242)	-	182	-	(1 978)	2 192	(908)	(3 754)
Stage 2	(1 120)	-	(182)	-	-	18	(627)	(1 911)
Expected credit losses allowance, total	**(4 362)**	**-**	**-**	**-**	**(1 978)**	**2 210**	**(1 535)**	**(5 665)**

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

Change from 1 January to 30 June 2021	As at the beginning of the period	Transfer to Stage 1	Transfer to Stage 2	Transfer to Stage 3	New financial assets originated or purchased	Financial assets derecognised during the period	Other movements	As at the end of the period
Debt securities	**35 503 726**	**-**	**-**	**-**	**6 674 653**	**(9 905 624)**	**(222 990)**	**32 049 765**
Stage 1	35 392 158	10 540	-	-	6 674 653	(9 804 596)	(222 990)	32 049 765
Stage 2	111 568	(10 540)	-	-	-	(101 028)	-	-
Gross carrying amount, total	**35 503 726**	**-**	**-**	**-**	**6 674 653**	**(9 905 624)**	**(222 990)**	**32 049 765**

Change from 1 January to 31 December 2020	As at the beginning of the period	Transfer to Stage 1	Transfer to Stage 2	Transfer to Stage 3	New financial assets originated or purchased	Financial assets derecognised during the period	Other movements	As at the end of the period
Debt securities	**22 778 283**	**-**	**-**	**-**	**26 442 762**	**(13 513 270)**	**(204 049)**	**35 503 726**
Stage 1	22 737 162	-	(96 872)	-	26 438 084	(13 513 270)	(172 946)	35 392 158
Stage 2	41 121	-	96 872	-	4 678	-	(31 103)	111 568
Gross carrying amount, total	**22 778 283**	**-**	**-**	**-**	**26 442 762**	**(13 513 270)**	**(204 049)**	**35 503 726**

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

19. Financial assets at amortised cost

30.06.2021	Carrying amount	Gross carrying amount				Accumulated impairment			
		Stage 1	Stage 2	Koszyk 3	POCI	Stage 1	Stage 2	Koszyk 3	POCI
Debt securities	**15 083 951**	**15 084 070**	**-**	**-**	**-**	**(119)**	**-**	**-**	**-**
- General governments, including:	10 438 217	10 438 217	-	-	-	-	-	-	-
pledged securities	*1 296 331*	*1 296 331*	-	-	-	-	-	-	-
- Credit institutions	2 177 148	2 177 148	-	-	-	-	-	-	-
- Other financial corporations	2 468 586	2 468 705	-	-	-	(119)	-	-	-
pledged securities	*331 700*	*331 700*	-	-	-	-	-	-	-
Loans and advances to banks	**9 750 443**	**9 751 104**	**-**	**-**	**-**	**(661)**	**-**	**-**	**-**
Loans and advances to customers	**114 811 615**	**105 070 808**	**8 558 373**	**4 647 148**	**242 636**	**(384 988)**	**(484 193)**	**(2 882 121)**	**43 952**
Individual customers	67 155 868	63 686 605	3 031 907	2 151 162	124 008	(192 970)	(275 125)	(1 374 700)	4 981
Corporate customers	47 436 219	41 167 932	5 523 465	2 494 917	118 628	(191 779)	(209 067)	(1 506 848)	38 971
Public sector customers	219 528	216 271	3 001	1 069	-	(239)	(1)	(573)	-
Total financial assets at amortised cost	**139 646 009**	**129 905 982**	**8 558 373**	**4 647 148**	**242 636**	**(385 768)**	**(484 193)**	**(2 882 121)**	**43 952**

Short-term (up to 1 year) gross	47 680 169
Long-term (over 1 year) gross	95 673 970

31.12.2020	Carrying amount	Gross carrying amount				Accumulated impairment			
		Stage 1	Stage 2	Koszyk 3	POCI	Stage 1	Stage 2	Koszyk 3	POCI
Debt securities	**15 952 501**	**15 952 636**	**-**	**-**	**-**	**(135)**	**-**	**-**	**-**
- General governments, including:	11 303 908	11 303 908	-	-	-	-	-	-	-
pledged securities	*2 705 060*	*2 705 060*	-	-	-	-	-	-	-
- Credit institutions	1 984 770	1 984 770	-	-	-	-	-	-	-
- Other financial corporations	2 663 823	2 663 958	-	-	-	(135)	-	-	-
Loans and advances to banks	**7 354 268**	**7 354 870**	**-**	**-**	**-**	**(602)**	**-**	**-**	**-**
Loans and advances to customers	**106 873 133**	**91 214 989**	**14 290 332**	**4 714 440**	**294 198**	**(296 810)**	**(441 217)**	**(2 871 497)**	**(31 302)**
Individual customers	62 929 892	54 300 751	8 176 256	2 147 319	110 450	(164 491)	(291 489)	(1 341 134)	(7 770)
Corporate customers	43 713 672	36 687 052	6 111 911	2 566 052	183 748	(132 050)	(149 727)	(1 529 782)	(23 532)
Public sector customers	229 569	227 186	2 165	1 069	-	(269)	(1)	(581)	-
Total financial assets at amortised cost	**130 179 902**	**114 522 495**	**14 290 332**	**4 714 440**	**294 198**	**(297 547)**	**(441 217)**	**(2 871 497)**	**(31 302)**

Short-term (up to 1 year) gross	45 976 949
Long-term (over 1 year) gross	87 844 516

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

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

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

Loans and advances to customers 30.06.2021	Gross carrying amount	including:		
		Individual customers	Corporate customers	Public sector customers
Current accounts	13 226 447	7 829 646	5 395 656	1 145
Term loans, including:	87 521 821	60 795 319	26 507 306	219 196
- housing and mortgage loans to natural persons	*47 633 757*	*47 633 757*		
Reverse repo or buy/sell back	1 557 695	-	1 557 695	-
Finance leases	12 708 089	-	12 708 089	-
Other loans and advances	3 110 032	-	3 110 032	-
Other receivables	394 881	368 717	26 164	-
Total gross carrying amount	**118 518 965**	**68 993 682**	**49 304 942**	**220 341**

Loans and advances to customers 30.06.2021	Accumulated impairment	including:		
		Individual customers	Corporate customers	Public sector customers
Current accounts	(906 849)	(644 284)	(262 563)	(2)
Term loans, including:	(2 284 501)	(1 193 530)	(1 090 160)	(811)
- housing and mortgage loans to natural persons	*(443 297)*	*(443 297)*		
Finance leases	(462 248)	-	(462 248)	-
Other loans and advances	(53 752)	-	(53 752)	-
Total accumulated impairment	**(3 707 350)**	**(1 837 814)**	**(1 868 723)**	**(813)**

Total gross carrying amount	**118 518 965**	**68 993 682**	**49 304 942**	**220 341**
Total accumulated impairment	(3 707 350)	(1 837 814)	(1 868 723)	(813)
Total carrying amount	**114 811 615**	**67 155 868**	**47 436 219**	**219 528**

Short-term (up to 1 year) gross	36 518 518
Long-term (over 1 year) gross	82 000 447

Loans and advances to customers 31.12.2020	Gross carrying amount	including:		
		Individual customers	Corporate customers	Public sector customers
Current accounts	11 762 492	7 389 930	4 371 243	1 319
Term loans, including:	83 563 068	57 053 626	26 280 341	229 101
- housing and mortgage loans to natural persons	*44 714 007*	*44 714 007*		
Reverse repo or buy/sell back	103 832	-	103 832	-
Finance leases	12 253 821	-	12 253 821	-
Other loans and advances	2 523 145	-	2 523 145	-
Other receivables	307 601	291 220	16 381	-
Total gross carrying amount	**110 513 959**	**64 734 776**	**45 548 763**	**230 420**

Loans and advances to customers 31.12.2020	Accumulated impairment	including:		
		Individual customers	Corporate customers	Public sector customers
Current accounts	(848 459)	(582 742)	(265 717)	-
Term loans, including:	(2 286 946)	(1 222 142)	(1 063 953)	(851)
- housing and mortgage loans to natural persons	*(464 821)*	*(464 821)*		
Finance leases	(453 398)	-	(453 398)	-
Other loans and advances	(52 023)	-	(52 023)	-
Total accumulated impairment	**(3 640 826)**	**(1 804 884)**	**(1 835 091)**	**(851)**

Total gross carrying amount	**110 513 959**	**64 734 776**	**45 548 763**	**230 420**
Total accumulated impairment	(3 640 826)	(1 804 884)	(1 835 091)	(851)
Total carrying amount	**106 873 133**	**62 929 892**	**43 713 672**	**229 569**

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

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

	30.06.2021	31.12.2020
Net housing and mortgage loans to natural persons (in PLN '000), including:	**47 190 460**	**44 249 186**
- PLN	26 609 773	23 789 950
- CHF	11 034 989	12 295 153
- EUR	4 290 841	3 844 598
- CZK	5 060 829	4 113 213
- USD	173 291	182 238
- Other currency	20 737	24 034
Net housing and mortgage loans to natural persons in original currencies (main currencies in '000)		
- PLN	26 609 773	23 789 950
- CHF	2 677 616	2 883 411
- EUR	949 133	833 102
- CZK	28 543 875	23 463 851
- USD	45 561	48 488

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

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

No	Sectors	Gross value 30.06.2021	%	Gross value 31.12.2020	%
1.	Household customers	68 993 682	58.21%	64 734 776	58.58%
2.	Real estate	7 081 501	5.97%	7 211 368	6.53%
3.	Construction	4 885 672	4.12%	4 843 129	4.38%
4.	Financial activities	3 207 587	2.71%	1 668 335	1.51%
5.	Transport and logistics	2 989 824	2.52%	2 758 935	2.50%
6.	Food sector	2 876 065	2.43%	2 869 995	2.60%
7.	Metals	2 648 814	2.23%	2 159 089	1.95%
8.	Construction materials	2 134 293	1.80%	1 908 325	1.73%
9.	Motorisation	2 067 538	1.74%	1 800 110	1.63%
10.	Chemicals and plastic products	1 805 543	1.52%	1 836 669	1.66%
11.	Scientific and technical activities	1 719 000	1.45%	1 350 347	1.22%
12.	Wood, furniture and paper products	1 707 783	1.44%	1 682 940	1.52%
13.	Power and heating distribution	1 568 634	1.32%	1 358 741	1.23%
14.	Retail trade	1 436 847	1.21%	1 332 389	1.21%
15.	Wholesale trade	1 426 604	1.20%	1 231 929	1.11%
16.	IT	1 042 350	0.88%	1 077 032	0.97%
17.	Fuel	969 438	0.82%	757 337	0.69%
18.	Human health	950 561	0.80%	778 940	0.70%
19.	Rental and leasing activities	919 150	0.78%	871 694	0.79%
20.	Pharmacy	913 298	0.77%	895 675	0.81%

As at 30 June 2021, the total exposure of the Group in the above sectors (excluding household customers) amounts to 35.71% of the credit portfolio (31 December 2020: 34.74%).

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

Movements in expected credit losses allowance

Change from 1 January to 30 June 2021	As at the beginning of the period	Transfer to Stage 1	Transfer to Stage 2	Transfer to Stage 3	New financial assets originated or purchased	Financial assets derecognised during the period	Changes in credit risk	Changes due to new default definition	Write-offs	Other movements	As at the end of the period
Debt securities	**(135)**	-	-	-	**(27)**	**79**	**(36)**	-	-	-	**(119)**
Stage 1	(135)	-	-	-	(27)	79	(36)	-	-	-	(119)
Loans and advances to banks	**(602)**	-	-	-	**(1 637)**	**1 523**	**57**	**(2)**	-	-	**(661)**
Stage 1	(602)	-	-	-	(1 637)	1 523	57	(2)	-	-	(661)
Loans and advances to customers	**(3 640 826)**	-	-	-	**(144 565)**	**155 819**	**(355 555)**	**(8 071)**	**210 403**	**75 445**	**(3 707 350)**
Stage 1	(296 810)	(291 807)	74 950	4 103	(68 646)	37 683	165 052	(9 513)	-	-	(384 988)
Stage 2	(441 217)	277 097	(102 742)	87 792	(14 903)	32 631	(307 705)	(15 146)	-	-	(484 193)
Stage 3	(2 871 497)	14 710	27 792	(91 895)	(64 499)	82 208	(261 343)	2 909	204 049	75 445	(2 882 121)
POCI	(31 302)	-	-	-	3 483	3 297	48 441	13 679	6 354	-	43 952
Expected credit losses allowance, total	**(3 641 563)**	-	-	-	**(146 229)**	**157 421**	**(355 534)**	**(8 073)**	**210 403**	**75 445**	**(3 708 130)**

Change from 1 January to 31 December 2020	As at the beginning of the period	Transfer to Stage 1	Transfer to Stage 2	Transfer to Stage 3	New financial assets originated or purchased	Financial assets derecognised during the period	Changes in credit risk	Write-offs	Other movements	As at the end of the period
Debt securities	**(79)**	-	-	-	**(18)**	-	**(38)**	-	-	**(135)**
Stage 1	(79)	-	-	-	(18)	-	(38)	-	-	(135)
Loans and advances to banks	**(1 132)**	-	-	-	**(821)**	**1 409**	**(58)**	-	-	**(602)**
Stage 1	(1 132)	-	-	-	(821)	1 409	(58)	-	-	(602)
Loans and advances to customers	**(3 190 278)**	-	-	-	**(319 078)**	**290 685**	**(1 209 342)**	**749 991**	**37 196**	**(3 640 826)**
Stage 1	(313 118)	(459 747)	191 924	5 152	(116 897)	75 031	320 845	-	-	(296 810)
Stage 2	(258 035)	428 279	(247 788)	172 655	(46 854)	41 774	(531 248)	-	-	(441 217)
Stage 3	(2 603 391)	31 468	55 864	(177 787)	(136 582)	173 886	(998 834)	746 683	37 196	(2 871 497)
POCI	(15 734)	-	-	(20)	(18 745)	(6)	(105)	3 308	-	(31 302)
Expected credit losses allowance, total	**(3 191 489)**	-	-	-	**(319 917)**	**292 094**	**(1 209 438)**	**749 991**	**37 196**	**(3 641 563)**

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

Change from 1 January to 30 June 2021	As at the beginning of the period	Transfer to Stage 1	Transfer to Stage 2	Transfer to Stage 3	New financial assets originated or purchased	Financial assets derecognised during the period	Write-offs	Other movements	As at the end of the period
Debt securities	**15 952 636**	-	-	-	**480 465**	**(2 117 564)**	-	**768 533**	**15 084 070**
Stage 1	15 952 636	-	-	-	480 465	(2 117 564)	-	768 533	15 084 070
Loans and advances to banks	**7 354 870**	-	-	-	**8 862 277**	**(6 490 484)**	-	**24 441**	**9 751 104**
Stage 1	7 354 870	-	-	-	8 862 277	(6 490 484)	-	24 441	9 751 104
Loans and advances to customers	**110 513 959**	-	-	-	**21 353 423**	**(10 833 736)**	**(210 403)**	**(2 304 278)**	**118 518 965**
Stage 1	91 214 989	6 854 362	(2 473 959)	(206 575)	20 706 280	(9 067 503)	-	(1 956 786)	105 070 808
Stage 2	14 290 332	(6 778 650)	2 670 782	(428 067)	495 184	(1 497 901)	-	(193 307)	8 558 373
Stage 3	4 714 440	(75 712)	(196 823)	630 668	93 155	(196 243)	(204 049)	(118 288)	4 647 148
POCI	294 198	-	-	3 974	58 804	(72 089)	(6 354)	(35 897)	242 636
Financial assets at amortised cost, gross	**133 821 465**	-	-	-	**30 696 165**	**(19 441 784)**	**(210 403)**	**(1 511 304)**	**143 354 139**

Change from 1 January to 31 December 2020	As at the beginning of the period	Transfer to Stage 1	Transfer to Stage 2	Transfer to Stage 3	New financial assets originated or purchased	Financial assets derecognised during the period	Write-offs	Other movements	As at the end of the period
Debt securities	**11 234 952**	-	-	-	**5 880 802**	**(1 764 212)**	-	**601 094**	**15 952 636**
Stage 1	11 234 952	-	-	-	5 880 802	(1 764 212)	-	601 094	15 952 636
Loans and advances to banks	**4 342 890**	-	-	-	**6 606 475**	**(3 784 808)**	-	**190 313**	**7 354 870**
Stage 1	4 342 890	-	-	-	6 606 475	(3 784 808)	-	190 313	7 354 870
Loans and advances to customers	**106 025 977**	-	-	-	**31 608 750**	**(22 512 717)**	**(749 991)**	**(3 858 060)**	**110 513 959**
Stage 1	93 799 388	2 138 313	(8 600 097)	(1 076 743)	28 782 346	(20 250 185)	-	(3 578 033)	91 214 989
Stage 2	7 887 489	(2 098 705)	8 684 824	(579 870)	2 346 404	(1 752 517)	-	(197 293)	14 290 332
Stage 3	4 101 512	(39 608)	(84 727)	1 552 183	466 903	(497 453)	(746 683)	(37 687)	4 714 440
POCI	237 588	-	-	104 430	13 097	(12 562)	(3 308)	(45 047)	294 198
Financial assets at amortised cost, gross	**121 603 819**	-	-	-	**44 096 027**	**(28 061 737)**	**(749 991)**	**(3 066 653)**	**133 821 465**

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

In the first half of 2021, Group withdrew gradually from using additional premisses for maintaining loans subject to the moratoria in Stage 2. The total gross carrying amount reclassified in the first half of 2021 to the Stage 1 due to cancellation of additional premisses, amounted to PLN 3 161 million.

In the first half of 2021, in the model management process, Group has implemented improvements of the sensitivity of the quantitative staging model. This resulted in reclassification of PLN 2 275 million from the Stage 2 to the Stage 1, and PLN 660 million PLN from the Stage 1 to the Stage 2.

20. Intangible assets

	30.06.2021	31.12.2020
Goodwill	27 760	27 760
Patents, licences and similar assets, including:	903 481	897 283
- computer software	*743 700*	*722 688*
Other intangible assets	7 994	8 812
Intangible assets under development	268 530	244 843
Total intangible assets	**1 207 765**	**1 178 698**

21. Tangible assets

	30.06.2021	31.12.2020
Tangible assets, including:	**607 132**	**614 346**
- land	653	653
- buildings and structures	74 163	153 403
- equipment	159 171	166 759
- vehicles	201 243	199 575
- other fixed assets	171 902	93 956
Fixed assets under construction	**98 125**	**183 142**
Right-of-use, including:	**848 730**	**717 089**
- real estate	837 435	667 387
- the right of perpetual of usufruct of land	9 579	47 670
- cars	1 431	1 547
- other	285	485
Total tangible assets	**1 553 987**	**1 514 577**

Due to the change of the headquarters of the Bank, in the first half of 2021, the Group reclassified its building at 14 Królewska St. in Warsaw, previously presented as a fixed asset in the total carrying amount of PLN 75 645 thousand and perpetual usufruct right to land, presented as right-of-use in the total carrying amount of PLN 37 747 thousand to the item "Investment property". The difference in revaluation of these components to fair value in tha amount of PLN 14 118 thousand was recognised in other comprehensive income (Note 27).

22. Financial liabilities held for trading and derivatives held for hedges

	30.06.2021	31.12.2020
Derivatives, including:	1 281 194	1 338 564
- Held for trading derivative financial instruments classified into banking book	110 735	322 135
- Held for trading derivative financial instruments classified into trading book	1 326 341	1 280 170
- Derivative financial instruments held for fair value hedging	179 357	7 646
- Derivative financial instruments held for cash flow hedging	41 109	60
- Offsetting effect	(376 348)	(271 447)
Liabilities from short sale of securities	522 576	-
Total financial liabilities held for trading and derivatives held for hedges	**1 803 770**	**1 338 564**

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

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

30.06.2021	Amount due to banks	Amount due to customers	including:		
			Individual customers	Corporate customers	Public sector customers
Deposits	**1 714 146**	**152 591 402**	**106 499 183**	**45 343 985**	**748 234**
Current accounts	964 406	142 895 847	97 672 250	44 489 786	733 811
Term deposits	-	9 476 785	8 826 933	635 429	14 423
Repo transactions	749 740	218 770	-	218 770	-
Loans and advances received	**500**	**1 784 198**	**-**	**1 784 198**	**-**
Other financial liabilities	**1 106 003**	**2 207 917**	**200 505**	**1 966 456**	**40 956**
Liabilities in respect of cash collaterals	855 266	658 995	88 812	570 183	-
Leasing liabilities	6 450	957 511	-	917 597	39 914
Other liabilities	244 287	591 411	111 693	478 676	1 042
Deposits and other financial liabilities, total	**2 820 649**	**156 583 517**	**106 699 688**	**49 094 639**	**789 190**

Short-term (up to 1 year)	2 820 649	153 903 571
Long-term (over 1 year)	-	2 679 946

31.12.2020	Amount due to banks	Amount due to customers	including:		
			Individual customers	Corporate customers	Public sector customers
Deposits	**1 665 284**	**132 795 741**	**97 862 007**	**34 488 153**	**445 581**
Current accounts	1 026 011	121 812 481	87 703 713	33 677 641	431 127
Term deposits	-	10 890 036	10 158 294	717 288	14 454
Repo transactions	639 273	93 224	-	93 224	-
Loans and advances received	**500**	**3 254 591**	**-**	**3 254 591**	**-**
Other financial liabilities	**733 956**	**1 648 336**	**114 355**	**1 493 343**	**40 638**
Liabilities in respect of cash collaterals	487 667	510 195	37 892	472 303	-
Leasing liabilities	-	771 935	-	731 349	40 586
Other liabilities	246 289	366 206	76 463	289 691	52
Deposits and other financial liabilities, total	**2 399 740**	**137 698 668**	**97 976 362**	**39 236 087**	**486 219**

Short-term (up to 1 year)	1 666 738	133 504 849
Long-term (over 1 year)	733 002	4 193 819

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

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

24. Provisions

	30.06.2021	31.12.2020
Provisions for legal proceedings, including:	261 052	200 536
- provisions for individual cases concerning indexation clauses in repaid mortgage and housing loans in CHF and for legal costs	*220 488*	*161 886*
- provisions for other legal proceedings relating to loans in foreign currencies	*25 268*	*26 581*
- provisions for remaining legal proceedings	*15 296*	*12 069*
Provisions for commitments and guarantees given	200 674	205 661
Other provisions	101 063	95 494
Provisions, total	**562 789**	**501 691**

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

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

The item Other provisions includes provisions recognized related to the judgment of the CJEU of 11 September 2020 regarding reimbursement of commissions in case of earlier loan repayments of consumer loans and mortgage loans. Detailed information regarding the abovementioned judgement are described in Note 3.

Movements in provisions

Change from 1 January to 30 June	2021			
	Provisions for individual cases concerning indexation clauses in repaid mortgage and housing loans in CHF and for legal costs	Provisions for other legal proceedings relating to loans in foreign currencies	Provisions for remaining legal proceedings	Other provisions
Provisions as at the beginning of the period	**161 886**	**26 581**	**12 069**	**95 494**
Change in the period, due to:	**58 602**	**(1 313)**	**3 227**	**5 569**
increase of provisions	51 387	502	29 814	34 685
- release of provisions	-	(213)	(968)	(1 020)
- utilization	(36 425)	(1 602)	(25 616)	(27 466)
- reclassification from/to other position of statement of financial position	43 640	-	-	-
- foreign exchange differences	-	-	(3)	(630)
Provisions as at the end of the period	**220 488**	**25 268**	**15 296**	**101 063**

Change from 1 January to 31 December	2020			
	Provisions for individual cases concerning indexation clauses in repaid mortgage and housing loans in CHF and for legal costs	Provisions for other legal proceedings relating to loans in foreign currencies	Provisions for remaining legal proceedings	Other provisions
Provisions as at the beginning of the period	**50 098**	**61 103**	**6 004**	**101 104**
Change in the period, due to:	**111 788**	**(34 522)**	**6 065**	**(5 610)**
increase of provisions	136 515	8 782	7 767	39 537
- release of provisions	-	(20 705)	(456)	(8 173)
- utilization	(24 727)	(22 599)	(1 246)	(34 600)
- reclassification from/to other position of statement of financial position	-	-	-	(3 040)
- foreign exchange differences	-	-	-	666
Provisions as at the end of the period	**161 886**	**26 581**	**12 069**	**95 494**

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

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

Change from 1 January to 30 June 2021	As at the beginning of the period	Transfer to Stage 1	Transfer to Stage 2	Transfer to Stage 3	Increases due to granting and takeover	Derecognised during the period	Changes in credit risk (net)	Changes due to new default definition	As at the end of the period
Loan commitments	**88 991**	**-**	**-**	**-**	**17 896**	**(17 583)**	**(21 883)**	**5 522**	**72 943**
Stage 1	44 157	30 490	(2 996)	(47)	11 653	(7 119)	(32 535)	(3 233)	40 370
Stage 2	36 829	(29 153)	3 244	(519)	4 271	(6 875)	10 010	3 355	21 162
Stage 3	5 510	(1 337)	(248)	566	1 640	(2 694)	404	5 404	9 245
POCI	2 495	-	-	-	332	(895)	238	(4)	2 166
Guarantees and other financial facilities	**116 670**	**-**	**-**	**-**	**56 388**	**(75 746)**	**30 395**	**24**	**127 731**
Stage 1	4 541	1 327	(185)	-	7 330	(7 060)	999	35	6 987
Stage 2	6 134	(1 327)	185	(20)	408	(2 796)	32	(11)	2 605
Stage 3	80 055	-	-	20	48 516	(34 995)	25 057	-	118 653
POCI	25 940	-	-	-	134	(30 895)	4 307	-	(514)
Provisions on off-balance sheet commitments and financial guarantees	**205 661**	**-**	**-**	**-**	**74 284**	**(93 329)**	**8 512**	**5 546**	**200 674**

Change from 1 January to 31 December 2020	As at the beginning of the period	Transfer to Stage 1	Transfer to Stage 2	Transfer to Stage 3	Increases due to granting and takeover	Derecognised during the period	Changes in credit risk (net)	As at the end of the period
Loan commitments	**63 864**	**-**	**-**	**-**	**47 811**	**(56 507)**	**33 823**	**88 991**
Stage 1	35 708	38 907	(5 912)	(5)	22 934	(17 990)	(29 485)	44 157
Stage 2	23 639	(38 907)	5 953	(317)	12 956	(14 023)	47 528	36 829
Stage 3	2 136	-	(41)	322	10 835	(23 358)	15 616	5 510
POCI	2 381	-	-	-	1 086	(1 136)	164	2 495
Guarantees and other financial facilities	**89 568**	**-**	**-**	**-**	**82 723**	**(76 229)**	**20 608**	**116 670**
Stage 1	4 781	1 425	(764)	-	15 708	(15 565)	(1 044)	4 541
Stage 2	4 713	(1 425)	764	(278)	2 526	(3 719)	3 553	6 134
Stage 3	79 684	-	-	278	38 317	(56 229)	18 005	80 055
POCI	390	-	-	-	26 172	(716)	94	25 940
Provisions on off-balance sheet commitments and financial guarantees	**153 432**	-	-	-	**130 534**	**(132 736)**	**54 431**	**205 661**

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

25. Assets and liabilities for deferred income tax

Deferred income tax assets	30.06.2021	31.12.2020
As at the beginning of the period	**1 635 815**	**1 473 790**
Changes recognized in the income statement	161 992	163 244
Changes recognized in other comprehensive income	(4 315)	9 464
Other changes	(4 609)	(10 683)
As at the end of the period	**1 788 883**	**1 635 815**

Provisions for deferred income tax	30.06.2021	31.12.2020
As at the beginning of the period	**(782 625)**	**(536 160)**
Changes recognized in the income statement	(117 200)	(132 986)
Changes recognized in other comprehensive income	129 101	(113 479)
As at the end of the period	**(770 724)**	**(782 625)**

Income tax	from 01.01.2021 to 30.06.2021	from 01.01.2020 to 30.06.2020
Current income tax	(361 852)	(154 672)
Deferred income tax recognised in the income statement	44 792	(29 861)
Income tax recognised in the income statement	**(317 060)**	**(184 533)**
Recognised in other comprehensive income	124 786	(134 913)
Total income tax	**(192 274)**	**(319 446)**

26. Retained earnings

Retained earnings include: other supplementary capital, other reserve capital, general banking risk reserve, profit (loss) from the previous years and profit for the current year.

Other supplementary capital, other reserve capital and general banking risk reserve are created from profit for the current year and their aim is described in the by-laws or in other regulations of the law.

	30.06.2021	31.12.2020
Other supplementary capital	9 916 912	9 911 964
Other reserve capital	104 871	101 325
General banking risk reserve	1 153 753	1 153 753
Profit from the previous year	1 329 607	1 230 724
Profit for the current year	425 808	103 831
Total retained earnings	**12 930 951**	**12 501 597**

According to the Polish legislation, each Bank is required to allocate 8% of its net profit to a statutory undistributable other supplementary capital until this supplementary capital reaches 1/3 of the share capital.

In addition, the Group transfers some of its net profit to the general banking risk reserve to cover unexpected risks and future losses. The general banking risk reserve can be distributed only on consent of shareholders at a general meeting.

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

27. Other components of equity

	30.06.2021	31.12.2020
Exchange differences on translating foreign operations	**(2 035)**	**(2 392)**
Unrealized gains (foreign exchange gains)	6 475	30 888
Unrealized losses (foreign exchange losses)	(8 510)	(33 280)
Cash flow hedges	**167 796**	**419 130**
Unrealized gains	228 378	569 033
Unrealized losses	(21 222)	(51 589)
Deferred income tax	(39 360)	(98 314)
Valuation of debt securities at fair value through other comprehensive income	**14 101**	**185 333**
Unrealized gains on debt instruments	26 230	258 069
Unrealized losses on debt instruments	(9 691)	(1 784)
Deferred income tax	(2 438)	(70 952)
Actuarial gains and losses relating to post-employment benefits	**(17 570)**	**(17 570)**
Actuarial gains	32	32
Actuarial (losses)	(21 724)	(21 724)
Deferred income tax	4 122	4 122
Investment properties	**11 436**	**-**
Gains or losses on investment properties included in other comprehensive income	14 118	-
Deferred income tax	(2 682)	-
Total other components of equity	**173 728**	**584 501**

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

In line with IFRS 9, for accounting purposes, the Group determines the valuation of its assets and liabilities through amortised cost or through fair value. In addition, for the positions that are valued through amortised cost, there is calculated and disclosed the fair value, but only for disclosure purposes – according to IFRS 7.

The approach to the method used for the loans that are fair valued in line of IFRS 9 requirements, is described in the Note 3.3.7 to the Consolidated Financial Statements of mBank Group for 2020, published on 25 February 2021.

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

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

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

Financial assets and liabilities at amortised cost

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

	30.06.2021		31.12.2020	
	Book value	Fair value	Book value	Fair value
Financial assets at amortised cost				
Debt securities	**15 083 951**	**15 113 890**	**15 952 501**	**16 445 401**
Loans and advances to banks	**9 750 443**	**9 743 550**	**7 354 268**	**7 347 513**
Loans and advances to customers, including:	**114 811 615**	**114 990 919**	**106 873 133**	**107 694 550**
Loans and advances to individuals	**67 155 868**	**68 802 945**	**62 929 892**	**64 818 035**
Current accounts	7 185 362	7 395 808	6 807 188	6 948 249
Term loans	59 601 789	61 038 420	55 831 484	57 578 566
Other	368 717	368 717	291 220	291 220
Loans and advances to corporate entities	**47 436 219**	**45 964 474**	**43 713 672**	**42 641 296**
Current accounts	5 133 093	4 962 219	4 105 526	3 989 429
Term loans, including finance lease	37 662 987	36 360 602	37 016 811	36 060 532
Reverse repo or buy/sell back transactions	1 557 695	1 557 695	103 832	103 832
Other loans and advances	3 056 280	3 057 794	2 471 122	2 471 122
Other	26 164	26 164	16 381	16 381
Loans and advances to public sector	**219 528**	**223 500**	**229 569**	**235 219**
Financial liabilities at amortised cost				
Amounts due to other banks	**2 820 649**	**2 820 649**	**2 399 740**	**2 399 740**
Amounts due to customers	**156 583 517**	**156 594 647**	**137 698 668**	**137 726 122**
Debt securities in issue	**13 060 997**	**13 200 607**	**13 996 317**	**14 172 566**
Subordinated liabilities	**2 542 224**	**2 511 674**	**2 578 327**	**2 552 098**

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

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

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

<u>Financial liabilities</u>

Financial instruments representing liabilities for the Group include the following:

- contracted borrowings;
- deposits;
- issues of debt securities;
- subordinated liabilities.

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

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

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

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

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

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

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

Financial assets and liabilities measured at fair value

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

30.06.2021	including:	Level 1	Level 2	Level 3
		Quoted prices in active markets	Valuation techniques based on observable market data	Other valuation techniques
RECURRING FAIR VALUE MEASUREMENTS				
Financial assets				
Financial assets held for trading and hedging derivatives	**3 071 575**	**949 596**	**1 620 466**	**501 513**
Loans and advances to customers	44 587	-	-	44 587
Debt securities	1 327 844	949 596	-	378 248
Derivative financial instruments, including:	1 699 144	-	1 620 466	78 678
Derivative financial instruments held for trading	1 635 759	-	1 635 759	-
Hedging derivative financial instruments	715 936	-	637 258	78 678
Offsetting effect	(652 551)	-	(652 551)	-
Non-trading financial assets mandatorily at fair value through profit or loss	**1 676 705**	**1 000**	**-**	**1 675 705**
Loans and advances to customers	1 385 139	-	-	1 385 139
Debt securities	82 064	-	-	82 064
Equity securities	209 502	1 000	-	208 502
Financial assets at fair value through other comprehensive income	**32 046 002**	**30 440 675**	**679 979**	**925 348**
Debt securities	32 046 002	30 440 675	679 979	925 348
Total financial assets	**36 794 282**	**31 391 271**	**2 300 445**	**3 102 566**
Financial liabilities				
Derivative financial instruments, including:	1 281 194	-	1 281 194	-
Derivative financial instruments held for trading	1 437 076	-	1 437 076	-
Hedging derivative financial instruments	220 466	-	220 466	-
Offsetting effect	(376 348)	-	(376 348)	-
Liabilities from short sale of securities	522 576	522 576	-	-
Total financial liabilities	**1 803 770**	**522 576**	**1 281 194**	**-**

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

Assets measured at fair value based on Level 3 **changes in the period from 1 January to 30 June 2021**	**Debt trading securities**	**Derivative financial instruments**	**Non-trading debt securities mandatorily at fair value through profit or loss**	**Non-trading equity securities mandatorily at fair value through profit or loss**	**Debt securities at fair value through other comprehensive income**
As at the beginning of the period	**309 949**	**121 029**	**76 068**	**201 344**	**990 351**
Gains and losses for the period:	**3 911**	**(42 351)**	**5 996**	**649**	**(10 882)**
Recognised in profit or loss:	3 911	(26 570)	5 996	649	-
Net trading income	*3 911*	*(26 570)*	*832*	-	-
Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss	-	-	*5 164*	-	-
Gains or losses on subsidiaries and associates	-	-	-	*649*	-
Recognised in other comprehensive income:	-	(15 781)	-	-	(10 882)
Financial assets at fair value through other comprehensive income	-	-	-	-	*(10 882)*
Cash flow hedges	-	*(15 781)*	-	-	-
Purchases	1 392 225	-	-	10 852	414 539
Redemptions	(51 508)	-	-	(4 343)	(345 605)
Sales	(4 446 108)	-	-	-	(907 416)
Issues	3 169 779	-	-	-	784 361
As at the end of the period	**378 248**	**78 678**	**82 064**	**208 502**	**925 348**

31.12.2020	**including:**	**Level 1**	**Level 2**	**Level 3**
		Quoted prices in active markets	**Valuation techniques based on observable market data**	**Other valuation techniques**
RECURRING FAIR VALUE MEASUREMENTS				
Financial assets				
Financial assets held for trading and hedging derivatives	**2 586 721**	**366 517**	**1 601 324**	**618 880**
Loans and advances to customers	187 902	-	-	187 902
Debt securities	676 466	366 517	-	309 949
Derivative financial instruments, including:	1 722 353	-	1 601 324	121 029
Derivative financial instruments held for trading	1 765 395	-	1 765 395	-
Hedging derivative financial instruments	1 079 403	-	958 374	121 029
Offsetting effect	(1 122 445)	-	(1 122 445)	-
Non-trading financial assets mandatorily at fair value through profit or loss	**1 784 691**	**960**	**-**	**1 783 731**
Loans and advances to customers	1 506 319	-	-	1 506 319
Debt securities	76 068	-	-	76 068
Equity securities	202 304	960	-	201 344
Financial assets at fair value through other comprehensive income	**35 498 061**	**34 322 714**	**184 996**	**990 351**
Debt securities	35 498 061	34 322 714	184 996	990 351
Total financial assets	**39 869 473**	**34 690 191**	**1 786 320**	**3 392 962**
Financial liabilities				
Derivative financial instruments, including:	1 338 564	-	1 338 564	-
Derivative financial instruments held for trading	1 602 305	-	1 602 305	-
Hedging derivative financial instruments	7 706	-	7 706	-
Offsetting effect	(271 447)	-	(271 447)	-
Total financial liabilities	**1 338 564**	**-**	**1 338 564**	**-**

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

Assets measured at fair value based on Level 3 changes in the period from 1 January to 31 December 2020	Debt trading securities	Derivative financial instruments	Non-trading debt securities mandatorily at fair value through profit or loss	Non-trading equity securities mandatorily at fair value through profit or loss	Debt securities at fair value through other comprehensive income
As at the beginning of the period	**403 028**	**(7 524)**	**133 774**	**161 791**	**1 032 369**
Gains and losses for the period:	**20 578**	**128 553**	**12 632**	**46 612**	**10 868**
Recognised in profit or loss:	20 578	108 234	12 632	46 612	-
Net trading income	*20 578*	*108 234*	*1 922*	*91*	-
Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss	-	-	*10 710*	*48 657*	-
Gains or losses on subsidiaries and associates	-	-	-	*(2 136)*	-
Recognised in other comprehensive income:	-	20 319	-	-	10 868
Financial assets at fair value through other comprehensive income	-	-	-	-	*10 868*
Cash flow hedges	-	*20 319*	-	-	-
Purchases	1 516 096	-	-	1 648	676 697
Redemptions	(164 337)	-	-	-	(385 844)
Sales	(7 680 403)	-	-	(8 707)	(4 624 885)
Issues	6 214 987	-	-	-	4 281 146
Conversion	-	-	(70 338)	-	-
As at the end of the period	**309 949**	**121 029**	**76 068**	**201 344**	**990 351**

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

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

Level 1

As at 30 June 2021, at level 1 of the fair value hierarchy, the Group has presented the fair value of held for trading government bonds in the amount of PLN 949 596 thousand (see Note 16) and the fair value of government bonds and treasury bills measured at fair value through other comprehensive income in the amount of PLN 29 038 942 thousand (see Note 18) (31 December 2020 respectively: PLN 366 517 thousand and PLN 33 141 490 thousand). Level 1 includes the fair values of corporate bonds in the amount of PLN 1 401 733 thousand (31 December 2020: PLN 1 181 224 thousand).

In addition, as at 30 June 2021 level 1 includes the value of the registered privileged shares of Giełda Papierów Wartościowych in the amount of PLN 1 000 thousand (31 December 2020: PLN 960 thousand).

As at 30 June 2021, level 1 also includes liabilities from short sale of securities in the amount of PLN 522 576 thousand.

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

Level 2

Level 2 of the fair value hierarchy mainly includes the fair values of bills issued by NBP in the amount of PLN 679 979 thousand (31 December 2020: PLN 184 996 thousand), whose valuation is based on a NPV model (discounted future cash flows) fed with interest rate curves generated by transformation of quotations taken directly from active and liquid financial markets.

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

Level 3

Level 3 of the hierarchy presents the fair values of commercial debt securities issued by local banks and companies in the amount of PLN 1 349 293 thousand (31 December 2020: PLN 1 340 033 thousand) and includes the fair value of a debt instrument measured at fair value through profit or loss, representing the rights to preferred stock of Visa Inc.

Level 3 includes also the fair value of local government bonds in the amount of PLN 36 367 thousand (31 December 2020 - PLN 36 335 thousand).

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

Level 3 as at 30 June 2021 includes the value of loans and advances to customers in the amount of PLN 1 429 726 thousand (31 December 2020 – PLN 1 694 221 thousand). The Fair Value calculation process for loans and advances to customers is described detailly on the Note 3.3.7. of Consolidated financial statement of Group of mBank S.A. for 2020, published on 25 February 2021.

Moreover, level 3 covers mainly the fair value of equity securities amounting to PLN 208 502 thousand (31 December 2020: PLN 201 344 thousand). The equity securities presented at level 3 have been valuated using the market multiples method. The market multiples method, consists of valuating the equity capital of a company by using a relation between the market values of the own equity capital or market values of the total capital invested in comparable companies (goodwill) and selected economic and financial figures.

Level 3 also includes the valuation of CIRS contracts concluded under cash flow hedge accounting of the PLN mortgage loan portfolio and covered bonds issued by mBank Hipoteczny (for more information, see Note 16). As at 30 June 2021, the valuation of these contracts was positive (presented in assets) and amounted to PLN 78 678 thousand (31 December 2020: PLN 121 029 thousand – presented in assets).

29. Prudential consolidation

According to the Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending regulation (EU) No 648/2012 ("CRR Regulation"), mBank is a significant subsidiary of EU parent institution, responsible for the preparation of the prudentially consolidated financial data to fulfil the requirement of disclosures described in IAS 1.135 "Presentation of Financial Statements".

Financial information presented below does not represent the International Financial Reporting Standards ("IFRS") measures as defined by the standards.

mBank S.A. Group ("the Group") consists of entities defined in accordance with the rules of prudential consolidation, specified by the CRR Regulation.

Basis of the preparation of the consolidated financial data

mBank S.A. Group consolidated financial data based on the rules of prudential consolidation specified by the CRR Regulation ("Prudentially consolidated financial data") have been prepared for the 6-month period ended 30 June 2021 and for the 6-month period ended 30 June 2020.

The consolidated profit presented in the prudentially consolidated financial data may be included in consolidated Common Equity Tier 1 for the purpose of the calculation of consolidated Common Equity Tier 1 capital ratio, consolidated Tier 1 capital ratio and consolidated total capital ratio with the prior permission of the KNF or after approval by the General Meeting of shareholders.

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

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

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

Company	30.06.2021		31.12.2020		30.06.2020	
	Share in voting rights (directly and indirectly)	Consolidation method	Share in voting rights (directly and indirectly)	Consolidation method	Share in voting rights (directly and indirectly)	Consolidation method
mBank Hipoteczny S.A.	100%	full	100%	full	100%	full
mLeasing Sp. z o.o.	100%	full	100%	full	100%	full
mFinanse S.A.	100%	full	100%	full	100%	full
mFaktoring S.A.	100%	full	100%	full	100%	full
Future Tech Fundusz Inwestycyjny Zamknięty	98.04%	full	98.04%	full	98.04%	full
Tele-Tech Investment Sp. z o.o.	100%	full	100%	full	100%	full
Asekum Sp. z o.o.	100%	full	100%	full	100%	full
LeaseLink Sp. z o.o.	100%	full	100%	full	100%	full
mElements S.A.	100%	full	100%	full	100%	full
mFinance France S.A.	-	-	-	-	99.998%	full

As of December 2020, the consolidation of mFinance France S.A. was discontinued.

Entities included in the scope of prudential consolidation are defined in the Regulation CRR – institutions, financial institutions or ancillary services undertakings, which are subsidiaries or undertakings in which a participation is held, except for entities in which the total amount of assets and off-balance sheet items of the undertaking concerned is less than the smaller of the following two amounts:

- EUR 10 million;
- 1 % of the total amount of assets and off-balance sheet items of the parent undertaking or the undertaking that holds the participation.

The consolidated financial data combine items of assets, liabilities, equity, income and expenses of the parent with those of its subsidiaries eliminating the carrying amount of the parent's investment in each subsidiary and the parent's portion of equity of each subsidiary. Thus arises goodwill. If goodwill has negative value, it is recognised directly in the income statement. The profit or loss and each component of other comprehensive income is attributed to the Group's owners and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. If the Group loses control of a subsidiary, it shall account for all amounts previously recognised in other comprehensive income in relation to that subsidiary on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

Intra-group transactions, balances and unrealised gains on transactions between companies of the Group are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

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

Prudentially consolidated income statement

	Period from 01.04.2021 to 30.06.2021	Period from 01.01.2021 to 30.06.2021	Period from 01.04.2020 to 30.06.2020	Period from 01.01.2020 to 30.06.2020
Interest income, including:	1 035 117	2 054 440	1 211 045	2 546 348
Interest income accounted for using the effective interest method	*917 810*	*1 815 641*	*1 085 353*	*2 313 785*
Income similar to interest on financial assets at fair value through profit or loss	*117 307*	*238 799*	*125 692*	*232 563*
Interest expenses	(73 638)	(146 124)	(204 005)	(473 518)
Net interest income	**961 479**	**1 908 316**	**1 007 040**	**2 072 830**
Fee and commission income	646 334	1 292 272	535 487	1 079 913
Fee and commission expenses	(193 763)	(371 641)	(172 549)	(354 298)
Net fee and commission income	**452 571**	**920 631**	**362 938**	**725 615**
Dividend income	3 472	3 912	4 179	4 479
Net trading income	43 587	106 765	39 545	84 350
Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss	4 594	(6 879)	16 509	(43 706)
Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss	3 000	92 146	5 240	1 564
Other operating income	53 020	108 007	74 586	115 583
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss	(225 324)	(380 991)	(344 115)	(713 914)
Costs of legal risk related to foreign currency loans	(248 537)	(314 805)	(188 972)	(201 883)
Overhead costs	(467 855)	(1 020 593)	(454 950)	(1 093 561)
Depreciation	(112 336)	(224 227)	(116 362)	(213 872)
Other operating expenses	(82 010)	(163 493)	(48 791)	(104 868)
Operating profit	**385 661**	**1 028 789**	**356 847**	**632 617**
Taxes on the Group balance sheet items	(147 165)	(285 986)	(138 417)	(270 247)
Profit before income tax	**238 496**	**742 803**	**218 430**	**362 370**
Income tax expense	(129 822)	(317 036)	(131 499)	(184 533)
Net profit	**108 674**	**425 767**	**86 931**	**177 837**

Net profit attributable to:				
- Owners of mBank S.A.	108 683	425 808	86 983	177 900
- Non-controlling interests	(9)	(41)	(52)	(63)

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

Prudentially consolidated statement of financial position

ASSETS	30.06.2021	31.12.2020 - restated
Cash and balances with the Central Bank	16 523 318	3 968 691
Financial assets held for trading and hedging derivatives	3 071 575	2 586 721
Non-trading financial assets mandatorily at fair value through profit or loss, including:	1 683 339	1 791 292
Equity instruments	*216 136*	*208 905*
Debt securities	*82 064*	*76 068*
Loans and advances to customers	*1 385 139*	*1 506 319*
Financial assets at fair value through other comprehensive income	32 040 042	35 492 108
Financial assets at amortised cost, including:	139 645 759	130 179 652
Debt securities	*15 083 951*	*15 952 501*
Loans and advances to banks	*9 750 443*	*7 354 268*
Loans and advances to customers	*114 811 365*	*106 872 883*
Fair value changes of the hedged items in portfolio hedge of interest rate risk	161 103	-
Intangible assets	1 207 765	1 178 698
Tangible assets	1 553 987	1 514 578
Investment properties	127 510	-
Current income tax assets	15 461	23 957
Deferred income tax assets	1 018 241	853 869
Other assets	1 423 200	1 282 424
TOTAL ASSETS	**198 471 300**	**178 871 990**
LIABILITIES AND EQUITY		
LIABILITIES		
Financial liabilities held for trading and hedging derivatives	1 803 770	1 338 564
Financial liabilities measured at amortised cost, including:	175 007 872	156 673 479
Amounts due to banks	*2 820 649*	*2 399 740*
Amounts due to customers	*156 584 002*	*137 699 095*
Debt securities issued	*13 060 997*	*13 996 317*
Subordinated liabilities	*2 542 224*	*2 578 327*
Fair value changes of the hedged items in portfolio hedge of interest rate risk	33 788	59 624
Provisions	562 789	501 691
Current income tax liabilities	92 230	225 796
Deferred income tax liabilities	87	690
Other liabilities	4 277 161	3 397 079
TOTAL LIABILITIES	**181 777 697**	**162 196 923**
EQUITY		
Equity attributable to Owners of mBank S.A.	**16 691 714**	**16 673 133**
Share capital:	**3 587 035**	**3 587 035**
Registered share capital	169 468	169 468
Share premium	3 417 567	3 417 567
Retained earnings:	**12 930 951**	**12 501 597**
Profit from the previous years	12 505 143	12 397 766
Profit for the current year	425 808	103 831
Other components of equity	**173 728**	**584 501**
Non-controlling interests	**1 889**	**1 934**
TOTAL EQUITY	**16 693 603**	**16 675 067**
TOTAL LIABILITIES AND EQUITY	**198 471 300**	**178 871 990**

SELECTED EXPLANATORY INFORMATION

1. Compliance with international financial reporting standards

The presented condensed consolidated report for the first half of 2021 fulfils the requirements of the International Accounting Standard (IAS) 34 "Interim Financial Reporting" relating to interim financial reports.

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

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

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

3. Seasonal or cyclical nature of the business

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

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

In the first half of 2021 the COVID-19 pandemic significantly affected the Group's activity, including affecting the level of expected credit losses charges and valuation of loan portfolio measured at fair value through profit or loss. The financial results for the first half of 2021 also include additional costs of legal risk related to individual court cases regarding indexation clauses in mortgage and housing loans in CHF in the amount of PLN 314.8 million. Detailed information in this regard is presented in Note 3 "Major estimates and judgments made in connection with the application of accounting policy principles".

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

The financial results for the first half of 2021 also include additional costs of legal risk related to individual court cases regarding indexation clauses in mortgage and housing loans in CHF in the amount of PLN 314.8 million. The increase of the impact of the legal risk in the first half of 2021 resulted mainly from higher than expected inflow of cases in the first half of 2021 and changes in level of loss on loan exposure in case of losing the case by the Bank. Detailed information in this regard is presented in Note 3 "Major estimates and judgments made in connection with the application of accounting policy principles".

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

In the first half of 2021, the following issues and redemptions occurred in the Group:

- mLeasing Sp. z o.o. issued short-term bonds in the amount of PLN 598 949 thousand and redeemed short-term bond in the amount of PLN 600 000 thousand,
- mBank Hipoteczny S.A. redeemed mortgage bonds in the amount of PLN 527 210 thousand and corporate bonds in the amount of PLN 100 000 thousand.

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

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

8. Significant events after the end of the first half of 2021, which are not reflected in the financial statements

Events as indicated above did not occur in the Group.

9. Effect of changes in the structure of the entity in the first half of 2021, including business combinations, acquisitions or disposal of subsidiaries, long-term investments, restructuring, and discontinuation of business activities

On 8 April 2021 a company under the name of mTowarzystwo Funduszy Inwestycyjnych Spółka Akcyjna (mTFI S.A.) was founded. On that day Bank acquired 100% shares of mTFI S.A., representing 100% votes at the general meeting of mTFI S.A.

On 22 April 2021, the Ordinary General Shareholders' Meeting of the subsidiary mFinance France SA, in which the Bank holds directly and via its subsidiary mInvestment Banking S.A. 100% of shares and 100 % of votes in the share capital, decided to end the liquidation of the subsidiary on 22 April 2021 and thus to submit an application for the removal of the Subsidiary from the French register of enterprises.

10. Changes in contingent liabilities and commitments

In the first half of 2021, there were no changes in contingent liabilities and commitments of credit nature, i.e. guarantees, letters of credit or unutilised loan amounts, other than resulting from current operating activities of the Group. There was no single case of granting of guarantees or any other contingent liability of any material value for the Group.

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

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

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

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

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

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

14. Reversals of provisions against restructuring costs

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

15. Acquisitions and disposals of tangible fixed asset items

In the first half of 2021, there were no material transactions of acquisition or disposal of any tangible fixed assets, with the exception of typical lease operations that are performed by the companies of the Group.

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

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

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

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

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

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

19. Corrections of errors from previous reporting periods

In the first half of 2021, events as indicated above did not occur in the Group. The restatements of comparative data have been described in the Note 2, in the item "Comparative data".

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 (amortised cost)

The fair value of financial assets and liabilities was impacted by the actions related to COVID-19 pandemic, undertaken in Poland as well as worldwide. Since the beginning of first half of 2021, Poland has maintained the restrictions introduced in 2020. In spite of their partial relaxation, they were reintroduced in the beginning of March 2021 due to an increase in new cases of infection and spreading of British variation of the virus. After passing through the peak number of new infections in the third phase of pandemic, Poland started to relax the restrictions gradually and most of the pandemic restrictions were ceased by the end of the first half of the year.

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

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 policy principles".

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

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

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

The Bank did not publish a performance forecast for the year 2021.

23. Registered share capital

The total number of ordinary shares as at 30 June 2021 was 42 367 040 shares (31 December 2020: 42 367 040 shares) at PLN 4 nominal value each. All issued shares were fully paid up.

REGISTERED SHARE CAPITAL (THE STRUCTURE) AS AT 30 JUNE 2021						
Number of shares	**Series / face value of issue in PLN**	**Paid up**	**Registered on**	**Number of shares**	**Series / face value of issue in PLN**	**Paid up**
ordinary bearer*	-	-	9 989 000	39 956 000	fully paid in cash	1986
ordinary registered*	-	-	11 000	44 000	fully paid in cash	1986
ordinary bearer	-	-	2 500 000	10 000 000	fully paid in cash	1994
ordinary bearer	-	-	2 000 000	8 000 000	fully paid in cash	1995
ordinary bearer	-	-	4 500 000	18 000 000	fully paid in cash	1997
ordinary bearer	-	-	3 800 000	15 200 000	fully paid in cash	1998
ordinary bearer	-	-	170 500	682 000	fully paid in cash	2000
ordinary bearer	-	-	5 742 625	22 970 500	fully paid in cash	2004
ordinary bearer	-	-	270 847	1 083 388	fully paid in cash	2005
ordinary bearer	-	-	532 063	2 128 252	fully paid in cash	2006
ordinary bearer	-	-	144 633	578 532	fully paid in cash	2007
ordinary bearer	-	-	30 214	120 856	fully paid in cash	2008
ordinary bearer	-	-	12 395 792	49 583 168	fully paid in cash	2010
ordinary bearer	-	-	16 072	64 288	fully paid in cash	2011
ordinary bearer	-	-	36 230	144 920	fully paid in cash	2012
ordinary bearer	-	-	35 037	140 148	fully paid in cash	2013
ordinary bearer	-	-	36 044	144 176	fully paid in cash	2014
ordinary bearer	-	-	28 867	115 468	fully paid in cash	2015
ordinary bearer	-	-	41 203	164 812	fully paid in cash	2016
ordinary bearer	-	-	31 995	127 980	fully paid in cash	2017
ordinary bearer	-	-	24 860	99 440	fully paid in cash	2018
ordinary bearer	-	-	13 385	53 540	fully paid in cash	2019
ordinary bearer	-	-	16 673	66 692	fully paid in cash	2020
Total number of shares			**42 367 040**			
Total registered share capital				**169 468 160**		
Nominal value per share (PLN)		**4**				

* As at the end of the reporting period

24. Material share packages

Commerzbank AG is a shareholder holding over 5% of the share capital and votes at the General Meeting and as at 30 June 2021 it held 69.28% of the share capital and votes at the General Meeting of mBank S.A. In the first half of 2021 there were no changes in the ownership structure of Bank's material shares packages.

Another shareholder holding over 5% of the share capital and votes at the General Meeting are also the funds managed by Nationale-Nederlanden PTE. According to the information received by Bank on 8 December 2020, the funds held 2 178 642 shares in total, which represented 5.14% of the share capital of mBank S.A. and entitled to 2 178 642 votes at the General Meeting.

In the first half of 2021, there were no changes in the ownership structure of Bank's material shares packages.

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

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

	Number of shares held as at the date of publishing the report for the Q1 2021	Number of shares acquired from the date of publishing the report for Q1 2021 to the date of publishing the report for HY 2021	Number of shares sold from the date of publishing the report for Q1 2021 to the date of publishing the report for HY 2021	Number of shares held as at the date of publishing the report for HY 2021
Management Board				
1. Cezary Stypułkowski	23 250	-	-	23 250
2. Andreas Böger	819	-	-	819
3. Krzysztof Dąbrowski	1 682	-	-	1 682
4. Cezary Kocik	2 161	-	-	2 161
5. Marek Lusztyn	-	-	-	-
6. Adam Pers	158	-	158	-

As at the date of publishing the report for the first quarter of 2021 and as at the date of publishing the report for the first half of 2021, the Members of the Management Board had no and they have no rights to Bank's shares.

As at the date of publishing the report for the first quarter of 2021 and as at the date of publishing the report for the first half of 2021, the Member of the Supervisory Board of mBank S.A. Mr Jörg Hessenmüller had the 7 958 Bank's shares.

As at the date of publishing the report for the first quarter of 2021 and as at the date of publishing the report for the first half of 2021, the other Members of the Supervisory Board of mBank S.A. had neither Bank shares nor rights to Bank shares.

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

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

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

The value of provisions for litigations as at 30 June 2021 amounted to PLN 261 052 thousand (PLN 200 536 thousand as at 31 December 2020). A potential outflow of funds due to the fulfilment of the obligation takes place at the moment of the final resolution of the cases by the courts, which is beyond the control of the Group.

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

1. Claims of Interbrok's clients

   Since 2008, the Bank has received 9 claims for damages in connection with the activities of Interbrok Investment E. Dróżdż i Spółka Spółka jawna (hereinafter Interbrok). Eight of the nine lawsuits were filed by former clients of Interbrok for the total amount of PLN 800 thousand with the proviso that the claims may be extended up to the total amount of PLN 5 950 thousand. The plaintiffs alleged that the Bank had aided in Interbrok's illegal activities, which caused damage to them. With regard to seven of the afore-mentioned cases, legal proceedings against the Bank were dismissed and the cases were finally concluded. In the eighth case, a plaintiff withdrew their suit waiving the claim and the Regional Court dismissed the action. As far as the ninth suit is concerned, the amount in dispute is PLN 276 499 thousand, including statutory interest and costs of proceedings. According to the claims brought in the suit, this amount comprises the receivables, acquired by the plaintiff by way of assignment, due to the parties aggrieved by Interbrok on account of a reduction (as a result of Interbrok's bankruptcy) of the receivables by a return of the deposits paid by the aggrieved for making investments on the forex market. The plaintiff claims the Bank's liability on the grounds of the Bank's aid in committing the illicit act of Interbrok, consisting in unlicensed brokerage operations. On 7 November 2017, the Regional Court in Warsaw dismissed the action in its entirety. The ruling is not final. The plaintiff appealed. By the judgment of 25 January 2021, the Court of Appeal in Warsaw dismissed the appeal of the plaintiff. The judgment of the District Court in Warsaw and the judgment of the Court of Appeal in Warsaw are final. The plantiff has the right to appeal against the sentence in the Supreme Court.

2. A lawsuit filed by LPP S.A.

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

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

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

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

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

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

   On 28 May 2020, mBank S.A. filed a response to the lawsuit and moved for a dismissal of a claim. The Court allowed for the motions of Defendants to summon 16 banks to participate in the case and preordained the service of a summoning motion to the banks. Two banks have notified of their intention to intervene in the case as an indirect intervener.

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

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

   As at 17 October 2012, the group of class members consisted of 1 247 individuals. On 3 July 2013, the Court announced its judgment allowing the claim in full. According to the Court, the Bank did not properly execute the agreements concluded with consumers, as a result of which they suffered losses. On 30 April 2014, the Court of Appeal in Łódź dismissed the appeal of mBank S.A., upholding the stance adopted by the Regional Court expressed in the judgment. On 14 May 2015, the Supreme Court revoked the ruling of the Court of Appeal in Łódź and referred the case back to that court for re examination. By the decision of 24 September 2015, the Court of Appeal in Łódź admitted the expert opinion evidence in order to verify the legality of mBank's actions connected with changing the interest rates on the mortgage loans covered by the class action in the period from 1 January 2009 to 28 February 2010. On Hearing which took place on 15 July 2020 mBank S.A. withdrew mBank's appeal against the ruling of 9 September 2013. In consequence the Appeal Court decided to dismissed proceedings what means that the ruling of the District Court in Łódź dated 3 July 2013 is final and non appealable. The ruling dated 3 July 2013 does not question the validity of the concluded credit agreements. Once the ruling becomes final and non-appealable:

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

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

The total value of claims in this class action amounted to PLN 5.2 million.

This case has already been validly closed. Up to now mBank has made most of the transfers to consumers taking part in these proceedings and adjusted the interest rate in all the loan contracts included in the proceeding until the sentence.

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

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

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

   As decided by the Court on 13 March 2018, the group is composed of 1 731 persons. On 19 October 2018 the court issued a judgment in which it dismissed all claim of the plaintiff. In the oral justification, the court stated that the Plaintiff had not shown that he had a legal interest in bringing the claim in question, and also referred to the validity of loan agreements indexed by CHF, stressing that both the contract itself and the indexation clause are in compliance with both applicable regulations and rules of social coexistence. On 11 January 2019, the appeal of the plaintiff to which the Bank submitted a response. On 27 February 2020, a hearing was held at the Court of Appeal in Łódź. On 9 March 2020, a verdict was passed in a case in which the Court of Appeal referred the case for re-examination of the Regional Court. On 9 June 2020, the Court of Appeal agreed to the plaintiff's motion to secure the plaintiff's claims by suspending the obligation to repay principal and interest instalments and prohibiting the bank from issuing calls for payment and terminating credit agreements. The proceeding before the Court of first instance were suspended until the resolution undertaken by the full cabinet of Civil Chamber of the Supreme Court.

   As at 30 June 2021 the total value of claims in this class actions amounted to PLN 377 million.

6. Individual court proceedings concerning indexation clauses

   Apart from the class action proceeding there are also individual court proceedings initiated against the Bank by its customers in connection with CHF loan agreements. As of 30 June 2021 – 10 568 individual court proceedings (31 December 2020: 7 508 proceedings) were initiated against the Bank by its customers in connection with CHF loan agreements with the total value of claims amounting to PLN 2 424.2 million (31 December 2020: PLN 1 454.2 million).

   Out of the individual proceedings 10 072 proceedings (31 December 2020: 6 870 proceedings) with the total value of claims amounting to PLN 2 413.9 million (31 December 2020: PLN 1 442.2 million) related to indexation clauses in CHF loan agreements and include claims for declaring ineffectiveness or invalidity in part (i.e. to the extent that the agreement contains contractual provisions related to indexation) or invalidity in whole of the loan agreements.

   The carrying amount of mortgage and housing loans granted to individual customers in CHF as at 30 June 2021 amounted to PLN 11.0 billion (i.e. CHF 2.7 billion) compared to PLN 12.3 billion (i.e. CHF 2.9 billion) as at the end of 2020. Additionally the volume of the portfolio of loans granted in CHF that were already fully repaid as of 30 June 2021 amounted to PLN 7.0 billion (31 December 2020: PLN 6.8 billion).

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

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

On 3 October 2019 the Court of Justice of the European Union issued the ruling in the prejudicial mode regarding a mortgage linked to the Swiss franc granted by a Polish bank. The submitted prejudicial questions were to determine, among other things, if a generally applicable custom can be used where there is no provision in domestic law that could replace an abusive exchange rate clause. In accordance with CJEU's ruling, the question of abusiveness will be decided by Polish courts. CJEU did not refer to this issue. In addition, CJEU did not make a clear-cut decision regarding the consequences of an exchange rate clause being considered abusive by a domestic court. However, the possibility of a credit agreement being performed further in PLN and with interest calculated according to LIBOR was found doubtful by the Court.

If an exchange rate clause is found abusive, a domestic court must decide whether the agreement in question can be performed further or should be declared invalid, taking into account the client's will and the consequences of invalidity for the client. CJEU approved the application of a disposable norm (in the bank's opinion article 358 of the Polish Civil Code referring to the NBP fixing rate can be considered to be a disposable norm), if the invalidity of the agreement would be unfavourable for the client. CJEU rejected the application of general provisions referring to a custom or equity principles.

In October 2020, prejudicial questions were referred to CJEU in two individual cases against mBank. The question referred in first case aims at determining the starting point for the limitation period in the case of consumer claims for undue performance. The question referred in the second case aims at determining whether, in the event of declaring the exchange rate clause abusive, it is possible to apply in its place the provision of the Civil Code referring to the average NBP exchange rate.

The Bank expects decisions on both these matters at the turn of 2021 and 2022.

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

Supreme Court resolutions on loans in CHF

On 29 January 2021 the motion for adopting a resolution has been submitted to the Supreme Court by the First President of the Supreme Court. The full bench of the Civil Chamber of the Supreme Court will answer to abusive provisions can be replaced with provisions of civil law or common practice, whether it is possible to maintain indexed/denominate loan as a PLN loan with an interest rate based on LIBOR, whether the theory of balance or the theory of two conditionalities will apply on the event of the CHF loan invalidity, the starting point of the limitation period in the case of the bank's claim for reimbursement of the amounts paid under the loan and whether banks and consumers can receive a remuneration from for using use of their funds by the other party.

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

The next sitting is scheduled for 2 September 2021.

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

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

- the prohibited contractual provision (Civil Code Art.3851 §1) is from the very beginning, by virtue of law ineffective for the benefit of the consumer, who may grant subsequently informed and free consent to this provision and thus restore its effectiveness retroactively,
- if the loan agreement cannot be binding without an ineffective provision, the consumer and the bank are entitled to separate claims for the reimbursement of cash benefits provided in the performance of this agreement (Article 410 § 1 in conjunction with Article 405 of the Civil Code). The bank may request the return of the benefit from the moment the loan agreement becomes permanently ineffective.

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

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

The Bank will analyse the content of the resolution of the entire Chamber of the Supreme Court and the justification for resolution III CZP 6/21 after their publication, in particular its expected impact on further jurisprudence and the parameters used in the calculation of the impact of the legal risk related to indexed loans.

PFSA's Chairman proposal

The general assumptions of the PFSA's Chairman proposal to convert F/X loans to PLN have been announced in December 2020. The proposal assumes that indexed to / denominated in foreign currency loan (CHF / EUR / USD) would be converted as it was from beginning a PLN loan with an interest rate of WIBOR 3M increased by a margin used historically for such loans.

As at the date of approval these financial statements mBank has not made any decisions on offering settlements according to the PFSA's Chairman proposal nor has taken any steps to acquire any corporate consents in that matter. It will be a subject of further analysis and discussions with financial authorities. The PFSA's proposal has not been taken into consideration when calculating the impact of the legal risk related to foreign currency indexed loans.

The detailed information on the estimated, potential impact of implementation of the conversion plan on mBank has been published in the Consolidated Financial Statements of mBank S.A. Group for 2020, published on 25 February 2021.

Tax inspections

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

The tax authorities may inspect at any time the books and records within 5 years subsequent to the reported tax year and may impose additional tax assessments and penalties. In the opinion of the Management Board there are no circumstances, which would indicate that crystallising of material tax liabilities in this respect is probable.

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

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

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

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

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

On 27 February 2020, the Bank received the decision of PFSA Office dated 25 February 2020 to initiate administrative proceedings regarding the imposition of an administrative penalty on the Bank, pursuant to the provisions of the Act dated 27 May 2004 on investment funds and management of alternative investment funds. On 23 April 2021 the Bank received a decision of the PFSA dated 16 April 2021 regarding this proceeding, imposing a fine on the Bank in the total amount of PLN 4 300 thousand. The Bank created provision for the abovementioned fine in the amount of PLN 4 300 thousand. As of the date of approving these condensed consolidated financial statements this decision is not final and is not binding.

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

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

- Proceedings for considering provisions of a template agreement as abusive instituted ex officio on 12 April 2019. The proceedings concern amendment clauses stipulating under which circumstances the bank is authorised to amend the terms and conditions of the agreement, including the amount of fees and commissions. In the opinion of the President of the Office of Competition and Consumer Protection (UOKiK), the amendment clauses used by the Bank give it an unlimited right to unilaterally and freely change the manner of performing the agreement. As a consequence, the UOKiK President represents the view that the clauses used by mBank define the rights and obligations of consumers contrary to good morals and grossly violate their interest and, thus, are abusive. The Bank does not agree with this stance. mBank responded to the decision on instituting the proceedings in letters dated 28 May 2019 and 10 January 2020. As at the date of approval these consolidated financial statements, the UOKiK President did not take any further actions in the case in question, did not take a stance, and did not respond to mBank's letters. The Office postponed the termination of proceeding until 31 July 2021. As at the date of approval of these financial statements, the Office has not delivered any decision regarding the termination or extension of the proceeding o the Bank.
- By a judgment of 2 February 2021, the Court of Appeal in Warsaw dismissed the Bank's appeal in a case concerning UOKiK proceedings initiated in 2015 regarding the application by mBank S.A. practices violating collective consumer interests, due to the fact that mBank did not apply a negative interest rate due to the negative base rate of LIBOR, and changed the judgment of SOKiK in the part revoking the decision to impose a fine. The Bank complied with the judgment and paid a fine of PLN 6 585 thousand. On 14 June 2021, the Bank filed a cassation complaint with the Supreme Court.

27. Off-balance sheet liabilities

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

	30.06.2021	31.12.2020
1. Contingent liabilities granted and received	**47 676 313**	**46 086 123**
Commitments granted	**39 851 714**	**39 469 906**
- financing	30 733 983	31 986 226
- guarantees and other financial facilities	7 358 410	7 460 891
- other commitments	1 759 321	22 789
Commitments received	**7 824 599**	**6 616 217**
- financial commitments	909 658	459 429
- guarantees	6 914 941	6 156 788
2. Derivative financial instruments (nominal value of contracts)	**756 049 765**	**661 936 056**
Interest rate derivatives	629 532 666	530 987 180
Currency derivatives	119 146 862	126 619 578
Market risk derivatives	7 370 237	4 329 298
Total off-balance sheet items	**803 726 078**	**708 022 179**

28. Transactions with related entities

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

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

The amounts of transactions with related entities, i.e., balances of receivables and liabilities as at 30 June 2021 and as at 31 December 2020, and related costs and income for the period from 1 January to 30 June 2021 and from 1 January to 30 June 2020 are presented in the table below.

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

	mBank's subsidiaries			Commerzbank AG			Other companies of the Commerzbank AG Group		
As at the end of the period	**30.06.2021**	**31.12.2020**	**30.06.2020**	**30.06.2021**	**31.12.2020**	**30.06.2020**	**30.06.2021**	**31.12.2020**	**30.06.2020**
Statement of Financial Position									
Assets	23 822	109 256		2 254 772	863 952		9 877	2 806	
Liabilities	19 245	14 144		2 789 200	3 091 380		64 451	69 810	
Income Statement									
Interest income	264		1 069	10 952		16 827	79		256
Interest expense	-		(73)	(11 556)		(14 283)	(12)		(1 781)
Fee and commission income	913		237	2 674		2 817	230		49
Fee and commission expense	-		-	-		-	-		-
Other operating income	91		57	972		739	-		-
Overhead costs, amortisation and other operating expenses	(1)		-	(2 677)		(5 181)	-		-
Contingent liabilities granted and received									
Liabilities granted	356 271	372 741		1 933 083	1 721 547		3 531	7 409	
Liabilities received	-	-		1 836 017	1 911 651		-	-	

The total costs of remuneration of Members of the Supervisory Board, the Management Board and other key management personnel of the Bank that perform their duties from 1 January to 30 June 2021 recognized in the Group's income statement for that period amounted to PLN 11 731 thousand (in the period from 1 January to 30 June 2020: PLN 16 696 thousand).

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

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

In the six-month period, ended on 30 June 2021, Group has not concluded any substantial agreements regarding credit and loan guarantees or guarantees granted of a significant amount.

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

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

On 15 March 2021, Mrs. Sabine Schmittroth applied a resignation, effective from 25 March 2021 from membership in the Bank's Supervisory Board.

By a resolution of the Supervisory Board of mBank S.A. of 24 March 2021, the person appointed as a member of the Supervisory Board of mBank S.A. on 25 March 2021 for the period until the end of the current term of the Supervisory Board was Mr. Fred Arno Walter.

From 25 March 2021, the composition of the Supervisory Board of mBank S.A. is as follows:

1. Agnieszka Słomka-Gołębiowska - Chairwoman
2. Jörg Hessenmüller - Deputy Chairman
3. Tomasz Bieske
4. Marcus Chromik
5. Mirosław Godlewski
6. Aleksandra Gren
7. Bettina Orlopp
8. Fred Arno Walter

31. Factors affecting the results in the coming quarter

In the first half of 2021 the COVID-19 pandemic, as well as the economic actions undertaken to prevent its negative impact, significantly affected the Group's results, mainly by increasing the expected credit losses charges as well as on the interest income. The Group expects further impact of the pandemic and related activities undertaken in Poland and worldwide on the results of the next quarter of 2021.

In the third quarter of 2021, a resolution of the Supreme Court on issues related to the CHF loan portfolio is planned, which is described in more detail in Point 26 of Selected explanatory information "Proceedings pending before a court, body competent for arbitration proceedings or public administration body". The Bank expects that the rulings made by the Supreme Court may have an impact on further jurisprudence of common courts and the value of parameters used by the Bank to determine the impact of the legal risk related to CHF-indexed mortgage and housing loans on Group results.

32. Other information

Requirements on mBank Group capital ratios as of 30 June 2021

The minimum required level of capital ratios at the end of 30 June 2021 amounted to:

- Individual total capital ratio: 14.29% and Tier 1 capital ratio: 11.48%
- Consolidated total capital ratio: 13.86% and Tier 1 capital ratio: 11.15%.

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

Ratings of mBank assigned by Fitch placed on Negative Watch

On 16 March 2021 Fitch Ratings placed mBank's ratings on Rating Watch Negative (RWN).

Moreover, Fitch downgraded mBank's Support Rating (SR) to '5' from '3' and assigned a Support Rating Floor (SRF) of 'No Floor'. After the withdrawal of Fitch's ratings on mBank's parent company, Commerzbank AG, on 4 March 2021, Fitch decided to assign a Support Rating for mBank on the basis of support available from the Polish sovereign.

33. Events after the balance sheet date

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