

mBank S.A. Group

IFRS Condensed Financial Statements

for the three quarters of 2021



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

SELECTED FINANCIAL DATA

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

Selected consolidated financial data

SELECTED FINANCIAL DATA FOR THE GROUP	in PLN ths		in EUR ths	
	Period from 01.01.2021 to 30.09.2021	Period from 01.01.2020 to 30.09.2020 - restated	Period from 01.01.2021 to 30.09.2021	Period from 01.01.2020 to 30.09.2020 - restated
I. Interest income	3 139 989	3 625 118	688 821	816 100
II. Fee and commission income	1 991 195	1 633 429	436 809	367 724
III. Net trading income	133 782	142 501	29 348	32 080
IV. Operating profit	1 288 809	1 020 941	282 727	229 838
V. Profit before income tax	844 229	617 329	185 199	138 975
VI. Net profit attributable to Owners of mBank S.A.	452 363	278 513	99 235	62 700
VII. Net profit attributable to non-controlling interests	(48)	(66)	(11)	(15)
VIII. Net cash flows from operating activities	21 058 578	6 654 453	4 619 629	1 498 076
IX. Net cash flows from investing activities	(410 142)	(279 834)	(89 973)	(62 997)
X. Net cash flows from financing activities	(60 110)	(4 384 906)	(13 186)	(987 147)
XI. Total net increase / decrease in cash and cash equivalents	20 588 326	1 989 713	4 516 469	447 932
XII. Basic earnings per share (in PLN/EUR)	10.68	6.58	2.34	1.48
XIII. Diluted earnings per share (in PLN/EUR)	10.66	6.57	2.34	1.48
XIV. Declared or paid dividend per share (in PLN/EUR)	-	-	-	-

SELECTED FINANCIAL DATA FOR THE GROUP	in PLN ths		in EUR ths	
	30.09.2021	31.12.2020 - restated	30.09.2021	31.12.2020 - restated
I. Total assets	208 151 800	178 871 617	44 929 051	38 760 427
II. Amounts due to other banks	2 556 140	2 399 740	551 736	520 010
III. Amounts due to customers	164 141 601	137 698 668	35 429 558	29 838 491
IV. Equity attributable to Owners of mBank S.A.	16 534 286	16 673 133	3 568 885	3 612 970
V. Non-controlling interests	1 882	1 934	406	419
VI. Share capital	169 475	169 468	36 581	36 723
VII. Number of shares	42 368 696	42 367 040	42 368 696	42 367 040
VIII. Book value per share (in PLN/EUR)	390.25	393.54	84.23	85.28
IX. Total capital ratio	17.51	19.86	17.51	19.86

Selected stand-alone financial data

SELECTED FINANCIAL DATA FOR THE BANK	in PLN ths		in EUR ths	
	Period from 01.01.2021 to 30.09.2021	Period from 01.01.2020 to 30.09.2020 - restated	Period from 01.01.2021 to 30.09.2021	Period from 01.01.2020 to 30.09.2020 - restated
I. Interest income	2 722 173	3 187 040	597 164	717 479
II. Fee and commission income	1 856 664	1 519 372	407 297	342 047
III. Net trading income	116 969	147 593	25 660	33 227
IV. Operating profit	1 049 565	933 622	230 244	210 181
V. Profit before income tax	777 422	579 058	170 543	130 360
VI. Net profit	429 911	263 629	94 310	59 349
VII. Net cash flows from operating activities	20 112 491	3 185 127	4 412 085	717 048
VIII. Net cash flows from investing activities	(342 044)	(217 237)	(75 034)	(48 905)
IX. Net cash flows from financing activities	818 316	(970 664)	179 514	(218 520)
X. Total net increase / decrease in cash and cash equivalents	20 588 763	1 997 226	4 516 565	449 623
XI. Basic earnings per share (in PLN/EUR)	10.15	6.22	2.23	1.40
XII. Diluted earnings per share (in PLN/EUR)	10.13	6.22	2.22	1.40
XIII. Declared or paid dividend per share (in PLN/EUR)	-	-	-	-

SELECTED FINANCIAL DATA FOR THE BANK	in PLN ths		in EUR ths	
	30.09.2021	31.12.2020 - restated	30.09.2021	31.12.2020 - restated
I. Total assets	200 497 074	170 745 007	43 276 797	36 999 438
II. Amounts due to other banks	2 602 496	2 624 286	561 742	568 667
III. Amounts due to customers	164 104 461	137 778 034	35 421 542	29 855 689
IV. Equity attributable to Owners of mBank S.A.	16 226 865	16 467 692	3 502 529	3 568 452
V. Share capital	169 475	169 468	36 581	36 723
VI. Number of shares	42 368 696	42 367 040	42 368 696	42 367 040
VII. Book value per share (in PLN/EUR)	382.99	388.69	82.67	84.23
VIII. Total capital ratio	19.98	22.95	19.98	22.95

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 September 2021: EUR 1 = 4.6329 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 three quarters of 2021 and 2020: EUR 1 = 4.5585 PLN and EUR 1 = 4.4420 PLN respectively.

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INTRODUCTION

mBank Group generated a profit before tax of PLN 101.4 million in Q3 2021, which represents a decrease by 57.5% compared with Q2 2021. Net profit attributable to the owners of mBank reached PLN 26.6 million. In Q3 2021 both income and costs rose on the previous quarter. At the same time, net profit from core business (mBank Group excluding FX Mortgage Loans segment) stood at PLN 471.2 million in Q3 2021, which represents an increase by 24.0% compared with Q2 2021.

The main drivers of the Group's financial performance in Q3 2021 included:

- **increase in total income**, which amounted to PLN 1,509.0 million (+4.6% quarter on quarter), driven by rising net interest income and net fee and commission income.
- **increase in operating expense** (including depreciation) to PLN 616.5 million compared with the previous quarter, triggered by higher staff costs.
- **decrease in risk costs** (sum of impairment on financial assets not measured at fair value through profit or loss and gains or losses from loans and advances measured at fair value through profit or loss) to PLN 195.7 million, i.e. 66 basis points compared with 80 basis points in the previous quarter.
- **costs of legal risk related to foreign currency loans** created in Q3 2021 amounted to PLN 436.8 million compared with PLN 248.5 million in Q2 2021.
- **increase in tax on the Group's balance sheet items** to PLN 158.6 million compared with Q2 2021.
- **continued organic growth and business expansion** as demonstrated by:
 - **increase in the number of individual clients** to 5,480.4 thousand (+16.1 thousand clients compared with the end of June 2021);
 - **increase in the number of corporate clients** to 30,916 (+499 clients compared with the end of June 2021).

At the end of Q3 2021, net loans and advances to customers amounted to PLN 119 667.1 million, which represents a quarter-on-quarter increase by PLN 3 425.7 million or 2.9%. Gross loans to corporate customers increased on a quarterly basis by PLN 247.8 million, i.e. 0.5%, and reached PLN 49 882.8 million. The volume of loans to individuals went up by PLN 3 031.5 million or 4.3% against the end of June 2021 to PLN 73 124.4 million.

In Q3 2021, amounts due to customers rose by PLN 7 558.1 million or 4.8% quarter on quarter. Amounts due to corporate customers increased by PLN 5 384.7 million or 11.0% compared with Q2 2021 to reach PLN 54 479.3 million at the end of September 2021. In the period under review, amounts due to individuals rose by PLN 2 221.6 million or 2.1% and amounted to PLN 108 921.3 million.

The abovementioned developments led to the decrease of the loan to deposit ratio to 72.9% at the end of September 2021.

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

- Gross ROE of 2.4% (compared with 5.7% in Q2 2021);
- Net ROE of 0.6% (compared with 2.6% in Q2 2021).

Liquidity and capital standing of the Group is very good. Capital and liquidity ratios of the Group are high and exceed the regulatory minima. As at 30 September 2021 LCR stood at 280% (at the consolidated level), while NSFR at mBank accounted for 155%, which is well ahead of the required minimum levels. mBank Group's capital ratios were stable in Q3 2021 compared with the end of June 2021. Total risk exposure amount grew by PLN 2.2 billion amid an increase in own funds (resulting i.a. from the inclusion of 50% of H1 2021 profit). As at the end of September 2021, the Total Capital Ratio stood at 17.5% and the Common Equity Tier 1 ratio at 15.2%.

Awards and distinctions

For the seventh time mBank has been recognized by Global Finance magazine as the best digital bank for corporates in Poland. The jury awarded mBank with the title "The Best Corporate Digital Bank in Poland" 2021. It is the second award Global Finance presented to mBank this year. In February Global Finance magazine for the fourth time nominated mBank as one of The Best Treasury & Cash Management Banks and Providers 2021. The international jury appreciated mBank's efforts for the satisfaction of the customers, wide variety of offered products and quality of service.

eTrade Awards named Paynow payment gateway as the best digital payment system of the year 2020 in Poland. The jury admired simplicity of implementation and purchase, safety level, wide range of the offer and reliability of our solution. Paynow is a technologically advanced payment platform. It combines excellent understanding of the characteristics of the Polish e-commerce market with the cloud-native technology. The gateway is embedded in the cloud, intertwined with the online banking system of mBank, while the API and plugins ensure easy integration with the online shop of the client.

The jury of the tenth edition of the Employer Branding Excellence Awards competition acknowledged mBank's efforts in the area of employer branding during the pandemic. During the prestigious EB Summit 2021 conference, mBank has been granted distinctions in three categories:

- "Online campaign" for the "Banking talents" campaign,
- "EB Innovation" for the "CC45+ You fit in with us!",
- "PR clip" for the "You fit in with us!" production.

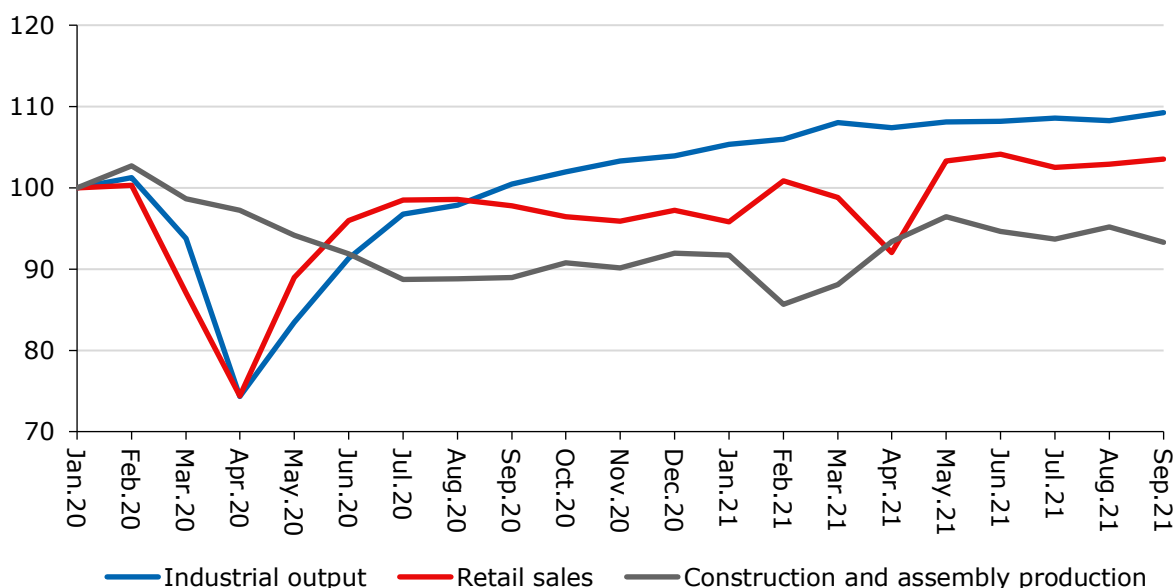
mBank employees were also granted numerous awards, proving mBank's leadership in appliance of innovative solutions. Krzysztof Dąbrowski, Vice-President of the Management Board, Head of Operations and IT was the finalist of the European Digital Leader of the Year 2021 competition in the financial and public sector. The competition strikes to recognize digital leaders and their accomplishments in the area of ensuring the success of the organization, on the basis of creating significant business value with digital technologies. In the prestigious competition – IT Manager of Tomorrow Awards 2021 – the first prize was presented to Sebastian Sztajnert, CTO of mElements S.A. Part of the group of 10 finalists of the competition was Łukasz Tomasiak, IT senior manager of mBank. State-of-the-art technologies accompany mBank since it has been established. The competition promotes best IT managers in Poland who are responsible for transformations in their companies.

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

Economy and the banking sector in Q3 2021

The most dynamic period of post-pandemic recovery is past Poland. GDP growth in Q3 2021 was close to 5% year on year. Economic restrictions evaporated in the summer and retail sales (in constant prices) jumped to the volumes prevailing before their introduction, generating statistical misconception of strong performance going forward. However, after this period of fast adjustments, recovery lost steam in Q3 and sales barely expanded. In numbers, the growth between Q3 and Q2 amounted to 3.2% (seasonally adjusted) while September-June comparison does not bring any increase in activity at all. Growth of sales was generated in nominal terms, though. On the one hand it reflects high inflation, on the other indicates that households' purchasing power is strained. At the same time consumption of services was most likely stronger. Q3 was marked by further deceleration of industrial output and the expansion amounted only to 0.7% quarter on quarter (seasonally adjusted data). Moderate performance of industrial output went hand in hand with weak exports growth while imports stood firm, boosted also by high prices. As a consequence, trade balance went into substantial deficit. Construction was not a bright spot in Q3 and unexpectedly fell 0.8% quarter on quarter.

Figure 1. Flattening of growth profile in major sectors of the economy (index January 2020 = 100)

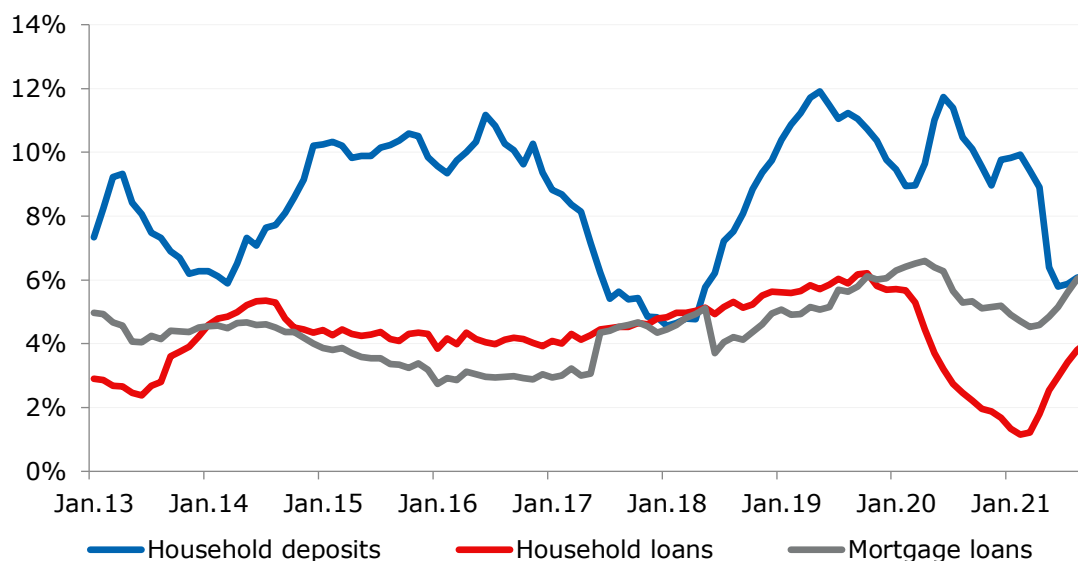


Source: Own elaboration based on CSO data.

Although economic activity lost some steam, labor market strengthened further. Unemployment rate fell to 5.6% in September and the number of vacancies (measured by job offers) returned to pre-pandemic levels. Solid labor demand accompanied by possibly only partial adjustment of labor supply, supports high growth of wages. Partially, this growth is also fueled by gains in labor productivity. It reflects increasing inflation expectations while labor market is tight.

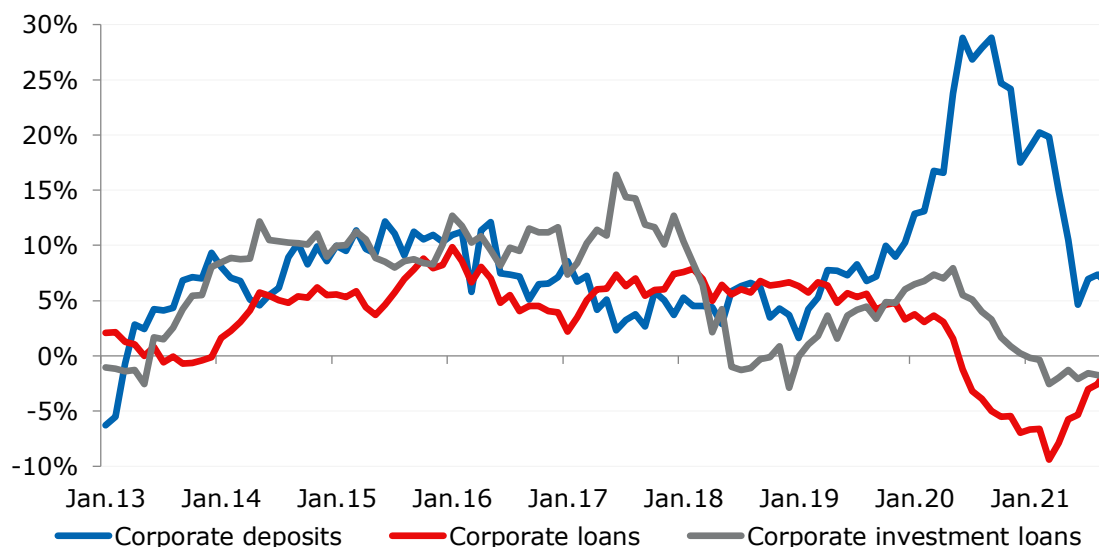
Q3 credit growth remained high, driven mostly by households. At the same time consumers were mostly responsible for some deceleration of (net) deposit growth. The last quarter did not bring any new, surprising trends regarding monetary aggregates but is rather a continuation of what was observed in earlier months.

Figure 2. Trends in credit and deposit growth among households. Growth rates (y/y) excluding FX effect.



Source: Own elaboration based on NBP data.

Figure 3. Trends in credit and deposit growth among non-financial corporations. Growth rates (y/y) excluding FX effect.



Source: Own elaboration based on NBP data.

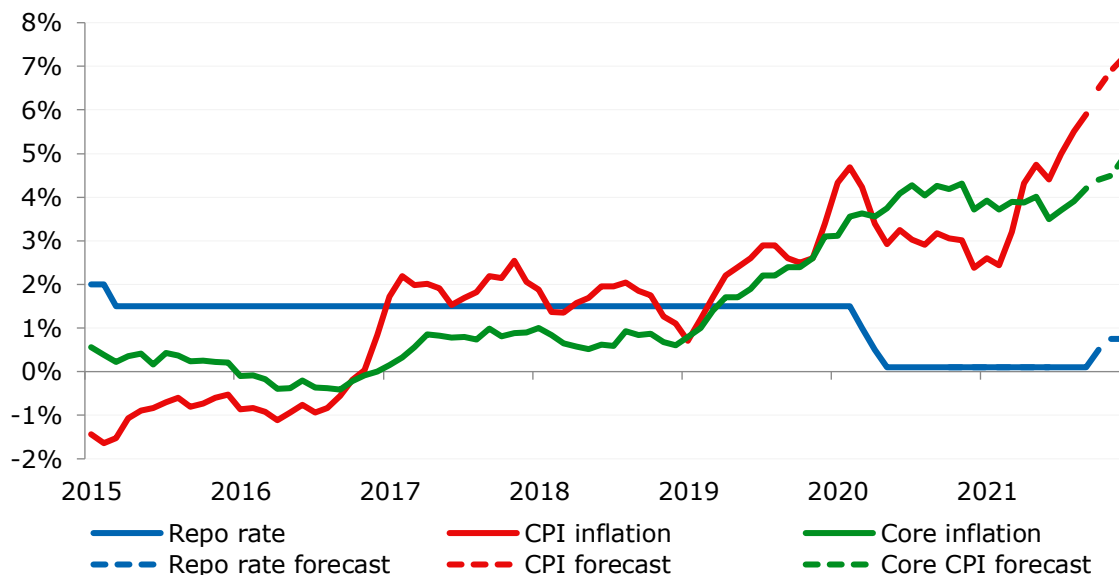
Epidemic situation was mostly hopeful. The second part of September brought acceleration in the number of cases but they were mostly concentrated in the eastern regions, where vaccination rates are low (it does not apply for Podkarpackie, but natural immunity after surge in cases during quite recent third wave may be at play there). The overall number of occupied hospital beds was low and health care was far from being strained. However, regional situations were mixed from very good to alarming.

Third quarter brought substantial increase of inflation. September's reading amounted to 5.9%, the level not seen in the last twenty years. Although the main driver of prices was concentrated in commodities and food, the reopening of the economy also played its part. Underlying inflation measures were elevated even before COVID-19 struck and were little changed in the last quarters. It is no coincidence that when exogenous shock struck and labor market strengthened, inflation accelerated.

Monetary Policy Council (MPC) kept rates in Q3 unchanged. The picture abruptly changed in the beginning of October when reference rate was hiked to 0.5%. The reasoning behind the move was focused on

perspectives on increased inflation that may be returning to the target more slowly than was originally forecasted. The rate hike brought MPC more in line with other regional central banks (from Czech Republic, Hungary, Romania). The market is pricing in fast and aggressive monetary tightening in Poland. It stays in contrast with current MPC rhetoric preferring much more gradual (and not pre-emptive) movements. The dissonance between expectations and actual policy and wording makes zloty relatively weak around 4.60 to 1 euro. At the same time bond yields are on the rise reflecting global and regional developments and also growing conviction of investors that inflation may not only last longer but may also prove not to be transitory.

Figure 4. Inflation (y/y) and NBP repo rate.



Source: Own elaboration based on CSO and NBP data.

Perspective for upcoming quarters remains positive. GDP growth is expected at 5.2% in 2021 and 4.8% in the following year. Elevated inflation is set to thrive. 7% price growth may be reached at the turn of 2021/2022. Afterward, price growth is going to moderate but the 2022 average inflation will be somewhere between 5.5% and 6%. In such circumstances MPC is set to continue monetary tightening with interest rates reaching 1.5% at the end of 2022. Zloty is expected to remain weak for most of the time.

The baseline scenario is subject to downside risk with respect to GDP growth and upside with respect to inflation. It remains to be seen how deep the price reaction of demand will be. So far, only a minor cooling has been observed. The issue of supply constraints will stay unresolved for the next 2-3 quarters. Energy price increases came on top of current problems and constitute another risk for production capacities. It is the automotive sector that bears most of the brunt of supply-side constraints. However, it would be naïve to think that problems will not spill over to other sectors, given the intensity of constraints and magnitude of energy price increases. The launch of EU-sponsored investment cycle is being postponed. Epidemic risks are under control and it would be surprising to see a round of economic restrictions similar to the one witnessed at the turn of 2020 and 2021. As for inflation, there is a risk that second-round adjustments may be substantially higher at the start of 2022 as labour market will be even tighter and wage negotiations will be benchmarked to almost 7% inflation and growth of prices is most intense in items which households pay most attention to: food, fuels and energy. Having said that, stagflation scenario is not anticipated. The aforementioned risks may cause minor corrections of macro scenario in coming quarters but are not expected to derail economic cycle.

Financial position of mBank Group in Q3 2021

Profit and Loss Account of mBank Group

mBank Group generated a profit before tax of PLN 101.4 million in Q3 2021, which represents a decrease by 57.5% compared with Q2 2021. Net profit attributable to the owners of mBank reached PLN 26.6 million. In Q3 2021 both income and costs rose on the previous quarter. At the same time, net profit from core business (mBank Group excluding the FX Mortgage Loans segment) stood at PLN 471.2 million in Q3 2021, which represents an increase by 24.0% compared with Q2 2021.

PLN M	Q2 2021	Q3 2021	Change in PLN M	Change in %
Interest income	1 035.2	1 085.4	50.3	4.9%
Interest expense	-73.6	-80.6	-7.0	9.4%
Net interest income	961.5	1 004.8	43.3	4.5%
Fee and commission income	646.3	698.9	52.6	8.1%
Fee and commission expense	-193.8	-219.5	-25.7	13.3%
Net fee and commission income	452.6	479.4	26.9	5.9%
Core income	1 414.1	1 484.3	70.2	5.0%
Dividend income	3.5	1.0	-2.5	-72.4%
Net trading income	43.6	27.0	-16.6	-38.0%
Other income	10.6	-3.0	-13.6	+/-
Other operating income	53.0	56.6	3.6	6.8%
Other operating expenses	-82.0	-56.9	25.1	-30.6%
Total income	1 442.8	1 509.0	66.2	4.6%
Net impairment losses and fair value change on loans and advances	-228.4	-195.7	32.7	-14.3%
Costs of legal risk related to foreign currency loans	-248.5	-436.8	-188.3	75.8%
Overhead costs and depreciation	-580.2	-616.5	-36.3	6.3%
Taxes on the Group balance sheet items	-147.2	-158.6	-11.4	7.8%
Profit before income tax	238.5	101.4	-137.1	-57.5%
Income tax expense	-129.8	-74.9	55.0	-42.3%
Net profit attributable to:	108.7	26.5	-82.1	-75.6%
- Owners of mBank S.A.	108.7	26.6	-82.1	-75.6%
- non-controlling interests	0.0	0.0	0.0	-22.2%
ROA net	0.2%	0.1%		
ROE gross	5.7%	2.4%		
ROE net	2.6%	0.6%		
Cost / Income ratio	40.2%	40.9%		
Net interest margin	2.04%	2.02%		
Common Equity Tier 1 ratio	15.2%	15.2%		
Total capital ratio	17.6%	17.5%		

Key figures on Core business

Core business (PLN M)	Q2 2021	Q3 2021	Change in PLN M	Change in %
Net profit	379.9	471.2	91.3	24.0%
ROA net	0.8%	1.0%		
ROE net	11.0%	13.6%		
Cost / Income ratio	40.1%	41.0%		
Net interest margin	2.12%	2.10%		

Core income – calculated as the sum of net interest income and net fee and commission income.

Other income – calculated as gains or losses from derecognition of financial assets and liabilities and gains or losses from non-trading financial assets mandatorily measured at fair value through profit or loss connected with equity instruments and debt securities (excluding loans and advances).

Total income – calculated as the sum of net interest income, net fee and commission income, dividend income, net trading income, other income, other operating income and other operating expense.

Overhead costs and depreciation – calculated as the sum of total overhead costs and depreciation.

Net impairment losses and fair value change on loans and advances – calculated as the sum of impairment or reversal of impairment on financial assets not measured at fair value through profit or loss and gains or losses from non-trading loans and advances mandatorily measured at fair value through profit or loss.

Net ROA – calculated by dividing net profit attributable to the owners of mBank by the average total assets. The average total assets are calculated on the basis of the balances as at the end of each month. Net profit attributable to the owners of mBank is annualised based on the number of days in the analysed period (the annualization ratio is calculated as the quotient of the number of days in a year and the number of days in the analysed period).

Gross ROE – calculated by dividing profit before tax by average equity (net of the current year's results). Average equity is calculated on the basis of the balances as at the end of each month. Profit before tax is annualised based on the number of days in the analysed period (the annualization ratio is calculated as the quotient of the number of days in a year and the number of days in the analysed period).

Net ROE – calculated by dividing net profit attributable to the owners of mBank by average equity (net of the current year's results). Average equity is calculated on the basis of the balances as at the end of each month. Net profit attributable to the owners of mBank is annualised based on the number of days in the analysed period (the annualization ratio is calculated as the quotient of the number of days in a year and the number of days in the analysed period).

Cost/Income ratio – calculated by dividing overhead costs and depreciation by total income (excluding tax on balance sheet items of the Group).

Net interest margin – calculated by dividing net interest income by average interest earning assets. Interest earning assets are the sum of cash and balances with the Central Bank, amounts due from banks, securities (in all valuation methods) and loans and advances to clients (net; in all valuation methods). Average interest earning assets are calculated on the basis of the balances as at the end of each month. Net interest income is annualised based on the number of days in the analysed period (the annualization ratio is calculated as the quotient of the number of days in a year and the number of days in the analysed period).

Income of mBank Group

Total income generated by mBank Group increased by 4.6% compared with the previous quarter to PLN 1 509.0 million. Core income, comprising net interest income and net fee and commission income, grew quarter on quarter (by 5.0%) owing to higher net interest income and net fee and commission income.

mBank Group's **net interest income**, which grew quarter on quarter (by PLN 43.3 million, i.e. 4.5%) to PLN 1 004.8 million, was the main contributor to total income in Q3 2021. Interest income increased by PLN 50.3 million (4.9%) quarter on quarter. Interest income from loans and advances rose by PLN 46.2 million or 5.6% on the previous quarter. Simultaneously, interest expense increased by PLN 7.0 million, i.e. 9.4% quarter on quarter.

The **net interest margin** of mBank Group fell slightly quarter on quarter and reached 2.02% in Q3 2021, down from 2.04% in Q2 2021.

Net fee and commission income, the second largest contributor to mBank Group's income, increased to PLN 479.4 million compared with the previous quarter (+PLN 26.9 million, i.e. 5.9%).

Fee and commission income increased by PLN 52.6 million (8.1%) on the previous quarter. Payment card-related fees recorded the largest increase (by PLN 25.5 million or 22.0% on the previous quarter) due to heightened client activity during the summer holiday period and trips abroad. Commissions from currency transactions increased by PLN 9.3 million or 9.4%, while credit-related fees and commissions went up by PLN 8.8 million or 6.6% owing to high sales of retail loans. Other commission income items also grew thanks to an increase in the number of clients and their activity. At the same time, commissions from brokerage activity went down by PLN 3.2 million, i.e. -5.6%, as a result of a lower turnover on the WSE in Q3 2021.

Fee and commission expense in Q3 2021 amounted to PLN 219.5 million, which represents a rise by PLN 25.7 million, i.e. 13.3%, quarter on quarter, mainly due to an increase in the payment cards-related fees and other fees.

Net trading income reached PLN 27.0 million, down by PLN 16.6 million or -38.0% compared with Q2 2021. The decrease was attributable to lower gains or losses from financial assets and liabilities held for trading. Foreign exchange result went up, mainly thanks to high FX rates volatility.

Other income (an item covering gains or losses from derecognition of financial assets and liabilities and gains or losses from non-trading financial assets mandatorily measured at fair value through profit or loss connected with equity instruments and debt securities) decreased by PLN 13.6 million compared with the previous quarter, among others, due to the negative impact of the revaluation of Visa shares.

Other operating income net of other operating expense stood at PLN -0.3 million and was higher than in Q2 2021, when larger provisions for future liabilities were created.

Operating expense of mBank Group

In Q3 2021, mBank Group continued to implement measures aimed at improving efficiency measured by the Cost / Income ratio. Total operating expense (including depreciation) of mBank Group stood at PLN 616.5 million, up by PLN 36.3 million (6.3%), quarter on quarter.

PLN M	Q2 2021	Q3 2021	Change in PLN M	Change in %
Staff-related expenses	-257.1	-299.2	-42.2	16.4%
Material costs, including:	-174.3	-175.2	-1.0	0.5%
- administration and real estate services costs	-64.6	-65.1	-0.6	0.9%
- IT costs	-49.2	-50.0	-0.8	1.6%
- marketing costs	-38.5	-36.9	1.6	-4.2%
- consulting costs	-18.3	-19.5	-1.2	6.5%
- other material costs	-3.6	-3.6	0.0	1.1%
Taxes and fees	-8.6	-8.2	0.4	-4.4%
Contributions and transfers to the Bank Guarantee Fund	-25.0	-24.2	0.8	-3.1%
Contributions to the Social Benefits Fund	-3.0	-2.6	0.4	-13.8%
Depreciation	-112.3	-107.0	5.3	-4.7%
Total overhead costs and depreciation	-580.2	-616.5	-36.3	6.3%
Cost / Income ratio	40.2%	40.9%	-	-
Employment (FTE)	6 641	6 726	85	1.3%

In Q3 2021, staff-related expense increased by PLN 42.2 million or 16.4% quarter on quarter as a result of higher costs of variable remuneration components. Some employees were paid additional remuneration in the form of a one-off bonus in Q3 2021. The headcount in mBank Group went up by 85 FTEs in the period under review.

In Q3 2021, material costs remained stable quarter on quarter (+PLN 1.0 million, i.e. 0.5%).

Cost efficiency measured by the Cost/Income ratio fell subtly and amounted to 40.9% in Q3 2021 compared with 40.2% in the previous quarter. The adjusted Cost/Income ratio for the period between January and September 2021 (covering three-fourths of the contribution to the resolution fund) reached 40.7%.

Costs of legal risk related to foreign currency loans

Costs of legal risk related to FX loans in Q3 2021 amounted to PLN 436.8 million and were higher than in Q2 2021 by PLN 188.3 million. The increase of the impact of the legal risk in Q3 2021 resulted mainly from higher than expected inflow of cases in Q3 2021, application of a management adjustment in the amount of PLN 200 million addressing the continuing uncertainty as to the further development of the jurisprudence in swiss franc cases, and creation of a provision for a class action regarding indexation clauses in CHF mortgage and housing loan agreements. More information on the method of calculation of the provision used by the Bank is included in Note 3 of this report.

Impairment on and change in the fair value of loans and advances

In Q3 2021, impairment on and fair value change of loans and advances of mBank Group (being the sum of impairment or reversal of impairment on financial assets not measured at fair value through profit or loss and gains or losses from non-trading loans and advances mandatorily measured at fair value through profit or loss) amounted to PLN 195.7 million, down by PLN 32.7 million or -14.3% vs. the prior quarter. Impairment on or reversal of impairment on financial assets not measured at fair value through profit or loss is related to the part of the portfolio of loans and advances measured at amortised cost. The item "gains or losses from non-trading loans and advances mandatorily measured at fair value through profit or loss" is related to the credit risk of the portfolio of loans and advances measured with the use of that method.

PLN M	Q2 2021	Q3 2021	Change in PLN M	Change in %
Retail Banking	-114.9	-109.5	5.4	-4.7%
Corporate and Investment Banking	-104.9	-71.5	33.4	-31.8%
FX Mortgage Loans	-12.8	-7.9	4.9	-38.5%
Treasury & Other	4.2	-6.8	-11.0	-/+
Total net impairment losses and fair value change on loans and advances	-228.4	-195.7	32.7	-14.3%

Impairment on and change in the fair value of loans and advances in Retail Banking declined by PLN 5.4 million quarter on quarter and stood at PLN 109.5 million. Maintaining similar level of costs of risk is related to the high quality of the retail loan portfolio.

Impairment on and change in the fair value of loans and advances in the Corporate and Investment Banking segment amounted to PLN 71.5 million, which represents a decrease by PLN 33.4 million quarter on quarter, triggered mainly by the release of part of the provisions for some individual exposures to corporate clients as a result of efficiently executed restructuring measures as well as the sale of part of the corporate portfolio in default.

Consolidated statement of financial position

The balance sheet total of mBank Group stood at PLN 208 151.8 million at the end of Q3 2021 and was larger compared with the previous quarter by 4.9%.

Assets of mBank Group

PLN M	30.09.2020	30.06.2021	30.09.2021	QoQ change	YoY change
Cash and balances with Central Bank	6 683.9	16 523.3	18 015.6	9.0%	169.5%
Loans and advances to banks	8 991.4	9 750.4	14 398.6	47.7%	60.1%
Financial assets held for trading and hedging derivatives	2 167.5	3 027.0	3 265.3	7.9%	50.7%
Net loans and advances to customers	109 658.3	116 241.3	119 667.1	2.9%	9.1%
Investment securities	50 280.3	47 421.5	47 160.9	-0.5%	-6.2%
Intangible assets	1 094.3	1 207.8	1 220.4	1.0%	11.5%
Tangible assets	1 117.7	1 554.0	1 537.4	-1.1%	37.6%
Other assets	2 153.5	2 745.5	2 886.5	5.1%	34.0%
Total assets	182 146.8	198 470.9	208 151.8	4.9%	14.3%

Net loans and advances to clients – sum of loans and advances at amortised cost, non-trading loans and advances to customers mandatorily at fair value through profit or loss and loans and advances classified as assets held for trading.

Investment securities – sum of financial assets at fair value through other comprehensive income, debt securities at amortised cost and non-trading debt securities and equity instruments mandatorily at fair value through profit or loss.

Loans and advances to customers were the largest asset category of mBank Group at the end of Q3 2021. Their share in total assets decreased slightly to 57.5% from 58.6% at the end of June 2021. At the end of Q3 2021, net loans and advances to customers (a total of loans and advances measured at amortised cost, loans and advances mandatorily measured at fair value through profit or loss, and loans and advances classified as assets held for trading) amounted to PLN 119 667.1 million, which represents a quarter-on-quarter increase by PLN 3 425.7 million or 2.9%.

Gross loans to corporate customers increased on a quarterly basis by 247.8 million, i.e. 0.5%, and reached PLN 49 882.8 million (net of reverse repo/buy-sell-back transactions and the FX effect, loans and advances to corporate customers increased also by 0.5% quarter on quarter).

The sales of loans to corporate customers improved by 8.3% to PLN 7 597.9 million compared with Q2 2021 (including new sales, limit increases, and renewals).

The volume of loans to individuals went up by PLN 3,031.5 million or 4.3% against the end of June 2021 to PLN 73 124.4 million. Gross mortgages and housing loans rose by 4.6% quarter on quarter.

In Q3 2021, mBank Group sold PLN 3 172.2 million of mortgage loans, 49.3% more than a year ago, but -7.3% less than in Q2 2021. Sales of mortgage loans in Czech Republic and Slovakia were lower in Q3 2021 due to repricing implemented in these markets. The sales of non-mortgage loans in Q3 2021 reached

PLN 2 716.6 million, representing an increase by 5.6% compared with Q2 2021 and 48.6% compared with Q3 2020.

Net of FX effect, loans to individuals increased by 3.3% quarter on quarter.

At the end of Q3 2021, gross loans and advances to the public sector decreased by PLN 17.6 million, or -8.0% quarter on quarter and stood at PLN 203.0 million.

Investment securities were the second largest asset category at the end of Q3 2021. It stood at PLN 47 160.9 million and accounted for 22.7% of total assets, down by PLN 260.6 million or -0.5% quarter on quarter.

mBank Group's total liabilities and equity

PLN M	30.09.2020	30.06.2021	30.09.2021	QoQ change	YoY change
Amounts due to other banks	1 774.2	2 820.6	2 556.1	-9.4%	44.1%
Amounts due to customers	141 118.5	156 583.5	164 141.6	4.8%	16.3%
Debt securities issued	13 849.3	13 061.0	15 462.9	18.4%	11.7%
Subordinated liabilities	2 561.9	2 542.2	2 579.7	1.5%	0.7%
Other liabilities	5 873.2	6 769.9	6 875.2	1.6%	17.1%
Total Liabilities	165 177.1	181 777.3	191 615.6	5.4%	16.0%
Total Equity	16 969.6	16 693.6	16 536.2	-0.9%	-2.6%
Total Liabilities and Equity	182 146.8	198 470.9	208 151.8	4.9%	14.3%

In Q3 2021, amounts due to customers, which are mBank Group's principal source of funding, rose by PLN 7 558.1 million or 4.8% quarter on quarter. The share of amounts due to customers in total liabilities and equity reached 78.9% and did not change compared with the end of June 2021.

Amounts due to corporate customers increased by PLN 5 384.7 million or 11.0% compared with Q2 2021 to reach PLN 54 479.3 million at the end of September 2021. The substantial increase in this category results mainly from an inflow of funds into current accounts (PLN 5 564.3 million or +12.5% quarter on quarter).

In the period under review, amounts due to individuals rose by PLN 2 221.6 million or 2.1% and amounted to PLN 108 921.3 million. Alike the corporate deposits, there was an increase on current account (PLN 2 362.8 million or 2.4%), while term deposits slightly lowered (PLN 152.3 million or -1.7%).

Amounts due to the public sector stood at PLN 740.9 million, representing a quarter-on-quarter decrease by PLN 48.3 million (-6.1%).

The second largest liabilities and equity category as of end of September 2021 (accounting for 7.4%) constituted debt securities in issue. This position increased on a quarterly basis by PLN 2 401.9 million or 18.4% to the level of PLN 15 462.9 million. Increase of this category results mainly from the issue of green bonds in the form of senior non-preferred which totalled EUR 500 million.

Amounts due to other banks stood at PLN 2 556.1 million at the end of Q3 2021, accounting for 1.2% of total liabilities and equity of mBank Group. Compared with Q2 2021, this category went down by PLN 264.5 million or -9.4%, mainly as a result of lower balances in current accounts maintained by other institutions with mBank.

Total equity at the end of Q3 2021 amounted to PLN 16 536.2 million. The share of equity in total liabilities and equity of mBank Group decreased slightly quarter on quarter to 7.9% (against 8.4% at the end of June 2021)

Quality of the loan portfolio of mBank Group

As at 30 September 2021, the amount of non-performing receivables was smaller than in the previous quarter, mainly in the corporate segment. Thanks to the simultaneous rise of receivables, the NPL ratio declined compared to the end of June 2021 and amounted to 4.0%.

The coverage ratio for total receivables decreased slightly quarter on quarter from 75.8% to 75.4%, whereas coverage ratio for non-performing receivables stood at 57.2% compared to 58.3% at the end of June 2021.

PLN M	30.06.2021	30.09.2021	QoQ change
Provisions for non-performing loans	3 076.2	2 828.0	-8.1%
Provisions for performing loans	921.9	901.0	-2.3%
Total provisions	3 998.1	3 729.1	-6.7%
Non-performing receivables	5 274.0	4 947.0	-6.2%
Performing receivables	114 964.6	118 446.6	3.0%
NPL ratio	4.4%	4.0%	
Coverage ratio of non-performing receivables	58.3%	57.2%	

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

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

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

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

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

Performance of segments and the business lines

The Retail Banking segment made the largest contribution to the profit before tax of mBank Group in Q3 2021. Both Retail and Corporate and Investment Banking segment generated higher profit on a quarterly basis (by 12.2% and 8.1% respectively). Profit before tax of mBank Group in Q3 2021 was lowered mainly by the result of FX Mortgage Loans segment which was impacted by an increase of costs of legal risk related to foreign currency loans which amounted to PLN 436.8 million.

PLN M	Q2 2021	Q3 2021	Change in PLN M	Change in %
Retail Banking	347.6	390.1	42.5	12.2%
Corporate and Investment Banking	203.1	219.6	16.5	8.1%
FX Mortgage Loans	-270.4	-444.7	-174.3	64.4%
Treasury & Other	-41.7	-63.6	-21.9	52.4%
Profit before tax of mBank Group	238.5	101.4	-137.1	-57.5%

Retail Banking Area

mBank's Retail Banking segment serves 5 480.4 thousand individual clients and microenterprises in Poland, the Czech Republic and Slovakia online, directly through the call centre, via mobile banking and other state-of-the-art technological solutions, as well as in a network of 366 branches. The Bank offers a broad range of products and services including current and savings accounts, accounts for microenterprises, credit products, deposit products, payment cards, investment products, insurance products, brokerage services, and leasing for microenterprises.



Key highlights

- Total income of PLN 969.6 million, an increase by 7.9% on quarterly basis.
- Increase in the share of mBank in mortgage loans market from 8.0% to 8.2% quarter on quarter.
- Rise of mBank's share in retail deposits market from 8.2% to 8.3% quarterly.
- Increase of sales of non-mortgage loans by 5.6% to PLN 2 716.6 million in Q3 2021.
- Constant growth of processes launched in digital channels: on average 75.5% in Q3 2021 compared with 67.0% in Q3 2020.
- High share of sales of non-mortgage loans in digital channels: 77% in Q3 2021 compared with 80% in Q3 2020 (including mobile channel: 44% in Q3 2021 compared to 36% a year earlier) in terms of number of units.
- mBank as the first bank in Poland enabled private banking clients to open accounts remotely. Clients can open the account with e-ID and eDO App application or with the help of a consultant who will arrive at the address specified by the client.
- HOUSE TO GO and WObit were selected as the winners of the second edition of Digital Revolutions. Their solutions were the best among 823 companies which participated in the competition. The winners will receive two packages of awards equal to PLN 110 thousand each, which will help them spread their wings in the e-commerce. Another six companies were awarded second place, which equalled PLN 19 thousand. The competition was part of social campaign of mBank – Digital Revolutions, which provides support to SMEs with online sales.
- mBank introduced confirmation of selected operations in mobile application with a fingerprint or a face scan. The option is available to users of iOS and Android (above 10th version). With the use of biometric features such as fingerprint or face scan, the clients of mBank can authorize PLN transfers, BLIK operations, selected card operations, such as changing the limit and more.
- mBank was present at the Pol'and'Rock festival for the fourth time. As usual, mBank was the Patron of the Academy of the Finest Arts. Pol'and'Rock Festival (previously named Woodstock Stop) is the largest in Poland and one of the largest in Europe music festival. It has been held since 1995 by the Great Orchestra of Christmas Charity. mBank was also the partner of the International Movie Festival New Horizons in Wrocław for the second time.

Key financial data:

PLN M	Q2 2021	Q3 2021	Change in PLN M	Change in %
Net interest income	644.2	697.2	53.1	8.2%
Net fee and commission income	235.8	261.6	25.8	10.9%
Net trading income	8.4	10.2	1.8	21.1%
Other income	6.5	-3.7	-10.2	-/+
Net other operating income	4.2	4.4	0.2	4.9%
Total income	899.0	969.6	70.6	7.9%
Net impairment losses and fair value change on loans and advances	-114.9	-109.5	5.4	-4.7%
Overhead costs and depreciation	-367.8	-394.9	-27.0	7.4%
Taxes on the Group balance sheet items	-68.8	-75.2	-6.4	9.3%
Profit before tax of Retail Banking	347.6	390.1	42.5	12.2%

Key business data (mBank and mBank Hipoteczny only)

thousands	30.09.2020	30.06.2021	30.09.2021	QoQ change	YoY change
Number of retail clients, including:	5 676.8	5 464.3	5 480.4	0.3%	-3.5%
Poland	4 681.5	4 449.1	4 457.7	0.2%	-4.8%
Foreign branches	995.2	1 015.2	1 022.7	0.7%	2.8%
The Czech Republic	697.0	709.7	715.5	0.8%	2.7%
Slovakia	298.3	305.5	307.2	0.6%	3.0%
PLN M					
Loans to retail clients, including:	64 682.4	70 019.2	73 155.5	4.5%	13.1%
Poland	58 525.7	61 009.7	63 565.0	4.2%	8.6%
mortgage loans	41 037.7	42 593.0	44 484.8	4.4%	8.4%
non-mortgage loans	17 488.0	18 416.7	19 080.2	3.6%	9.1%
Foreign branches	6 156.7	9 009.5	9 590.5	6.4%	55.8%
The Czech Republic	4 415.4	6 276.6	6 649.0	5.9%	50.6%
Slovakia	1 741.3	2 732.9	2 941.5	7.6%	68.9%
Deposits of retail clients, including:	92 491.0	106 838.2	109 065.2	2.1%	17.9%
Poland	80 021.4	91 336.0	93 029.1	1.9%	16.3%
Foreign branches	12 469.5	15 502.3	16 036.1	3.4%	28.6%
The Czech Republic	8 525.9	10 961.4	11 369.5	3.7%	33.4%
Slovakia	3 943.6	4 540.8	4 666.6	2.8%	18.3%
Investment assets of mBank's individual clients (Poland)	18 356.0	23 897.0	24 156.2	1.1%	31.6%
thousands					
Credit cards, including:	390.7	380.3	380.3	0.0%	-2.7%
Poland	351.3	343.1	343.4	0.1%	-2.3%
Foreign branches	39.3	37.2	36.9	-0.8%	-6.2%
Debit cards, including:	4 067.4	4 281.7	4 372.3	2.1%	7.5%
Poland	3 409.5	3 609.0	3 704.1	2.6%	8.6%
Foreign branches	657.8	672.7	668.2	-0.7%	1.6%

Corporate and Investment Banking Area

The Corporate and Investment Banking Area serves 30 916 corporate clients including large enterprises (K1 - annual sales exceeding PLN 1 billion and non-banking financial institutions), mid-sized enterprises (K2 - annual sales of PLN 50 million – 1 billion) and small enterprises (K3 - annual sales below PLN 50 million), through a network of dedicated 43 branches. mBank Group's offer of products and services for corporate clients focuses on traditional banking products and services (including corporate accounts, domestic and international money transfers, payment cards, cash services, and liquidity management products), corporate finance products, hedging instruments, equity capital market (ECM) services, debt capital market (DCM) instruments, mergers and acquisitions (M&A), leasing and factoring.



Key highlights

- Total income of PLN 554.7 million.
- Sales of corporate loans increased by 8.3% and amounted to PLN 7 597.9 million in Q3 2021.
- mBank introduced loans for RES (renewable energy sources) financing to its offer. The purpose of a RES loan is to fund small RES projects, mainly photovoltaic farms with rated power of 5 MW and RES installations set up for own purposes of mBank's corporate clients. Minimum own contribution for such loans is equivalent to 10% of the amount, assuming it is secured by BGK.
- New mobile application for corporate clients is immensely popular. 79% of our clients and more than 66% of users in the mCompanyNet system are avidly utilizing it.
- mBank has been recognized by Global Finance magazine as the best digital bank for corporates in Poland. The jury awarded mBank with the title "The Best Corporate Digital Bank in Poland" 2021. It is the second award Global Finance presented to mBank this year. In February Global Finance magazine for the fourth time nominated mBank as one of The Best Treasury & Cash Management Banks and Providers 2021.
- Paynow payment gateway was selected by the votes of the audience and the jury of the eTrade Awards competition as the best digital payment system in Poland. It was the first edition of the eTrade Awards competition which accompanies eTrade Show fairs. In the Best Payment System, the jury assessed simplicity of implementation and purchase, safety level, wide range of the offer and reliability of solutions.
- mBank completed IPO for Shoper S.A. (PLN 363 million) at the turn of June and July, as well as IPO for Cavatina Holding S.A. (PLN 188 million) in July 2021.

Key financial data:

PLN M	Q2 2021	Q3 2021	Change in PLN M	Change in %
Net interest income	268.5	272.6	4.1	1.5%
Net fee and commission income	225.0	233.9	8.9	4.0%
Net trading income	63.0	45.4	-17.6	-27.9%
Other income	0.4	0.3	-0.1	-18.2%
Net other operating income	2.5	2.5	0.0	-1.6%
Total income	559.3	554.7	-4.6	-0.8%
Net impairment losses and fair value change on loans and advances	-104.9	-71.5	33.4	-31.8%
Overhead costs and depreciation	-196.0	-203.1	-7.1	3.6%
Taxes on the Group balance sheet items	-55.3	-60.5	-5.2	9.3%
Profit before tax of Corporate and Investment Banking	203.1	219.6	16.5	8.1%

Key business data (Bank only):

	30.09.2020	30.06.2021	30.09.2021	QoQ change	YoY change
Number of corporate clients, including:	28 420	30 417	30 916	1.6%	8.8%
K1	2 381	2 347	2 305	-1.8%	-3.2%
K2	8 712	9 335	9 492	1.7%	9.0%
K3	17 327	18 735	19 119	2.0%	10.3%
PLN M					
Loans to corporate clients, including:	27 810.9	28 985.9	29 271.5	1.0%	5.3%
K1	6 823.3	6 813.2	6 520.5	-4.3%	-4.4%
K2	18 273.9	19 281.9	19 717.7	2.3%	7.9%
K3	2 713.6	2 890.8	3 033.3	4.9%	11.8%
Deposits of corporate clients, including:	43 563.0	45 468.8	47 115.4	3.6%	8.2%
K1	14 814.9	13 810.1	11 111.2	-19.5%	-25.0%
K2	19 007.2	21 077.9	24 343.9	15.5%	28.1%
K3	9 740.9	10 580.7	11 660.3	10.2%	19.7%

Summary of results of mBank Group's subsidiaries

In Q3 2021, the profit before tax generated by mBank Group subsidiaries amounted to PLN 69.7 million, which represents a decrease of -10.9% against the previous quarter. The table below presents the profit before tax posted by individual subsidiaries in Q3 2021 compared with Q2 2021.

PLN M	Q2 2021	Q3 2021	Change in %
mFinanse	18.2	15.5	-15.0%
mBank Hipoteczny	4.1	13.1	217.5%
mLeasing ¹	45.5	34.5	-24.1%
mFaktoring	10.9	7.3	-33.1%
Pozostale ²	-0.5	-0.7	41.9%
Total	78.2	69.7	-10.9%

¹ Including LeaseLink and Asekum.

² Other subsidiaries in Q2 2021 included mElements, G-Invest, Tele-Tech Investment and Future Tech. In Q3 2021 other subsidiaries include: mElements, G-Invest and Future Tech.

In July 2021 mBank sold its subsidiary Tele-Tech Investment and all bonds held by the bank, which were issued by this subsidiary. The transaction had no material impact on mBank's financial results and balance sheet.

CONDENSED CONSOLIDATED INCOME STATEMENT

	Note	Period from 01.07.2021 to 30.09.2021	Period from 01.01.2021 to 30.09.2021	Period from 01.07.2020 to 30.09.2020	Period from 01.01.2020 to 30.09.2020
Interest income, including:	5	1 085 433	3 139 989	1 079 525	3 625 118
<i>Interest income accounted for using the effective interest method</i>		961 474	2 777 231	957 005	3 270 035
<i>Income similar to interest on financial assets at fair value through profit or loss</i>		123 959	362 758	122 520	355 083
Interest expenses	5	(80 588)	(226 712)	(119 230)	(592 748)
Net interest income		1 004 845	2 913 277	960 295	3 032 370
Fee and commission income	6	698 923	1 991 195	553 516	1 633 429
Fee and commission expenses	6	(219 485)	(591 128)	(180 315)	(534 615)
Net fee and commission income		479 438	1 400 067	373 201	1 098 814
Dividend income	7	957	4 869	310	4 789
Net trading income	8	27 017	133 782	58 151	142 501
Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss	9	(2 550)	(9 429)	9 388	(34 318)
Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss	10	1 114	93 229	(737)	1 521
Other operating income	11	56 634	164 642	49 128	165 193
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss	12	(197 256)	(578 240)	(256 038)	(969 952)
Costs of legal risk related to foreign currency loans	3	(436 819)	(751 624)	(186 851)	(388 734)
Overhead costs	13	(509 461)	(1 530 121)	(458 452)	(1 552 412)
Depreciation		(107 036)	(331 263)	(108 265)	(322 137)
Other operating expenses	14	(56 887)	(220 380)	(51 806)	(156 694)
Operating profit		259 996	1 288 809	388 324	1 020 941
Taxes on the Group balance sheet items		(158 594)	(444 580)	(133 365)	(403 612)
Profit before income tax		101 402	844 229	254 959	617 329
Income tax expense		(74 854)	(391 914)	(154 349)	(338 882)
Net profit		26 548	452 315	100 610	278 447

Net profit attributable to:

- Owners of mBank S.A.		26 555	452 363	100 613	278 513
- Non-controlling interests		(7)	(48)	(3)	(66)

Net profit attributable to Owners of mBank S.A.	15	26 555	452 363	100 613	278 513
Weighted average number of ordinary shares	15	42 367 220	42 367 101	42 355 992	42 352 256
Earnings per share (in PLN)	15	0.63	10.68	2.38	6.58
Weighted average number of ordinary shares for diluted earnings	15	42 437 827	42 437 708	42 377 975	42 374 239
Diluted earnings per share (in PLN)	15	0.63	10.66	2.37	6.57

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Period from 01.07.2021 to 30.09.2021	Period from 01.01.2021 to 30.09.2021	Period from 01.07.2020 to 30.09.2020	Period from 01.01.2020 to 30.09.2020
Net profit	26 548	452 315	100 610	278 447
Other comprehensive income net of tax, including:	(186 454)	(597 227)	(44 614)	532 695
Items that may be reclassified subsequently to the income statement				
Exchange differences on translation of foreign operations (net)	1 640	1 997	(162)	(465)
Cash flows hedges (net)	(119 866)	(371 200)	(12 875)	354 360
Debt instruments at fair value through other comprehensive income (net)	(68 228)	(239 460)	(31 577)	178 800
Items that will not be reclassified to the income statement				
Investment properties	-	11 436	-	-
Total comprehensive income (net)	(159 906)	(144 912)	55 996	811 142
Total comprehensive income (net), attributable to:				
- Owners of mBank S.A.	(159 899)	(144 864)	55 999	811 208
- Non-controlling interests	(7)	(48)	(3)	(66)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

ASSETS	Note	30.09.2021	31.12.2020 - restated	01.01.2020 - restated
Cash and balances with the Central Bank		18 015 638	3 968 691	7 897 010
Financial assets held for trading and hedging derivatives	16	3 305 612	2 586 721	2 866 034
Non-trading financial assets mandatorily at fair value through profit or loss, including:	17	1 503 595	1 784 691	2 267 922
<i>Equity instruments</i>	17	209 040	202 304	162 616
<i>Debt securities</i>	17	82 063	76 068	133 774
<i>Loans and advances to customers</i>	17	1 212 492	1 506 319	1 971 532
Financial assets at fair value through other comprehensive income	18	31 879 610	35 498 061	22 773 921
Financial assets at amortised cost, including:	19	147 803 106	130 179 902	118 412 330
<i>Debt securities</i>	19	14 990 221	15 952 501	11 234 873
<i>Loans and advances to banks</i>	19	14 398 589	7 354 268	4 341 758
<i>Loans and advances to customers</i>	19	118 414 296	106 873 133	102 835 699
Fair value changes of the hedged items in portfolio hedge of interest rate risk		316 933	-	-
Non-current assets and disposal groups classified as held for sale		-	-	10 651
Intangible assets	20	1 220 375	1 178 698	955 440
Tangible assets	21	1 537 352	1 514 577	1 262 397
Investment properties		127 510	-	-
Current income tax assets		21 328	23 957	12 662
Deferred income tax assets	25	1 090 182	853 880	937 712
Other assets		1 330 559	1 282 439	956 949
TOTAL ASSETS		208 151 800	178 871 617	158 353 028
LIABILITIES AND EQUITY				
LIABILITIES				
Financial liabilities held for trading and hedging derivatives	22	2 317 815	1 338 564	948 764
Financial liabilities measured at amortised cost, including:		184 740 406	156 673 052	137 763 369
<i>Amounts due to banks</i>	23	2 556 140	2 399 740	1 166 871
<i>Amounts due to customers</i>	23	164 141 601	137 698 668	116 661 138
<i>Debt securities issued</i>		15 462 944	13 996 317	17 435 143
<i>Subordinated liabilities</i>		2 579 721	2 578 327	2 500 217
Fair value changes of the hedged items in portfolio hedge of interest rate risk		65 721	59 624	136
Liabilities included in disposal groups classified as held for sale		-	-	1 315
Provisions	24	838 431	501 691	371 741
Current income tax liabilities		28 033	225 796	161 534
Deferred income tax liabilities	25	90	690	82
Other liabilities		3 625 136	3 397 133	2 952 782
TOTAL LIABILITIES		191 615 632	162 196 550	142 199 723
EQUITY				
Equity attributable to Owners of mBank S.A.		16 534 286	16 673 133	16 151 303
Share capital:		3 588 583	3 587 035	3 579 818
Registered share capital		169 475	169 468	169 401
Share premium		3 419 108	3 417 567	3 410 417
Retained earnings:	26	12 958 429	12 501 597	12 394 775
Profit from the previous years		12 506 066	12 397 766	12 394 775
Profit for the current year		452 363	103 831	-
Other components of equity	27	(12 726)	584 501	176 710
Non-controlling interests		1 882	1 934	2 002
TOTAL EQUITY		16 536 168	16 675 067	16 153 305
TOTAL LIABILITIES AND EQUITY		208 151 800	178 871 617	158 353 028
Total capital ratio (in %)		17.51	19.86	19.46
Common Equity Tier 1 capital ratio (in %)		15.19	16.99	16.51
Book value		16 534 286	16 673 133	16 151 303
Number of shares		42 368 696	42 367 040	42 350 367
Book value per share (in PLN)		390.25	393.54	381.37

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Changes in equity from 1 January to 30 September 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	-	-	-	452 363	(597 227)	(144 864)	(48)	(144 912)
Issuance of ordinary shares	7	-	-	-	-	7	-	7
Other increase or decrease in equity	-	-	-	-	-	-	(4)	(4)
Stock option program for employees	-	1 541	4 469	-	-	6 010	-	6 010
- value of services provided by the employees	-	-	6 010	-	-	6 010	-	6 010
- settlement of exercised options	-	1 541	(1 541)	-	-	-	-	-
Equity as at 30 September 2021	169 475	3 419 108	12 506 066	452 363	(12 726)	16 534 286	1 882	16 536 168

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 September 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	-	-	-	278 513	532 695	811 208	(66)	811 142
Issuance of ordinary shares	60	-	-	-	-	60	-	60
Other increase or decrease in equity	-	-	(43)	-	-	(43)	6	(37)
Stock option program for employees	-	6 371	(1 198)	-	-	5 173	-	5 173
- value of services provided by the employees	-	-	5 173	-	-	5 173	-	5 173
- settlement of exercised options	-	6 371	(6 371)	-	-	-	-	-
Equity as at 30 September 2020	169 461	3 416 788	12 393 534	278 513	709 405	16 967 701	1 942	16 969 643

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Period from 01.01.2021 to 30.09.2021	Period from 01.01.2020 to 30.09.2020 - restated
Profit before income tax	844 229	617 329
Adjustments:	20 214 349	6 037 124
Income taxes paid	(641 870)	(257 521)
Depreciation, including depreciation of fixed assets provided under operating lease	354 417	349 075
Foreign exchange (gains) losses related to financing activities	(38 838)	509 345
(Gains) losses on investing activities	(190)	(2 240)
Dividends received	(4 869)	(4 789)
Interest income (income statement)	(3 139 989)	(3 625 118)
Interest expense (income statement)	226 712	592 748
Interest received	3 259 069	4 070 804
Interest paid	(168 361)	(674 307)
Changes in loans and advances to banks	(510 022)	(1 455 152)
Changes in financial assets and liabilities held for trading and hedging derivatives	(494 364)	1 192 051
Changes in loans and advances to customers	(11 180 130)	(4 082 516)
Changes in financial assets at fair value through other comprehensive income	3 153 244	(12 832 592)
Changes in securities at amortised cost	941 827	(3 235 680)
Changes of non-trading equity securities mandatorily at fair value through profit or loss	(7 839)	(27 622)
Changes in other assets	(37 712)	(352 892)
Changes in amounts due to banks	176 120	811 993
Changes in amounts due to customers	27 609 418	24 503 187
Changes in issued debt securities	(11 422)	122 548
Changes in provisions	336 740	59 449
Changes in other liabilities	392 408	376 353
A. Cash flows from operating activities	21 058 578	6 654 453
Disposal of shares in subsidiaries, net of cash disposed	5 147	-
Disposal of intangible assets and tangible fixed assets	65 496	72 667
Dividends received	4 869	4 789
Acquisition of shares in subsidiaries	(10 039)	-
Purchase of intangible assets and tangible fixed assets	(475 615)	(357 290)
B. Cash flows from investing activities	(410 142)	(279 834)
Proceeds from issue of debt securities	3 199 950	95 000
Proceeds from issue of ordinary shares	7	60
Repayments of loans and advances from banks	-	(196 140)
Repayments of other loans and advances	(1 358 250)	-
Redemption of debt securities	(1 782 612)	(4 125 805)
Payments of lease liabilities	(72 686)	(89 856)
Interest paid from loans and advances received from banks and from subordinated liabilities	(46 519)	(68 165)
C. Cash flows from financing activities	(60 110)	(4 384 906)
Net increase / decrease in cash and cash equivalents (A+B+C)	20 588 326	1 989 713
Effects of exchange rate changes on cash and cash equivalents	36 635	30 298
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	24 874 007	10 299 399

CONDENSED STAND-ALONE INCOME STATEMENT

	Period from 01.07.2021 to 30.09.2021	Period from 01.01.2021 to 30.09.2021	Period from 01.07.2020 to 30.09.2020	Period from 01.01.2020 to 30.09.2020
Interest income, including:	939 357	2 722 173	934 930	3 187 040
<i>Interest income accounted for using the effective interest method</i>	820 294	2 372 600	818 475	2 844 984
<i>Income similar to interest on financial assets at fair value through profit or loss</i>	119 063	349 573	116 455	342 056
Interest expenses	(63 274)	(176 041)	(99 863)	(499 933)
Net interest income	876 083	2 546 132	835 067	2 687 107
Fee and commission income	649 359	1 856 664	517 432	1 519 372
Fee and commission expenses	(192 318)	(509 950)	(160 536)	(463 445)
Net fee and commission income	457 041	1 346 714	356 896	1 055 927
Dividend income	957	29 918	310	31 134
Net trading income	20 774	116 969	58 096	147 593
Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss	(2 854)	(10 459)	10 084	(32 775)
Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss	(2 199)	77 037	(18 825)	(13 489)
Other operating income	10 379	36 269	7 865	30 909
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss	(163 445)	(528 557)	(206 275)	(828 691)
Costs of legal risk related to foreign currency loans	(436 819)	(751 624)	(186 851)	(388 734)
Overhead costs	(463 568)	(1 378 466)	(410 994)	(1 393 759)
Depreciation	(92 105)	(286 775)	(94 476)	(282 803)
Other operating expenses	(27 529)	(147 593)	(23 489)	(78 797)
Operating profit	176 715	1 049 565	327 408	933 622
Taxes on the Bank balance sheet items	(150 755)	(421 446)	(125 551)	(380 265)
Share in profits (losses) of entities under the equity method	67 123	149 303	33 965	25 701
Profit before income tax	93 083	777 422	235 822	579 058
Income tax expense	(61 198)	(347 511)	(146 585)	(315 429)
Net profit	31 885	429 911	89 237	263 629
Net profit	31 885	429 911	89 237	263 629
Weighted average number of ordinary shares	42 367 220	42 367 101	42 355 992	42 352 256
Earnings per share (in PLN)	0.75	10.15	2.11	6.22
Weighted average number of ordinary shares for diluted earnings	42 437 827	42 437 708	42 377 975	42 374 239
Diluted earnings per share (in PLN)	0.75	10.13	2.11	6.22

CONDENSED STAND-ALONE STATEMENT OF COMPREHENSIVE INCOME

	Period from 01.07.2021 to 30.09.2021	Period from 01.01.2021 to 30.09.2021	Period from 01.07.2020 to 30.09.2020	Period from 01.01.2020 to 30.09.2020
Net profit	31 885	429 911	89 237	263 629
Other comprehensive income net of tax, including:	(121 482)	(676 755)	(134 446)	297 121
Items that may be reclassified subsequently to the income statement				
Exchange differences on translation of foreign operations (net)	1 689	2 045	(154)	(532)
Cash flows hedges (net)	(118 642)	(357 193)	(18 859)	337 896
Share of other comprehensive income of entities under the equity method (net)	4 357	(13 193)	4 384	5 666
Debt instruments at fair value through other comprehensive income (net)	(8 886)	(319 850)	(119 817)	(45 909)
Items that will not be reclassified to the income statement				
Investment properties	-	11 436	-	-
Total comprehensive income (net)	(89 597)	(246 844)	(45 209)	560 750

CONDENSED STAND-ALONE STATEMENT OF FINANCIAL POSITION

ASSETS	30.09.2021	31.12.2020 - restated	01.01.2020 - restated
Cash and balances with the Central Bank	17 977 116	3 939 298	7 861 776
Financial assets held for trading and derivatives held for hedges	3 275 270	2 493 535	2 921 749
Non-trading financial assets mandatorily at fair value through profit or loss, including:	1 303 864	1 585 029	2 035 189
<i>Equity instruments</i>	137 294	136 480	87 597
<i>Debt securities</i>	82 063	76 068	133 774
<i>Loans and advances to customers</i>	1 084 507	1 372 481	1 813 818
Financial assets at fair value through other comprehensive income	48 011 287	47 731 612	30 298 647
Financial assets at amortised cost, including:	123 624 898	109 527 366	100 942 738
<i>Debt securities</i>	15 458 464	15 952 501	11 234 873
<i>Loans and advances to credit institutions</i>	18 438 842	10 845 844	7 337 703
<i>Loans and advances to customers</i>	89 727 592	82 729 021	82 370 162
Fair value changes of the hedged items in portfolio hedge of interest rate risk	316 933	-	-
Investments in subsidiaries	2 351 820	2 204 922	2 164 112
Non-current assets and disposal groups classified as held for sale	-	-	91 605
Intangible assets	1 052 193	1 013 746	823 109
Tangible assets	1 198 729	1 246 496	945 606
Investment properties	127 510	-	-
Current income tax assets	21 258	22 826	11 878
Deferred income tax assets	417 498	206 924	273 257
Other assets	818 698	773 253	491 052
TOTAL ASSETS	200 497 074	170 745 007	148 860 718
LIABILITIES AND EQUITY			
LIABILITIES			
Financial liabilities held for trading and derivatives held for hedges	2 375 357	1 414 374	987 933
Financial liabilities measured at amortised cost, including:	177 942 430	149 315 812	128 979 983
<i>Amounts due to banks</i>	2 602 496	2 624 286	1 180 782
<i>Amounts due to customers</i>	164 104 461	137 778 034	121 936 987
<i>Debt securities issued</i>	8 655 752	6 335 165	3 361 997
<i>Subordinated liabilities</i>	2 579 721	2 578 327	2 500 217
Fair value changes of the hedged items in portfolio hedge of interest rate risk	65 721	59 624	136
Provisions	859 305	515 211	369 612
Current income tax liabilities	24 790	225 029	150 859
Deferred income tax liabilities	90	89	82
Other liabilities	3 002 516	2 747 176	2 257 106
TOTAL LIABILITIES	184 270 209	154 277 315	132 745 711
EQUITY			
Share capital:	3 588 583	3 587 035	3 579 818
Registered share capital	169 475	169 468	169 401
Share premium	3 419 108	3 417 567	3 410 417
Retained earnings:	12 894 986	12 460 606	12 364 550
- Profit from the previous years	12 465 075	12 367 559	12 364 550
- Profit for the current year	429 911	93 047	-
Other components of equity	(256 704)	420 051	170 639
TOTAL EQUITY	16 226 865	16 467 692	16 115 007
TOTAL LIABILITIES AND EQUITY	200 497 074	170 745 007	148 860 718
Total capital ratio	19.98	22.95	22.84
Common Equity Tier 1 capital ratio	17.31	19.59	19.42
Book value	16 226 865	16 467 692	16 115 007
Number of shares	42 368 696	42 367 040	42 350 367
Book value per share (in PLN)	382.99	388.69	380.52

CONDENSED STAND-ALONE STATEMENT OF CHANGES IN EQUITY

Changes in equity from 1 January to 30 September 2021

	Share capital		Retained earnings		Other components of equity	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	12 460 606	-	420 051	16 467 692
Total comprehensive income	-	-	-	429 911	(676 755)	(246 844)
Issuance of ordinary shares	7	-	-	-	-	7
Stock option program for employees	-	1 541	4 469	-	-	6 010
- value of services provided by the employees	-	-	6 010	-	-	6 010
- settlement of exercised options	-	1 541	(1 541)	-	-	-
Equity as at 30 September 2021	169 475	3 419 108	12 465 075	429 911	(256 704)	16 226 865

Changes in equity from 1 January to 31 December 2020

	Share capital		Retained earnings		Other components of equity	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	12 364 550	-	170 639	16 115 007
Total comprehensive income	-	-	-	93 047	249 412	342 459
Issuance of ordinary shares	67	-	-	-	-	67
Stock option program for employees	-	7 150	3 009	-	-	10 159
- value of services provided by the employees	-	-	10 159	-	-	10 159
- settlement of exercised options	-	7 150	(7 150)	-	-	-
Equity as at 31 December 2020	169 468	3 417 567	12 367 559	93 047	420 051	16 467 692

Changes in equity from 1 January to 30 September 2020

	Share capital		Retained earnings		Other components of equity	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	12 364 550	-	170 639	16 115 007
Total comprehensive income	-	-	-	263 629	297 121	560 750
Issuance of ordinary shares	60	-	-	-	-	60
Stock option program for employees	-	6 371	(1 198)	-	-	5 173
- value of services provided by the employees	-	-	5 173	-	-	5 173
- settlement of exercised options	-	6 371	(6 371)	-	-	-
Equity as at 30 September 2020	169 461	3 416 788	12 363 352	263 629	467 760	16 680 990

CONDENSED STAND-ALONE STATEMENT OF CASH FLOW

	Period from 01.01.2021 to 30.09.2021	Period from 01.01.2020 to 30.09.2020 - restated
Profit before income tax	777 422	579 058
Adjustments:	19 335 069	2 606 069
Income taxes paid	(624 409)	(233 365)
Depreciation, including depreciation of fixed assets provided under operating lease	290 617	290 575
Foreign exchange (gains) losses related to financing activities	(51 236)	271 379
(Gains) losses on investing activities	(149 500)	(27 790)
Dividends received	(29 918)	(31 134)
Interest income (income statement)	(2 722 173)	(3 187 040)
Interest expense (income statement)	176 041	499 933
Interest received	2 833 539	3 626 507
Interest paid	(133 855)	(608 966)
Changes in loans and advances to banks	(1 049 295)	(2 613 191)
Changes in financial assets and liabilities held for trading and hedging derivatives	(570 205)	1 226 908
Changes in loans and advances to customers	(10 522 594)	(3 712 846)
Changes in financial assets at fair value through other comprehensive income	3 104 977	(13 572 083)
Changes in securities at amortised cost	473 071	(3 236 549)
Changes of non-trading equity securities mandatorily at fair value through profit or loss	(6 809)	(29 001)
Changes in other assets	70 018	(192 609)
Changes in amounts due to banks	(2 070)	833 979
Changes in amounts due to customers	27 422 361	22 631 353
Changes in issued debt securities	(4 250)	160 854
Changes in provisions	344 094	62 020
Changes in other liabilities	486 665	447 135
A. Cash flows from operating activities	20 112 491	3 185 127
Disposal of shares in subsidiaries, net of cash disposed	5 147	650
Disposal of intangible assets and tangible fixed assets	614	1 885
Dividends received	29 918	31 134
Acquisition of shares in subsidiaries	(17 039)	-
Purchase of intangible assets and tangible fixed assets	(360 684)	(250 906)
B. Cash flows from investing activities	(342 044)	(217 237)
Proceeds from issue of debt securities	2 299 950	35 000
Proceeds from issue of ordinary shares	7	60
Repayments of loans and advances from banks	-	(196 140)
Repayments of other loans and advances	(1 358 250)	-
Repayment of debt securities in issue	(10 000)	(178 042)
Payments of other financial liabilities	-	(479 271)
Payments of financial lease liabilities	(66 872)	(84 106)
Interest paid from loans and advances received from banks and subordinated liabilities	(46 519)	(68 165)
C. Cash flows from financing activities	818 316	(970 664)
Net increase / decrease in cash and cash equivalents (A+B+C)	20 588 763	1 997 226
Effects of exchange rate changes on cash and cash equivalents	36 635	30 298
Cash and cash equivalents at the beginning of the reporting period	4 205 132	8 204 230
Cash and cash equivalents at the end of the reporting period	24 830 530	10 231 754

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. (corporate and investment banking segment, retail banking segment as well as treasury and other segment) 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.

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

As at 30 September 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 to mBank Spółka Akcyjna (abbreviated mBank S.A.).

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

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

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

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

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

As at 30 September 2021 the headcount of mBank S.A. amounted to 6 096 FTEs (Full Time Equivalentents) and of the Group to 6 726 FTEs (30 September 2020: Bank 6 097 FTEs, Group 6 754 FTEs).

As at 30 September 2021 the employment in mBank S.A. was 7 079 persons and in the Group 9 369 persons (30 September 2020: Bank 7 118 persons, Group 9 470 persons).

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

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

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

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. Hence, starting from July 2021, the Group ceased to consolidate the subsidiary Tele-Tech Investment Sp. z o.o.

As of December 2020, the consolidation of mFinanse France S.A. was discontinued. The business activities of the company was conducted in the business 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. for 2020, 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. for 2020, 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	30.09.2021		31.12.2020		30.09.2020	
	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
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
Tele-Tech Investment Sp. z o.o.	-	-	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 November 2021.

2. Description of relevant accounting policies

Accounting basis

The Condensed Consolidated Financial Statements of mBank S.A. Group have been prepared for the 9-month period ended 30 September 2021. Comparative data include the period from 1 January 2020 to 30 September 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 unfavourable 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 adjusted 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 presented for the first time in the consolidated financial statements for 2020.

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

- 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.

- Amendments to IFRS 16, COVID-19-related Rent Concessions beyond 30 June 2021, published by International Accounting Standards Board on 31 March 2021, approved by the European Union on 30 August 2021 and 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.

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 from 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.

- 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, reinsurance 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 unfavourable 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 adjusted 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 September 2020 and 31 December 2020 and for the period from 1 January to 30 September 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 30 September 2020 has been restated accordingly.

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
<i>Debt securities</i>	11 234 873	-	11 234 873
<i>Loans and advances to banks</i>	4 341 758	-	4 341 758
<i>Loans and advances to customers</i>	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 September 2020

ASSETS	30.09.2020 before restatement	restatement	30.09.2020 after restatement
Financial assets at amortised cost, including:	131 339 607	(711 053)	130 628 554
<i>Debt securities</i>	14 471 422	-	14 471 422
<i>Loans and advances to banks</i>	8 991 355	-	8 991 355
<i>Loans and advances to customers</i>	107 876 830	(711 053)	107 165 777
Other assets	50 807 150	-	50 807 150
TOTAL ASSETS	182 146 757	(711 053)	181 435 704
LIABILITIES AND EQUITY	30.09.2020 before restatement	restatement	30.09.2020 after restatement
Provisions	1 142 243	(711 053)	431 190
Other liabilities	164 034 871	-	164 034 871
TOTAL LIABILITIES	165 177 114	(711 053)	164 466 061
TOTAL EQUITY	16 969 643	-	16 969 643
TOTAL LIABILITIES AND EQUITY	182 146 757	(711 053)	181 435 704

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
<i>Debt securities</i>	15 952 501	-	15 952 501
<i>Loans and advances to banks</i>	7 354 268	-	7 354 268
<i>Loans and advances to customers</i>	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

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

	Period from 01.01.2020 to 30.09.2020 before restatement	restatement	Period from 01.01.2020 to 30.09.2020 after restatement
Profit before income tax	617 329	-	617 329
Adjustments, including:	5 112 078	925 046	6 037 124
Changes in financial assets and liabilities held for trading and hedging derivatives	267 005	925 046	1 192 051
Changes in loans and advances to customers	(4 426 014)	343 498	(4 082 516)
Changes in provisions	402 947	(343 498)	59 449
Other adjustments	8 868 140	-	8 868 140
A. Cash flows from operating activities	5 729 407	925 046	6 654 453
B. Cash flows from investing activities	(279 834)	-	(279 834)
C. Cash flows from financing activities	(4 384 906)	-	(4 384 906)
Net increase / decrease in cash and cash equivalents (A+B+C)	1 064 667	925 046	1 989 713
Effects of exchange rate changes on cash and cash equivalents	30 298	-	30 298
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	10 704 894	(405 495)	10 299 399

Stand-alone data for mBank S.A.

Restatements in 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:	101 310 293	(367 555)	100 942 738
<i>Debt securities</i>	11 234 873	-	11 234 873
<i>Loans and advances to banks</i>	7 337 703	-	7 337 703
<i>Loans and advances to customers</i>	82 737 717	(367 555)	82 370 162
Other assets	47 917 980	-	47 917 980
TOTAL ASSETS	149 228 273	(367 555)	148 860 718
LIABILITIES AND EQUITY	01.01.2020 before restatement	restatement	01.01.2020 after restatement
Provisions	737 167	(367 555)	369 612
Other liabilities	132 376 099	-	132 376 099
TOTAL LIABILITIES	133 113 266	(367 555)	132 745 711
TOTAL EQUITY	16 115 007	-	16 115 007
TOTAL LIABILITIES AND EQUITY	149 228 273	(367 555)	148 860 718

Restatements in statement of financial position at 30 September 2020

ASSETS	30.09.2020 before restatement	restatement	30.09.2020 after restatement
Financial assets at amortised cost, including:	111 835 542	(711 053)	111 124 489
<i>Debt securities</i>	14 471 422	-	14 471 422
<i>Loans and advances to banks</i>	13 200 191	-	13 200 191
<i>Loans and advances to customers</i>	84 163 929	(711 053)	83 452 876
Other assets	62 005 610	-	62 005 610
TOTAL ASSETS	173 841 152	(711 053)	173 130 099
LIABILITIES AND EQUITY	30.09.2020 before restatement	restatement	30.09.2020 after restatement
Provisions	1 142 685	(711 053)	431 632
Other liabilities	156 017 477	-	156 017 477
TOTAL LIABILITIES	157 160 162	(711 053)	156 449 109
TOTAL EQUITY	16 680 990	-	16 680 990
TOTAL LIABILITIES AND EQUITY	173 841 152	(711 053)	173 130 099

Restatements in 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:	110 792 043	(1 264 677)	109 527 366
<i>Debt securities</i>	15 952 501	-	15 952 501
<i>Loans and advances to banks</i>	10 845 844	-	10 845 844
<i>Loans and advances to customers</i>	83 993 698	(1 264 677)	82 729 021
Other assets	61 217 641	-	61 217 641
TOTAL ASSETS	172 009 684	(1 264 677)	170 745 007
LIABILITIES AND EQUITY	31.12.2020 before restatement	restatement	31.12.2020 after restatement
Provisions	1 779 888	(1 264 677)	515 211
Other liabilities	153 762 104	-	153 762 104
TOTAL LIABILITIES	155 541 992	(1 264 677)	154 277 315
TOTAL EQUITY	16 467 692	-	16 467 692
TOTAL LIABILITIES AND EQUITY	172 009 684	(1 264 677)	170 745 007

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

	Period from 01.01.2020 to 30.09.2020 before restatement	restatement	Period from 01.01.2020 to 30.09.2020 after restatement
Profit before income tax	579 058	-	579 058
Adjustments, including:	1 681 023	925 046	2 606 069
Changes in financial assets and liabilities held for trading and hedging derivatives	301 862	925 046	1 226 908
Changes in loans and advances to customers	(4 056 344)	343 498	(3 712 846)
Changes in provisions	405 518	(343 498)	62 020
Other adjustments	5 029 987	-	5 029 987
A. Cash flows from operating activities	2 260 081	925 046	3 185 127
B. Cash flows from investing activities	(217 237)	-	(217 237)
C. Cash flows from financing activities	(970 664)	-	(970 664)
Net increase / decrease in cash and cash equivalents (A+B+C)	1 072 180	925 046	1 997 226
Effects of exchange rate changes on cash and cash equivalents	30 298	-	30 298
Cash and cash equivalents at the beginning of the reporting period	9 534 771	(1 330 541)	8 204 230
Cash and cash equivalents at the end of the reporting period	10 637 249	(405 495)	10 231 754

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 unfavourable 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 September 2021 the cumulative impact of the legal risk amounted to PLN 2 070 207 thousand (as of 31 December 2020: PLN 1 426 563 thousand), of which PLN 1 720 146 thousand decreased the gross carrying amount of loans by adjusting the expected cash flows from these assets and PLN 350 061 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 three quarters of 2021 amounted to PLN 751 624 thousand (three quarters of 2020: PLN 388 734 thousand). These costs also include the creation in the third quarter of 2021 of a provision for a class action lawsuit concerning indexation clauses contained in CHF mortgage and housing loan agreements according to the methodology analogous to that used in the calculation of provisions for individual court cases concerning indexation clauses in CHF mortgage and housing loans.

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 three quarters of 2021 resulted mainly from (i) higher than expected inflow of cases in three quarters of 2021, (ii) changes in level of loss on loan exposure in case of losing the case by the Bank and (iii) application of a management adjustment in the amount of PLN 200 million addressing the continuing uncertainty as to the further development of the jurisprudence in franc cases, in particular regarding the lack of a resolution of the full Civil Chamber of the Supreme Court on questions from the First President of the Supreme Court (III CZP 11/21). 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 by the end of 2025. 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 24% of FX borrowers (i.e. 19.8 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 (24% of customers represent 32% 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 three quarters of 2021 the Bank increased the assumed number of court cases by 28.5%. 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 54.0 million (while other relevant assumptions remain constant) as compared to 30 September 2021, of which PLN 41.1 million would reduce gross carrying amount of the loans, and PLN 12.9 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 September 2021 mBank received 270 final rulings in individual lawsuits (31 December 2020: 173 final rulings), out of which 81 rulings were favourable to the Bank and 189 rulings were unfavourable (31 December 2020: 70 rulings favourable and 103 unfavourable).

At the same time 395 proceedings (as of 30 September 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 59% 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 September 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 37.3 million, of which PLN 34.4 million would change gross carrying amount of the loans, and PLN 2.9 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 31.2 million, of which PLN 28.0 million would change gross carrying amount of the loans, and PLN 3.2 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 54.6 million or increase by PLN 62.4 million as at 30 September 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.

In the third quarter of 2021 the Group introduced a new dedicated model for specialised lending portfolio for mBank and mLeasing. The Group included the effect of implementation in the amount of PLN 101 million in the income statement for first half of of 2021. The Group did not recort any additional impact in the third quarter.

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.

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 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 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 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.

At the end of the September 2021 almost all support programs, offered in Poland, in the Czech Republic and Slovakia expired, with the exception of regulatory moratoria program (Anti-Crisis Shield 4.0 act

effective from 23 June 2020). Assistance under this support program is granted to these customers, who lost their job or other key income source after 13 March 2020. The number of request for the Crisis Shield support is insignificant – over third quarter of 2021 Anti-Crisis Shield 4.0 aid have been granted to 11 clients with total balance of 3.52 million PLN.

The rules of participation in aid programs were described in detail in the Condensed Consolidated Financial Statements for previous quarters of 2021.

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 (as at 30 September 2021).

Number of obligors subject to assistance tools in Poland in the period 13.03.2020 – 30.09.2021	30.09.2021
Moratoria	63 229
Government guarantees (BGK)	103

Value of the loans in Poland with assistance tools granted in the period 13.03.2020 – 30.09.2021	30.09.2021				
	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	12 391 768	11 835 201	556 567	(62 313)	494 254
- Individual customers	5 756 835	5 754 081	2 754	(237)	2 517
- Corporate customers	6 634 933	6 081 120	553 813	(62 076)	491 737
Government guarantees (BGK)	814 162	-	814 162	(4 069)	810 093
- Individual customers	-	-	-	-	-
- Corporate customers	814 162	-	814 162	(4 069)	810 093

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

a) active assistance tools as of 30 September 2021

Active assistance tools in Poland as of 30.09.2021, granted in the period 13.03.2020 – 30.09.2021	Gross carrying amount	Performing			Accumulated impairment
		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)	
Moratoria	221 103	2 567	2 301	204 086	(19 418)
- Individual customers	1 789	886	609	588	(18)
- Corporate customers	219 314	1 681	1 692	203 498	(19 400)
Government guarantees (BGK)	814 162	3 521	-	295 364	(4 069)
- Individual customers	-	-	-	-	-
- Corporate customers	814 162	3 521	-	295 364	(4 069)

Active assistance tools in Poland as of 30.09.2021, granted in the period 13.03.2020 – 30.09.2021	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	335 464	33	-	(42 895)	965
- Individual customers	965	33	-	(219)	965
- Corporate customers	334 499	-	-	(42 676)	-
Government guarantees (BGK)	-	-	-	-	-
- Individual customers	-	-	-	-	-
- Corporate customers	-	-	-	-	-

b) expired assistance tools as of 30 September 2021

Expired assistance tools in Poland as of 30.09.2021, granted in the period 13.03.2020 – 30.09.2021	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	11 498 381	135 023	1 884 991	(111 108)	(80 698)
- Individual customers	5 581 926	59 701	300 345	(32 860)	(17 696)
- Corporate customers	5 916 455	75 322	1 584 646	(78 248)	(63 002)
Government guarantees (BGK)	-	-	-	-	-
- Individual customers	-	-	-	-	-
- Corporate customers	-	-	-	-	-

Expired assistance tools in Poland as of 30.09.2021, granted in the period 13.03.2020 – 30.09.2021	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	336 820	32 449	22 746	(118 356)	17 334
- Individual customers	172 155	9 178	4 622	(85 940)	32 899
- Corporate customers	164 665	23 271	18 124	(32 416)	(15 565)
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 (as at 30 September 2021).

Number of obligors subject to assistance tools in Czech Republic and Slovakia in the period 01.04.2020 – 30.09.2021	30.09.2021
Moratoria	6 049

Value of the loans in Czech Republic and Slovakia with assistance tools granted in the period 01.04.2020 – 30.09.2021	30.09.2021				
	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	446 893	441 845	5 048	(61)	4 987
- Individual customers	446 893	441 845	5 048	(61)	4 987
- Corporate customers	-	-	-	-	-

a) active assistance tools as of 30 September 2021

Active assistance tools in Czech Republic and Slovakia as of 30.09.2021, granted in the period 01.04.2020 – 30.09.2021	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	4 968	-	4 968	159	(28)
- Individual customers	4 968	-	4 968	159	(28)
- Corporate customers	-	-	-	-	-

Active assistance tools in Czech Republic and Slovakia as of 30.09.2021, granted in the period 01.04.2020 – 30.09.2021	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	80	-	-	(33)	-
- Individual customers	80	-	-	(33)	-
- Corporate customers	-	-	-	-	-

b) expired assistance tools as of 30 September 2021

Expired assistance tools in Czech Republic and Slovakia as of 30.09.2021, granted in the period 01.04.2020 – 30.09.2021	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	431 455	49 655	22 007	(2 332)	(1 258)
- Individual customers	431 455	49 655	22 007	(2 332)	(1 258)
- Corporate customers	-	-	-	-	-

Expired assistance tools in Czech Republic and Slovakia as of 30.09.2021, granted in the period 01.04.2020 – 30.09.2021	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	10 390	1 095	1 535	(5 216)	-
- Individual customers	10 390	1 095	1 535	(5 216)	-
- Corporate customers	-	-	-	-	-

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.

In the scope of retail customers risk assessment, the borrowers with granted assistance tools in the form of the payment moratoria 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

In the third quarter of 2021, the Group applied forbearance classification rules to the exposures covered by COVID-19 pandemic support programs compliant with internal regulations. As required by the EBA, the use of support tools in connection with COVID-19 did not result in automatic classification to forbearance.

A detailed description of the approach to classification to forbearance at the earlier stages of the COVID-19 pandemic has been included in the Condensed Consolidated Financial Statements for previous quarters of 2021.

Additional cost of risk due to COVID-19 pandemic:

- actions taken in 2020 and in three quarters 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 period of three quarters of 2021, Group withdrew gradually from using additional premises for maintaining loans subject to the moratoria in Stage 2. In the following months of 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 premises. As of 30 September 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 premises, amounted to PLN 3 161 million.

■ actions taken in 2020 and in three quarters 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 2.7 million in the first three quarters of 2021. The total gross carrying amount of the temporarily reclassified portfolio in Q3 2021 was PLN 3.1 million.

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 three quarters of 2021 a total of PLN 26.5 million of additional cost of expected credit losses was released in the portfolio measured at amortized cost. Additionally, for the loan portfolio measured at fair value through profit or loss there was a release of PLN 0.2 million.

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 30.09.2021		
	Individual Customers	Corporate customers	Total
Financial asset measured at amortised cost	41 139	(14 618)	26 521
Stage 1	-	490	490
Stage 2	43 790	(978)	42 812
Stage 3	(2 651)	(14 130)	(16 781)
Financial assets measured at fair value through profit or loss	-	240	240

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

Impact of the macroeconomic environment forecast on the expected credit loss values

In the third quarter of 2021, the forecasts of future macroeconomic conditions used in the Bank's expected credit loss model were updated. The forecasts take into account the current development of the ongoing COVID-19 pandemic and they are consistent with the forecasts used by the Bank in the planning process.

In order to assess expected credit loss (ECL) sensitivity to the future macroeconomic conditions, the Group determined the ECL value separately for each of the scenarios used for the purposes of calculating the

expected credit risk losses. The impact of each of the scenarios is presented in the table in the next chapters of the document.

The table below presents forecasts of the main macroeconomic indicators used in the expected credit loss model as of 30 September 2021 and 31 December 2020:

Scenario as at 30.09.2021		base		optimistic		pessimistic	
Probability		60%		20%		20%	
		The first year of the forecast	The average for the next two years	The first year of the forecast	The average for the next two years	The first year of the forecast	The average for the next two years
GDP	r/r	6.0	4.5	7.8	6.0	1.6	3.8
Unemployment rate	end of the year	3.6%	2.8%	3.1%	2.3%	4.4%	3.5%
WIBOR3M	end of the year	0.21	0.71	0.86	2.24	0.00	0.00
Real estate price index	r/r	108.3	107.5	112.8	108.8	104.5	104.4
CHFPLN	end of the year	4.11	3.85	4.11	3.74	4.24	4.01

Scenario as at 31.12.2020		base		optimistic		pessimistic	
Probability		60%		20%		20%	
		The first year of the forecast	The average for the next two years	The first year of the forecast	The average for the next two years	The first year of the forecast	The average for the next two years
GDP	r/r	-4.2	4.4	0.0	3.9	-6.4	0.4
Unemployment rate	end of the year	7.0%	5.5%	3.3%	2.9%	9.2%	11.9%
WIBOR3M	end of the year	0.31	0.38	0.7	0.7	0.1	0.1
Real estate price index	r/r	101.0	105.5	103.0	105.9	91.9	102.8
CHFPLN	end of the year	4.21	4.03	4.11	3.93	4.43	4.43

The value of credit risk cost is the result of all presented macroeconomic scenarios and the weights assigned to them. Impact of individual scenarios on the credit risk costs is as shown in the table below (weight of a given scenario 100%):

Scenario as at 30.09.2021	Value of credit risk costs	
	30.09.2021	
optimistic	66 474	
base	(1 505)	
pessimistic	(74 740)	

The above results were estimated taking into account the equal allocation to the Stage 2 based on the weighted average of all 3 macroeconomic scenarios, without and assumption of additional potential migrations between stages. The ECL sensitivity analysis was performed on 74% of the assets of the portfolio of loans and advances to customers.

The reason for changes in key values in the models used for the calculation of expected credit losses was the update of the macroeconomic indicators used. In addition, in the third quarter of 2021, the Bank carried out the following activities as part of the model management process:

- cyclical recalibration of the short-term PD models reflecting the current level of the portfolio's default rate,
- cyclical recalibration of the long-term PD models and quantitative staging model, additionally taking into account selected guidelines of the new recommendation R of the Polish Financial Supervision Authority (that will apply from 1st of January 2022),
- implementation of long-term PD and long-term LGD models as well as changes in the transfer logic algorithm used to calculate the credit risk cost for specialized lending segment.

Prepayments of retail loans

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

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

As of 30 September 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 6.6 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 three quarters of 2021 amounted to PLN 67.6 million (first half of 2020: PLN 40.6 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 three quarters of 2021 was 46.4% (54.9% in three quarters 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 financial 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: mFactoring S.A., G-Invest Sp. z o.o., Tele-Tech Investment Sp. z o.o. before its deconsolidation 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.

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 Czech Republic 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 September 2021 – data regarding consolidated income statement.

period from 1 January to 30 September 2021	Retail Banking	Corporate and Investment Banking	Treasury and Other	FX Mortgage Loans	Total figure for the Group
Net interest income	1 962 874	797 014	56 027	97 362	2 913 277
- sales to external clients	1 567 188	771 730	468 936	105 423	2 913 277
- sales to other segments	395 686	25 284	(412 909)	(8 061)	-
Net fee and commission income	720 934	711 688	(29 948)	(2 607)	1 400 067
Dividend income	-	-	4 869	-	4 869
Trading income	27 400	175 375	(31 147)	(37 846)	133 782
Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss	(5 870)	(3 473)	(88)	2	(9 429)
Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss	(1 975)	2 731	92 473	-	93 229
Other operating income	60 351	89 232	14 112	947	164 642
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss	(336 251)	(241 679)	(3 003)	2 693	(578 240)
Costs of legal risk related to foreign currency loans	-	-	-	(751 624)	(751 624)
Overhead costs	(932 013)	(551 504)	(32 767)	(13 837)	(1 530 121)
Amortisation	(218 670)	(105 438)	(6 539)	(616)	(331 263)
Other operating expenses	(59 056)	(99 359)	(53 272)	(8 693)	(220 380)
Operating profit	1 217 724	774 587	10 717	(714 219)	1 288 809
Taxes on Group balance sheet items	(206 565)	(165 948)	(31 808)	(40 259)	(444 580)
Gross profit of the segment	1 011 159	608 639	(21 091)	(754 478)	844 229
Income tax					(391 914)
Net profit attributable to Owners of mBank S.A.					452 363
Net profit attributable to non-controlling interests					(48)

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

period from 1 January to 30 September 2020 - restated	Retail Banking	Corporate and Investment Banking	Treasury and Other	FX Mortgage Loans	Total figure for the Group
Net interest income	1 942 886	839 320	138 987	111 177	3 032 370
- sales to external clients	1 539 132	863 281	503 399	126 558	3 032 370
- sales to other segments	403 754	(23 961)	(364 412)	(15 381)	-
Net fee and commission income	558 089	567 698	(29 739)	2 766	1 098 814
Dividend income	-	-	4 789	-	4 789
Trading income	26 137	161 295	(45 204)	273	142 501
Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss	(34 283)	(1 607)	1 572	-	(34 318)
Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss	(807)	(7 908)	10 236	-	1 521
Other operating income	61 762	99 002	4 429	-	165 193
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss	(458 764)	(475 060)	2 305	(38 433)	(969 952)
Costs of legal risk related to foreign currency loans	-	-	-	(388 734)	(388 734)
Overhead costs	(912 613)	(571 434)	(46 588)	(21 777)	(1 552 412)
Amortisation	(214 326)	(100 200)	(7 454)	(157)	(322 137)
Other operating expenses	(61 414)	(78 255)	(17 025)	-	(156 694)
Operating profit	906 667	432 851	16 308	(334 885)	1 020 941
Taxes on Group balance sheet items	(157 654)	(138 823)	(63 287)	(43 848)	(403 612)
Gross profit of the segment	749 013	294 028	(46 979)	(378 733)	617 329
Income tax					(338 882)
Net profit attributable to Owners of mBank S.A.					278 513
Net profit attributable to non-controlling interests					(66)

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

30.09.2021	Retail Banking	Corporate and Investment Banking	Treasury and Other	FX Mortgage Loans	Total figure for the Group
Assets of the segment	65 509 453	49 118 703	80 295 391	13 228 253	208 151 800
Liabilities of the segment	109 903 169	55 142 682	26 097 976	471 805	191 615 632

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

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

	from 1 January to 30 September 2021			from 1 January to 30 September 2020 - restated		
	Poland	Foreign Countries	Total	Poland	Foreign Countries	Total
Net interest income	2 723 764	189 513	2 913 277	2 851 746	180 624	3 032 370
Net fee and commission income	1 371 210	28 857	1 400 067	1 087 628	11 186	1 098 814
Dividend income	4 869	-	4 869	4 789	-	4 789
Trading income	131 078	2 704	133 782	141 425	1 076	142 501
Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss	(9 429)	-	(9 429)	(34 318)	-	(34 318)
Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss	93 253	(24)	93 229	1 497	24	1 521
Other operating income	162 008	2 634	164 642	164 403	790	165 193
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss	(581 222)	2 982	(578 240)	(976 877)	6 925	(969 952)
Costs of legal risk related to foreign currency loans	(751 624)	-	(751 624)	(388 734)	-	(388 734)
Overhead costs	(1 420 804)	(109 317)	(1 530 121)	(1 450 493)	(101 919)	(1 552 412)
Amortisation	(321 498)	(9 765)	(331 263)	(311 537)	(10 600)	(322 137)
Other operating expenses	(217 655)	(2 725)	(220 380)	(155 041)	(1 653)	(156 694)
Operating profit	1 183 950	104 859	1 288 809	934 488	86 453	1 020 941
Taxes on Group balance sheet items	(414 814)	(29 766)	(444 580)	(379 130)	(24 482)	(403 612)
Gross profit of the segment	769 136	75 093	844 229	555 358	61 971	617 329
Income tax			(391 914)			(338 882)
Net profit attributable to Owners of mBank S.A.			452 363			278 513
Net profit attributable to non-controlling interests			(48)			(66)

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

	30.09.2021			31.12.2020 - restated		
	Poland	Foreign Countries	Total	Poland	Foreign Countries	Total
Assets of the segment, including:	198 216 443	9 935 357	208 151 800	171 585 621	7 285 996	178 871 617
- tangible assets	2 855 084	30 153	2 885 237	2 662 301	30 974	2 693 275
- deferred income tax assets	1 087 517	2 665	1 090 182	851 308	2 572	853 880
Liabilities of the segment	175 473 274	16 142 358	191 615 632	148 275 155	13 921 395	162 196 550

5. Net interest income

	the period	from 01.01.2021 to 30.09.2021	from 01.01.2020 to 30.09.2020
Interest income			
Interest income accounted for using the effective interest method		2 777 231	3 270 035
Interest income of financial assets at amortised cost, including:		2 657 727	2 971 275
- <i>Loans and advances</i>		2 435 666	2 761 744
- <i>Debt securities</i>		219 700	197 136
- <i>Cash and short-term placements</i>		2 306	19 927
- <i>Gains or losses on non-substantial modification (net)</i>		(6 211)	(11 452)
- <i>Other</i>		6 266	3 920
Interest income on financial assets at fair value through other comprehensive income, including:		119 504	298 760
- <i>Debt securities</i>		119 504	298 760
Income similar to interest on financial assets at fair value through profit or loss		362 758	355 083
Financial assets held for trading, including:		15 096	28 445
- <i>Loans and advances</i>		2 362	4 207
- <i>Debt securities</i>		12 734	24 238
Non-trading financial assets mandatorily at fair value through profit or loss, including:		37 731	77 730
- <i>Loans and advances</i>		37 731	77 730
Interest income on derivatives classified into banking book		63 329	99 170
Interest income on derivatives concluded under the fair value hedge		85 519	60 796
Interest income on derivatives concluded under the cash flow hedge		161 083	88 942
Total interest income		3 139 989	3 625 118

	the period	from 01.01.2021 to 30.09.2021	from 01.01.2020 to 30.09.2020
Interest expenses			
Financial liabilities held for trading		(7 466)	-
Financial liabilities measured at amortised cost, including:		(199 412)	(578 289)
- <i>Deposits</i>		(39 401)	(326 187)
- <i>Loans received</i>		(3 501)	(7 375)
- <i>Issue of debt securities</i>		(111 656)	(184 474)
- <i>Subordinated liabilities</i>		(40 616)	(53 921)
- <i>Lease liabilities</i>		(2 331)	(1 859)
- <i>Other financial liabilities</i>		(1 907)	(4 473)
Other		(19 834)	(14 459)
Total interest expense		(226 712)	(592 748)

6. Net fee and commission income

	the period	from 01.01.2021 to 30.09.2021	from 01.01.2020 to 30.09.2020
Fee and commission income			
Credit-related fees and commissions		397 399	340 348
Payment cards-related fees		348 988	327 928
Commissions from currency transactions		296 307	244 348
Commissions from bank accounts		273 477	157 024
Fees from brokerage activity and debt securities issue		182 064	147 861
Commissions from money transfers		137 037	107 585
Commissions for agency service regarding sale of insurance products of external financial entities		96 719	84 703
Commissions for agency service regarding sale of other products of external financial entities		73 593	54 845
Commissions due to guarantees granted and trade finance commissions		72 935	70 734
Fees from cash services		33 449	32 383
Commissions on trust and fiduciary activities		24 343	23 886
Fees from portfolio management services and other management-related fees		20 861	9 641
Other		34 023	32 143
Total fee and commission income		1 991 195	1 633 429

	the period	from 01.01.2021 to 30.09.2021	from 01.01.2020 to 30.09.2020
Fee and commission expense			
Payment cards-related fees		(192 307)	(164 519)
Commissions paid to external entities for sale of the Group's products		(124 223)	(131 000)
Commissions of insurance products		(11 793)	(9 156)
Commissions paid for sale of external financial entities' products		(23 845)	(15 486)
Discharged brokerage fees		(29 927)	(28 511)
Cash services		(30 709)	(30 501)
Fees to NBP, KIR and GPW Benchmark		(12 104)	(10 655)
Other discharged fees		(166 220)	(144 787)
Total fee and commission expense		(591 128)	(534 615)

7. Dividend income

	the period	from 01.01.2021 to 30.09.2021	from 01.01.2020 to 30.09.2020
Non-trading financial assets mandatorily at fair value through profit or loss		3 805	4 789
Investments in subsidiaries, joint ventures and associates accounted for using other than the equity method		1 064	-
Total dividend income		4 869	4 789

8. Net trading income

	the period	from 01.01.2021 to 30.09.2021	from 01.01.2020 to 30.09.2020
Foreign exchange result		110 717	40 286
Net exchange differences on translation		3 972	(146 723)
Net transaction gains/losses		106 745	187 009
Gains or losses on financial assets and liabilities held for trading		42 816	103 080
Derivatives, including:		39 712	52 136
- <i>Interest-bearing instruments</i>		25 231	43 688
- <i>Market risk instruments</i>		14 481	8 448
Debt securities		4 349	54 732
Loans and advances		(1 245)	(3 788)
Gains or losses from hedge accounting		(19 751)	(865)
Net profit on hedged items		415 440	(104 102)
Net profit on fair value hedging instruments		(429 566)	101 619
Ineffective portion of cash flow hedge		(5 625)	1 618
Net trading income		133 782	142 501

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 30.09.2021	from 01.01.2020 to 30.09.2020
Equity instruments		(88)	21 148
Debt securities		1 178	4 797
Loans and advances		(10 519)	(60 263)
Total gains or losses on non-trading financial assets mandatorily at fair value through profit or loss		(9 429)	(34 318)

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 30.09.2021	from 01.01.2020 to 30.09.2020
Gains less losses from derecognition, including:		92 890	4 488
- <i>Financial assets measured at fair value through other comprehensive income</i>		92 330	(246)
- <i>Financial assets at amortised cost</i>		487	(3 625)
- <i>Financial liabilities at amortised cost</i>		73	8 359
Gains less losses related to sale and revaluation of investments in subsidiaries and associates		339	(2 967)
Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss		93 229	1 521

11. Other operating income

	the period	from 01.01.2021 to 30.09.2021	from 01.01.2020 to 30.09.2020
Income from sale or liquidation of fixed assets, intangible assets, assets held for sale and inventories		61 934	77 455
Income from services provided		9 005	7 780
Net income from operating lease and right-of-use assets in sublease		3 747	2 358
Rental income from investment properties		2	-
Income due to release of provisions for future commitments		8 515	23 077
Income from recovering receivables designated previously as prescribed, remitted or uncollectible		2 219	3 030
Income from compensations, penalties and fines received		442	698
Net revenues from the sale of an organised part of the company mFinanse S.A.		27 100	18 000
Other		51 678	32 795
Total other operating income		164 642	165 193

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 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 three quarters of 2021 and for three quarters of 2020 is presented below.

	the period	from 01.01.2021 to 30.09.2021	from 01.01.2020 to 30.09.2020
Net income from operating lease, including:			
- Income from operating lease		20 948	24 428
- Income from right-of-use assets in sublease		5 953	4 868
- Depreciation cost of fixed assets provided under operating lease and right-of-use assets in sublease		(23 154)	(26 938)
Total net income from operating lease		3 747	2 358

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 30.09.2021	from 01.01.2020 to 30.09.2020
Financial assets at amortised cost, including:		(523 472)	(929 294)
- Debt securities		(1 753)	(1)
<i>Stage 1</i>		(1 753)	(1)
- Loans and advances		(521 719)	(929 293)
<i>Stage 1</i>		(140 624)	22 020
<i>Stage 2</i>		70 494	(167 243)
<i>Stage 3</i>		(467 360)	(789 681)
<i>POCI</i>		15 771	5 611
Financial assets at fair value through other comprehensive income, including:		(1 458)	871
- Debt securities		(1 458)	871
<i>Stage 1</i>		(3 324)	664
<i>Stage 2</i>		1 866	207
Commitments and guarantees given		(53 310)	(41 529)
<i>Stage 1</i>		(7 779)	(6 253)
<i>Stage 2</i>		22 464	(9 747)
<i>Stage 3</i>		(69 456)	(25 708)
<i>POCI</i>		1 461	179
Net impairment losses on financial assets not measured at fair value through profit or loss		(578 240)	(969 952)

13. Overhead costs

the period	from 01.01.2021 to 30.09.2021	from 01.01.2020 to 30.09.2020
Staff-related expenses	(797 981)	(752 013)
Material costs, including:	(496 632)	(507 932)
- costs of administration and real estate services	(192 040)	(187 149)
- IT costs	(139 212)	(138 550)
- marketing costs	(99 316)	(91 618)
- consulting costs	(55 378)	(79 197)
- other material costs	(10 686)	(11 418)
Taxes and fees	(24 813)	(19 651)
Contributions and transfers to the Bank Guarantee Fund	(202 657)	(263 654)
Contributions to the Social Benefits Fund	(8 038)	(9 162)
Total overhead costs	(1 530 121)	(1 552 412)

Staff-related expenses for three quarters of 2021 and for three quarters of 2020 is presented below.

the period	from 01.01.2021 to 30.09.2021	from 01.01.2020 to 30.09.2020
Wages and salaries	(646 003)	(610 363)
Social security expenses	(116 113)	(106 650)
Remuneration concerning share-based payments, including:	(6 505)	(5 230)
- share-based payments settled in mBank S.A. shares	(6 010)	(5 173)
- cash-settled share-based payments	(495)	(57)
Other staff expenses	(29 360)	(29 770)
Staff-related expenses, total	(797 981)	(752 013)

14. Other operating expenses

the period	from 01.01.2021 to 30.09.2021	from 01.01.2020 to 30.09.2020
Costs arising from sale or liquidation of fixed assets, intangible assets, assets held for resale and inventories	(58 397)	(75 198)
Provisions for future commitments	(79 292)	(17 319)
Costs arising from provisions created for other receivables (excluding loans and advances)	(1 468)	(746)
Donations made	(4 831)	(3 106)
Compensation, penalties and fines paid	(7 335)	(1 088)
Costs arising from receivables and liabilities recognised as prescribed, remitted and uncollectible	-	(3)
Direct operating expenses (including repairs and maintenance) arising from investment properties that generated rental income during the period	(493)	-
Direct operating expenses (including repairs and maintenance) arising from investment properties that did not generate rental income during the period	(51)	-
Debt collection expenses	(26 358)	(29 799)
Other operating costs	(42 155)	(29 435)
Total other operating expenses	(220 380)	(156 694)

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

Earnings per share for 9 months – mBank S.A. Group consolidated data

	the period	from 01.01.2021 to 30.09.2021	from 01.01.2020 to 30.09.2020
Basic:			
Net profit attributable to Owners of mBank S.A.		452 363	278 513
Weighted average number of ordinary shares		42 367 101	42 352 256
Net basic profit per share (in PLN per share)		10.68	6.58
Diluted:			
Net profit attributable to Owners of mBank S.A., applied for calculation of diluted earnings per share		452 363	278 513
Weighted average number of ordinary shares		42 367 101	42 352 256
Adjustments for:			
- share options		70 607	21 983
Weighted average number of ordinary shares for calculation of diluted earnings per share		42 437 708	42 374 239
Diluted earnings per share (in PLN per share)		10.66	6.57

Earnings per share for 9 months – mBank S.A. stand-alone data

	the period	from 01.01.2021 to 30.09.2021	from 01.01.2020 to 30.09.2020
Basic:			
Net profit attributable to Owners of mBank S.A.		429 911	263 629
Weighted average number of ordinary shares		42 367 101	42 352 256
Net basic profit per share (in PLN per share)		10.15	6.22
Diluted:			
Net profit attributable to Owners of mBank S.A., applied for calculation of diluted earnings per share		429 911	263 629
Weighted average number of ordinary shares		42 367 101	42 352 256
Adjustments for:			
- share options		70 607	21 983
Weighted average number of ordinary shares for calculation of diluted earnings per share		42 437 708	42 374 239
Diluted earnings per share (in PLN per share)		10.13	6.22

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

	30.09.2021	31.12.2020
Derivatives, including:	2 029 842	1 722 353
- Held for trading derivative financial instruments classified into banking book	152 795	145 107
- Held for trading derivative financial instruments classified into trading book	1 835 147	1 620 288
- Derivative financial instruments held for fair value hedging	247 196	330 455
- Derivative financial instruments held for cash flow hedging	365 857	748 948
- Offsetting effect	(571 153)	(1 122 445)
Debt securities	1 235 480	676 466
- General governments, including:	952 563	366 517
<i>pledged securities</i>	50 495	19 021
- Credit institutions	50 112	109 109
- Other financial corporations	122 972	72 785
- Non-financial corporations	109 833	128 055
Loans and advances	40 290	187 902
- Corporate customers	40 290	187 902
Total financial assets held for trading	3 305 612	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.

Description of the hedging relation

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

- fixed interest rate eurobonds issued by mFinance France S.A. (mFF), subsidiary of mBank, 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,
- senior non-preferred bonds issued by mBank – fixed interest rate during five years since the issue date. The hedged risk results from changes in interest rates,
- part of the fixed interest rate mortgage portfolio granted by mBank's foreign branch in the Czech Republic. The hedged risk results from changes in interest rates,
- part of the portfolio of deposits modelled by the Bank in PLN with economic characteristics of fixed rate deposits. The hedged risk results from changes in interest rates.

Hedged items

The hedged items are:

- one tranche of fixed interest rate eurobonds issued by mFF, 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,
- 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,
- senior non-preferred bonds issued by mBank S.A., fixed rate during five years since the issue date, with nominal value of EUR 500 000 million,
- 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 30.09.2021	from 01.01.2020 to 30.09.2020
Interest income on derivatives concluded under the fair value hedge accounting (Note 5)	85 519	60 796
Net profit on hedged items (Note 8)	415 440	(104 102)
Net profit on fair value hedging instruments (Note 8)	(429 566)	101 619
The total results of fair value hedge accounting recognised in the income statement	71 393	58 313

Cash flow hedge accountingCash 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 mBank Hipoteczny 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).

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

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

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

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

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

the period	from 01.01.2021 to 30.09.2021	from 01.01.2020 to 30.09.2020
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	(291 759)	606 914
Profits / (Losses) recognized in other comprehensive income in the period	(166 513)	(169 432)
<i>net interest income</i>	<i>(161 083)</i>	<i>(88 942)</i>
<i>foreign exchange result</i>	<i>(5 430)</i>	<i>(80 490)</i>
Accumulated other gross comprehensive income at the end of the reporting period	59 172	584 570
Deferred income tax on accumulated other comprehensive income at the end of the reporting period	(11 242)	(111 068)
Accumulated other net comprehensive income at the end of the reporting period	47 930	473 502
Impact on other comprehensive income in the reporting period (gross)	(458 272)	437 482
Deferred tax on cash flow hedges	87 072	(83 122)
Impact on other comprehensive income in the reporting period (net)	(371 200)	354 360

the period	from 01.01.2021 to 30.09.2021	from 01.01.2020 to 30.09.2020
Gains/losses recognised in comprehensive income (gross) during the reporting period, including:		
Unrealised gains/losses included in other comprehensive income (gross)	(458 272)	437 482
Results of cash flow hedge accounting recognised in the income statement	160 888	171 050
- amount included as interest income in income statement during the reporting period (Note 5)	161 083	88 942
- ineffective portion of hedge recognised included in other net trading income in income statement (Note 8)	(5 625)	1 618
<i>foreign exchange result</i>	<i>5 430</i>	<i>80 490</i>
Impact on other comprehensive income in the reporting period (gross)	(297 384)	608 532

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

	30.09.2021	31.12.2020
Equity instruments	209 040	202 304
- Other financial corporations	150 266	139 718
- Non-financial corporations	58 774	62 586
Debt securities	82 063	76 068
- Other financial corporations	82 063	76 068
Loans and advances	1 212 492	1 506 319
- Individual customers	1 041 507	1 216 809
- Corporate customers	170 829	288 777
- Public sector customers	156	733
Total non-trading financial assets mandatorily at fair value through profit or loss	1 503 595	1 784 691
Short-term (up to 1 year)	990 104	1 083 487
Long-term (over 1 year)	513 491	701 204

18. Financial assets at fair value through other comprehensive income

30.09.2021	Carrying amount	Gross carrying amount				Accumulated impairment			
		Stage 1	Stage 2	Stage 3	POCI	Stage 1	Stage 2	Stage 3	POCI
Debt securities	31 879 610	31 886 692	-	-	-	(7 082)	-	-	-
- Central banks	1 349 998	1 350 181	-	-	-	(183)	-	-	-
- General governments, including:	28 166 501	28 170 293	-	-	-	(3 792)	-	-	-
<i>pledged securities</i>	667 011	667 011	-	-	-	-	-	-	-
- Credit institutions	222 566	222 758	-	-	-	(192)	-	-	-
- Other financial institutions	1 704 588	1 705 904	-	-	-	(1 316)	-	-	-
<i>pledged securities</i>	109 374	109 374	-	-	-	-	-	-	-
- Non-financial corporations	435 957	437 556	-	-	-	(1 599)	-	-	-
Total financial assets at fair value through other comprehensive income	31 879 610	31 886 692	-	-	-	(7 082)	-	-	-

Short-term (up to 1 year) gross	7 524 253
Long-term (over 1 year) gross	24 362 439

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)	-	-	-
<i>pledged securities</i>	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.

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

Change from 1 January to 30 September 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)	-	-	-	(8 522)	7 105	-	(7 082)
Stage 1	(3 754)	(125)	-	-	(8 522)	4 793	526	(7 082)
Stage 2	(1 911)	125	-	-	-	2 312	(526)	-
Expected credit losses allowance, total	(5 665)	-	-	-	(8 522)	7 105	-	(7 082)

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 September 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	-	-	-	9 942 642	(13 983 319)	423 643	31 886 692
Stage 1	35 392 158	10 540	-	-	9 942 642	(13 882 291)	423 643	31 886 692
Stage 2	111 568	(10 540)	-	-	-	(101 028)	-	-
Gross carrying amount, total	35 503 726	-	-	-	9 942 642	(13 983 319)	423 643	31 886 692

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

19. Financial assets at amortised cost

30.09.2021	Carrying amount	Gross carrying amount				Accumulated impairment			
		Stage 1	Stage 2	Stage 3	POCI	Stage 1	Stage 2	Stage 3	POCI
Debt securities	14 990 221	14 992 109	-	-	-	(1 888)	-	-	-
- General governments, including:	10 359 285	10 360 669	-	-	-	(1 384)	-	-	-
<i>pledged securities</i>	1 308 550	1 308 550	-	-	-	-	-	-	-
- Credit institutions	2 162 052	2 162 338	-	-	-	(286)	-	-	-
- Other financial corporations	2 468 884	2 469 102	-	-	-	(218)	-	-	-
<i>pledged securities</i>	333 095	333 095	-	-	-	-	-	-	-
Loans and advances to banks	14 398 589	14 399 318	-	-	-	(729)	-	-	-
Loans and advances to customers	118 414 296	109 970 266	7 230 289	4 526 383	230 561	(449 824)	(401 184)	(2 751 482)	59 287
Individual customers	70 210 518	67 705 767	2 060 135	2 183 758	133 274	(249 868)	(205 584)	(1 419 401)	2 437
Corporate customers	48 001 662	42 062 688	5 170 154	2 341 556	97 287	(199 760)	(195 600)	(1 331 513)	56 850
Public sector customers	202 116	201 811	-	1 069	-	(196)	-	(568)	-
Total financial assets at amortised cost	147 803 106	139 361 693	7 230 289	4 526 383	230 561	(452 441)	(401 184)	(2 751 482)	59 287

Short-term (up to 1 year) gross	52 500 753
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Long-term (over 1 year) gross	98 848 173
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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	15 952 501	15 952 636	-	-	-	(135)	-	-	-
- General governments, including:	11 303 908	11 303 908	-	-	-	-	-	-	-
<i>pledged securities</i>	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
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Long-term (over 1 year) gross	87 844 516
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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.

Loans and advances to customers 30.09.2021	Gross carrying amount	including:		
		Individual customers	Corporate customers	Public sector customers
Current accounts	13 656 518	7 990 358	5 665 906	254
Term loans, including:	90 572 225	63 725 035	26 644 564	202 626
- housing and mortgage loans to natural persons	49 818 091	49 818 091		
Reverse repo or buy/sell back	1 083 984	-	1 083 984	-
Finance leases	12 950 113	-	12 950 113	-
Other loans and advances	3 300 322	-	3 300 322	-
Other receivables	394 337	367 541	26 796	-
Total gross carrying amount	121 957 499	72 082 934	49 671 685	202 880

Loans and advances to customers 30.09.2021	Accumulated impairment	including:		
		Individual customers	Corporate customers	Public sector customers
Current accounts	(870 085)	(657 869)	(212 215)	(1)
Term loans, including:	(2 163 475)	(1 214 547)	(948 165)	(763)
- housing and mortgage loans to natural persons	(436 760)	(436 760)		
Finance leases	(453 225)	-	(453 225)	-
Other loans and advances	(56 418)	-	(56 418)	-
Total accumulated impairment	(3 543 203)	(1 872 416)	(1 670 023)	(764)
Total gross carrying amount	121 957 499	72 082 934	49 671 685	202 880
Total accumulated impairment	(3 543 203)	(1 872 416)	(1 670 023)	(764)
Total carrying amount	118 414 296	70 210 518	48 001 662	202 116
Short-term (up to 1 year) gross	37 430 683			
Long-term (over 1 year) gross	84 526 816			

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

	30.09.2021	31.12.2020
Net housing and mortgage loans to natural persons (in PLN '000), including:	49 381 331	44 249 186
- PLN	28 551 546	23 789 950
- CHF	10 949 889	12 295 153
- EUR	4 401 192	3 844 598
- CZK	5 281 322	4 113 213
- USD	176 691	182 238
- Other currency	20 691	24 034
Net housing and mortgage loans to natural persons in original currencies (main currencies in '000)		
- PLN	28 551 546	23 789 950
- CHF	2 562 876	2 883 411
- EUR	949 986	833 102
- CZK	29 082 170	23 463 851
- USD	44 256	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	%	Gross value	%
		30.09.2021		31.12.2020	
1.	Household customers	72 082 934	59.10%	64 734 776	58.58%
2.	Real estate	6 782 071	5.56%	7 211 368	6.53%
3.	Construction	4 853 394	3.98%	4 843 129	4.38%
4.	Transport and logistics	3 202 719	2.63%	2 758 935	2.50%
5.	Food sector	2 959 752	2.43%	2 869 995	2.60%
6.	Financial activities	2 886 563	2.37%	1 668 335	1.51%
7.	Metals	2 666 023	2.19%	2 159 089	1.95%
8.	Construction materials	2 166 486	1.78%	1 908 325	1.73%
9.	Motorisation	1 998 489	1.64%	1 800 110	1.63%
10.	Chemicals and plastic products	1 879 689	1.54%	1 836 669	1.66%
11.	Wood, furniture and paper products	1 785 852	1.46%	1 682 940	1.52%
12.	Scientific and technical activities	1 700 269	1.39%	1 350 347	1.22%
13.	Power and heating distribution	1 584 975	1.30%	1 358 741	1.23%
14.	Wholesale trade	1 493 514	1.22%	1 231 929	1.11%
15.	Retail trade	1 455 016	1.19%	1 332 389	1.21%
16.	IT	1 197 477	0.98%	1 077 032	0.97%
17.	Human health	1 019 068	0.84%	778 940	0.70%
18.	Fuel	983 407	0.81%	757 337	0.69%
19.	Rental and leasing activities	976 487	0.80%	871 694	0.79%
20.	Pharmacy	869 128	0.71%	895 675	0.81%

As at 30 September 2021, the total exposure of the Group in the above sectors (excluding household customers) amounts to 34.82% of the credit portfolio (31 December 2020: 34.74%).

Movements in expected credit losses allowance

Change from 1 January to 30 September 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)	-	-	-	(166)	79	(1 666)	-	-	-	(1 888)
Stage 1	(135)	-	-	-	(166)	79	(1 666)	-	-	-	(1 888)
Loans and advances to banks	(602)	-	-	-	(1 865)	1 731	9	(2)	-	-	(729)
Stage 1	(602)	-	-	-	(1 865)	1 731	9	(2)	-	-	(729)
Loans and advances to customers	(3 640 826)	-	-	-	(206 784)	240 032	(497 587)	(8 071)	495 123	74 910	(3 543 203)
Stage 1	(296 810)	(434 120)	100 801	5 113	(107 178)	58 963	232 920	(9 513)	-	-	(449 824)
Stage 2	(441 217)	416 057	(137 282)	127 063	(20 370)	40 596	(370 885)	(15 146)	-	-	(401 184)
Stage 3	(2 871 497)	18 063	36 481	(132 176)	(82 619)	138 758	(424 881)	2 909	488 570	74 910	(2 751 482)
POCI	(31 302)	-	-	-	3 383	1 715	65 259	13 679	6 553	-	59 287
Expected credit losses allowance, total	(3 641 563)	-	-	-	(208 815)	241 842	(499 244)	(8 073)	495 123	74 910	(3 545 820)

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 September 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	-	-	-	1 015 028	(2 827 415)	-	851 860	14 992 109
Stage 1	15 952 636	-	-	-	1 015 028	(2 827 415)	-	851 860	14 992 109
Loans and advances to banks	7 354 870	-	-	-	13 229 532	(6 386 574)	-	201 490	14 399 318
Stage 1	7 354 870	-	-	-	13 229 532	(6 386 574)	-	201 490	14 399 318
Loans and advances to customers	110 513 959	-	-	-	28 935 696	(14 359 851)	(495 123)	(2 637 182)	121 957 499
Stage 1	91 214 989	7 335 151	(2 031 706)	(275 628)	28 196 636	(12 166 492)	-	(2 302 684)	109 970 266
Stage 2	14 290 332	(7 249 056)	2 225 615	(548 580)	529 085	(1 796 367)	-	(220 740)	7 230 289
Stage 3	4 714 440	(86 095)	(193 909)	818 752	138 473	(323 762)	(488 570)	(52 946)	4 526 383
POCI	294 198	-	-	5 456	71 502	(73 230)	(6 553)	(60 812)	230 561
Financial assets at amortised cost, gross	133 821 465	-	-	-	43 180 256	(23 573 840)	(495 123)	(1 583 832)	151 348 926

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

The most significant factors affecting the transfers between baskets occurred in the first half of 2021 are presented below.

- The 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.
- As part of 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

	30.09.2021	31.12.2020
Goodwill	27 760	27 760
Patents, licences and similar assets, including:	872 745	897 283
- computer software	726 270	722 688
Other intangible assets	7 857	8 812
Intangible assets under development	312 013	244 843
Total intangible assets	1 220 375	1 178 698

21. Tangible assets

	30.09.2021	31.12.2020
Tangible assets, including:	647 267	614 346
- land	653	653
- buildings and structures	72 806	153 403
- equipment	152 147	166 759
- vehicles	203 907	199 575
- other fixed assets	217 754	93 956
Fixed assets under construction	62 208	183 142
Right-of-use, including:	827 877	717 089
- real estate	816 384	667 387
- the right of perpetual usufruct of land	9 545	47 670
- cars	1 718	1 547
- other	230	485
Total tangible assets	1 537 352	1 514 577

Due to the change of the headquarters of the Bank, in three quarters 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 the 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

	30.09.2021	31.12.2020
Derivatives, including:	1 753 993	1 338 564
- Held for trading derivative financial instruments classified into banking book	363 003	322 135
- Held for trading derivative financial instruments classified into trading book	1 459 437	1 280 170
- Derivative financial instruments held for fair value hedging	327 672	7 646
- Derivative financial instruments held for cash flow hedging	85 034	60
- Offsetting effect	(481 153)	(271 447)
Liabilities from short sale of securities	563 822	-
Total financial liabilities held for trading and derivatives held for hedges	2 317 815	1 338 564

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

30.09.2021	Amount due to banks	Amount due to customers	including:		
			Individual customers	Corporate customers	Public sector customers
Deposits	1 340 136	160 032 729	108 709 670	50 622 265	700 794
Current accounts	683 533	150 775 665	100 035 079	50 054 118	686 468
Term deposits	-	9 196 143	8 674 591	507 226	14 326
Repo transactions	656 603	60 921	-	60 921	-
Loans and advances received	500	1 840 355	-	1 840 355	-
Other financial liabilities	1 215 504	2 268 517	211 652	2 016 723	40 142
Liabilities in respect of cash collaterals	885 741	834 022	88 425	745 597	-
Leasing liabilities	6 461	966 888	-	926 779	40 109
Other liabilities	323 302	467 607	123 227	344 347	33
Deposits and other financial liabilities, total	2 556 140	164 141 601	108 921 322	54 479 343	740 936
Short-term (up to 1 year)	2 548 036	161 387 140			
Long-term (over 1 year)	8 104	2 754 461			

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.

24. Provisions

	30.09.2021	31.12.2020
Provisions for legal proceedings, including:	484 754	200 536
- provisions for individual cases concerning indexation clauses in repaid mortgage and housing loans in CHF and for legal costs	350 061	161 886
- provisions for other legal proceedings relating to loans in foreign currencies	119 211	26 581
- provisions for remaining legal proceedings	15 482	12 069
Provisions for commitments and guarantees given	256 196	205 661
Other provisions	97 481	95 494
Provisions, total	838 431	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.

Item "Provisions for other legal proceedings relating to loans in foreign currencies" includes the provision for the class action lawsuit concerning indexation clauses contained in CHF mortgage and housing loan agreements in the amount of PLN 108 352 thousand (31 December 2020: PLN 14 025 thousand). The provision was calculated according to the methodology analogous to that used in the calculation of provisions for individual court cases concerning indexation clauses in CHF mortgage and housing loans.

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 September	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:	188 175	92 630	3 413	1 987
- increase of provisions	196 012	94 992	31 916	38 506
- release of provisions	-	(274)	(2 036)	(1 244)
- utilization	(51 477)	(2 088)	(26 476)	(34 671)
- reclassification from/to other position of statement of financial position	43 640	-	-	-
- foreign exchange differences	-	-	9	(604)
Provisions as at the end of the period	350 061	119 211	15 482	97 481

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

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

Change from 1 January to 30 September 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	-	-	-	33 086	(25 139)	(24 699)	5 522	77 761
Stage 1	44 157	41 775	(3 886)	(59)	24 598	(10 755)	(41 075)	(3 233)	51 522
Stage 2	36 829	(39 960)	4 296	(677)	5 807	(9 286)	16 053	3 355	16 417
Stage 3	5 510	(1 815)	(410)	736	2 313	(4 134)	1 647	5 404	9 251
POCI	2 495	-	-	-	368	(964)	(1 324)	(4)	571
Guarantees and other financial facilities	116 670	-	-	-	81 626	(99 838)	79 953	24	178 435
Stage 1	4 541	1 443	(256)	-	18 132	(19 090)	1 019	35	5 824
Stage 2	6 134	(1 443)	256	(20)	866	(3 549)	306	(11)	2 539
Stage 3	80 055	-	-	20	62 494	(46 355)	74 288	-	170 502
POCI	25 940	-	-	-	134	(30 844)	4 340	-	(430)
Provisions on off-balance sheet commitments and financial guarantees	205 661	-	-	-	114 712	(124 977)	55 254	5 546	256 196

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

25. Assets and liabilities for deferred income tax

Deferred income tax assets	30.09.2021	31.12.2020
As at the beginning of the period	1 635 815	1 473 790
Changes recognized in the income statement	95 115	163 244
Changes recognized in other comprehensive income	6 454	9 464
Other changes	(4 518)	(10 683)
As at the end of the period	1 732 866	1 635 815

Provisions for deferred income tax	30.09.2021	31.12.2020
As at the beginning of the period	(782 625)	(536 160)
Changes recognized in the income statement	(23 377)	(132 986)
Changes recognized in other comprehensive income	163 228	(113 479)
As at the end of the period	(642 774)	(782 625)

Income tax	from 01.01.2021 to 30.09.2021	from 01.01.2020 to 30.09.2020
Current income tax	(463 652)	(345 968)
Deferred income tax recognised in the income statement	71 738	7 086
Income tax recognised in the income statement	(391 914)	(338 882)
Recognised in other comprehensive income	169 682	(124 831)
Total income tax	(222 232)	(463 713)

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.

	30.09.2021	31.12.2020
Other supplementary capital	9 916 912	9 911 964
Other reserve capital	105 794	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	452 363	103 831
Total retained earnings	12 958 429	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.

27. Other components of equity

	30.09.2021	31.12.2020
Exchange differences on translating foreign operations	(395)	(2 392)
Unrealized gains (foreign exchange gains)	19 889	30 888
Unrealized losses (foreign exchange losses)	(20 284)	(33 280)
Cash flow hedges	47 930	419 130
Unrealized gains	63 232	569 033
Unrealized losses	(4 060)	(51 589)
Deferred income tax	(11 242)	(98 314)
Valuation of debt securities at fair value through other comprehensive income	(54 127)	185 333
Unrealized gains on debt instruments	15 779	258 069
Unrealized losses on debt instruments	(84 246)	(1 784)
Deferred income tax	14 340	(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	(12 726)	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 liabilities longer than 1 year is based on discounted cash flows using appropriate interest rates.

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.

	30.09.2021		31.12.2020	
	Book value	Fair value	Book value	Fair value
Financial assets at amortised cost				
Debt securities	14 990 221	15 298 814	15 952 501	16 445 401
Loans and advances to banks	14 398 589	14 391 696	7 354 268	7 347 513
Loans and advances to customers, including:	118 414 296	118 587 788	106 873 133	107 694 550
Loans and advances to individuals	70 210 518	71 852 930	62 929 892	64 818 035
Current accounts	7 332 489	7 542 935	6 807 188	6 948 249
Term loans	62 510 488	63 942 454	55 831 484	57 578 566
Other	367 541	367 541	291 220	291 220
Loans and advances to corporate entities	48 001 662	46 529 070	43 713 672	42 641 296
Current accounts	5 453 691	5 282 817	4 105 526	3 989 429
Term loans, including finance lease	38 193 287	37 116 550	37 016 811	36 060 532
Reverse repo or buy/sell back transactions	1 083 984	1 083 984	103 832	103 832
Other loans and advances	3 243 904	3 018 923	2 471 122	2 471 122
Other	26 796	26 796	16 381	16 381
Loans and advances to public sector	202 116	205 788	229 569	235 219
Financial liabilities at amortised cost				
Amounts due to other banks	2 556 140	2 556 140	2 399 740	2 399 740
Amounts due to customers	164 141 601	164 141 405	137 698 668	137 726 122
Debt securities in issue	15 462 944	15 595 035	13 996 317	14 172 566
Subordinated liabilities	2 579 721	2 558 959	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:

Loans and advances to banks and loans and advances to customers

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

Financial liabilities

Financial instruments representing liabilities for the Group include the following:

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

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

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

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

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

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

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

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.

30.09.2021	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	3 305 612	952 563	1 921 477	431 572
Loans and advances to customers	40 290	-	-	40 290
Debt securities	1 235 480	952 563	-	282 917
Derivative financial instruments, including:	2 029 842	-	1 921 477	108 365
Derivative financial instruments held for trading	1 987 942	-	1 987 942	-
Hedging derivative financial instruments	613 053	-	504 688	108 365
Offsetting effect	(571 153)	-	(571 153)	-
Non-trading financial assets mandatorily at fair value through profit or loss	1 503 595	872	-	1 502 723
Loans and advances to customers	1 212 492	-	-	1 212 492
Debt securities	82 063	-	-	82 063
Equity securities	209 040	872	-	208 168
Financial assets at fair value through other comprehensive income	31 879 610	29 681 248	1 349 998	848 364
Debt securities	31 879 610	29 681 248	1 349 998	848 364
Total financial assets	36 688 817	30 634 683	3 271 475	2 782 659
Financial liabilities				
Derivative financial instruments, including:	1 753 993	-	1 753 993	-
Derivative financial instruments held for trading	1 822 440	-	1 822 440	-
Hedging derivative financial instruments	412 706	-	412 706	-
Offsetting effect	(481 153)	-	(481 153)	-
Liabilities from short sale of securities	563 822	563 822	-	-
Total financial liabilities	2 317 815	563 822	1 753 993	-

Assets and liabilities measured at fair value based on Level 3	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
changes in the period from 1 January to 30 September 2021					
As at the beginning of the period	309 949	121 029	76 068	201 344	990 351
Gains and losses for the period:	8 516	(12 664)	5 995	226	(16 136)
Recognised in profit or loss:	8 516	4 629	5 995	226	-
<i>Net trading income</i>	8 516	4 629	4 817	-	-
<i>Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss</i>	-	-	1 178	-	-
<i>Gains or losses on subsidiaries and associates</i>	-	-	-	226	-
Recognised in other comprehensive income:	-	(17 293)	-	-	(16 136)
<i>Financial assets at fair value through other comprehensive income</i>	-	-	-	-	(16 136)
<i>Cash flow hedges</i>	-	(17 293)	-	-	-
Purchases	1 696 050	-	-	10 941	504 970
Redemptions	(90 508)	-	-	(4 343)	(346 585)
Sales	(6 235 051)	-	-	-	(1 673 913)
Issues	4 593 961	-	-	-	1 389 677
As at the end of the period	282 917	108 365	82 063	208 168	848 364

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	-

Assets and liabilities measured at fair value based on Level 3	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
changes in the period from 1 January to 31 December 2020					
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	-
<i>Net trading income</i>	20 578	108 234	1 922	91	-
<i>Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss</i>	-	-	10 710	48 657	-
<i>Gains or losses on subsidiaries and associates</i>	-	-	-	(2 136)	-
Recognised in other comprehensive income:	-	20 319	-	-	10 868
<i>Financial assets at fair value through other comprehensive income</i>	-	-	-	-	10 868
<i>Cash flow hedges</i>	-	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 three quarters of 2021 and three quarters of 2020 there were no transfers of financial instruments between the levels of fair value hierarchy.

With regard to financial instruments valued 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 September 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 952 563 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 28 132 267 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 1 548 981 thousand (31 December 2020: PLN 1 181 224 thousand).

In addition, as at 30 September 2021 level 1 includes the value of the registered privileged shares of Giełda Papierów Wartościowych in the amount of PLN 872 thousand (31 December 2020: PLN 960 thousand).

As at 30 September 2021, level 1 also includes liabilities from short sale of securities in the amount of PLN 563 822 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 1 349 998 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 1 179 110 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 34 234 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 September 2021 includes the value of loans and advances to customers in the amount of PLN 1 252 782 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 208 168 thousand (31 December 2020: PLN 201 344 thousand). The equity securities presented at level 3 have been valued using the market multiples method. The market multiples method, consists of valuating the equity capital of a company by using a relation between the market values of the own equity capital or market values of the total capital invested in comparable companies (goodwill) and selected economic and financial figures.

Level 3 also includes the valuation of CIRS contracts concluded under cash flow hedge accounting of the PLN mortgage loan portfolio and covered bonds issued by mBank Hipoteczny (for more information, see Note 16). As at 30 September 2021, the valuation of these contracts was positive (presented in assets) and amounted to PLN 108 365 thousand (31 December 2020: PLN 121 029 thousand - presented in assets).

SELECTED EXPLANATORY INFORMATION

1. Compliance with international financial reporting standards

The presented condensed consolidated report for three quarters 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 third quarter 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 three quarters 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 436.8 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 three quarters 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 436.8 million. The increase of the impact of the legal risk in the third quarter of 2021 resulted mainly from higher than expected inflow of cases in the third quarter of 2021, the application of a management adjustment addressing the continuing uncertainty as to the further development of the jurisprudence in franc cases as well as the creation of a provision for a class action lawsuit concerning indexation clauses contained in CHF mortgage and housing loan agreements according to the methodology analogous to that used in the calculation of provisions for individual court cases concerning indexation clauses in CHF mortgage and housing loans. Detailed information in this regard is presented in Note 3 "Major estimates and judgments made in connection with the application of accounting policy principles".

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

In the third quarter of 2021, the following issues and redemptions occurred in the Group:

- mBank S.A. issued senior non-preferred bonds in the amount of EUR 500 000 thousands (equivalent of PLN 2 299 950 thousand, calculated with an average rate of NBP from 20 September 2021), with the date of redemption on 21 September 2027 (with an option of premature redemption on 21 September 2026),
- mLeasing Sp. z o.o. issued short-term bonds in the amount of PLN 900 000 thousand and redeemed short-term bond in the amount of PLN 900 402 thousand,
- mBank Hipoteczny S.A. redeemed mortgage bonds in the amount of PLN 782 210 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 three quarters 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 third quarter of 2021, including business combinations, acquisitions or disposal of subsidiaries, long-term investments, restructuring, and discontinuation of business activities

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.

10. Changes in contingent liabilities and commitments

In the third quarter 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 third quarter 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 third quarter 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 third quarter of 2021, events as indicated above did not occur in the Group.

15. Acquisitions and disposals of tangible fixed asset items

In the third quarter 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 third quarter 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 third quarter 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 second quarter of the year. In the third quarter the epidemic statistics were generally positive. However, in the second part of September the infection transmission has accelerated but no substantial pandemic restrictions were introduced.

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 third quarter 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 September 2021 was 42 368 696 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 September 2021						
Share type	Type of privilege	Type of limitation	Number of shares	Series / face value of issue in PLN	Paid up	Registered on
ordinary bearer*	-	-	9 989 000	39 956 000	fully paid in cash	1986
ordinary registered*	-	-	11 000	44 000	fully paid in cash	1986
ordinary bearer	-	-	2 500 000	10 000 000	fully paid in cash	1994
ordinary bearer	-	-	2 000 000	8 000 000	fully paid in cash	1995
ordinary bearer	-	-	4 500 000	18 000 000	fully paid in cash	1997
ordinary bearer	-	-	3 800 000	15 200 000	fully paid in cash	1998
ordinary bearer	-	-	170 500	682 000	fully paid in cash	2000
ordinary bearer	-	-	5 742 625	22 970 500	fully paid in cash	2004
ordinary bearer	-	-	270 847	1 083 388	fully paid in cash	2005
ordinary bearer	-	-	532 063	2 128 252	fully paid in cash	2006
ordinary bearer	-	-	144 633	578 532	fully paid in cash	2007
ordinary bearer	-	-	30 214	120 856	fully paid in cash	2008
ordinary bearer	-	-	12 395 792	49 583 168	fully paid in cash	2010
ordinary bearer	-	-	16 072	64 288	fully paid in cash	2011
ordinary bearer	-	-	36 230	144 920	fully paid in cash	2012
ordinary bearer	-	-	35 037	140 148	fully paid in cash	2013
ordinary bearer	-	-	36 044	144 176	fully paid in cash	2014
ordinary bearer	-	-	28 867	115 468	fully paid in cash	2015
ordinary bearer	-	-	41 203	164 812	fully paid in cash	2016
ordinary bearer	-	-	31 995	127 980	fully paid in cash	2017
ordinary bearer	-	-	24 860	99 440	fully paid in cash	2018
ordinary bearer	-	-	13 385	53 540	fully paid in cash	2019
ordinary bearer	-	-	16 673	66 692	fully paid in cash	2020
ordinary bearer	-	-	1 656	6 624	fully paid in cash	2021
Total number of shares			42 368 696			
Total registered share capital				169 474 784		
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 September 2021 it held 69.27% of the share capital and votes at the General Meeting of mBank S.A.

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 third quarter of 2021, there were no changes in the ownership structure of Bank's material shares packages.

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

The following table presents the summary of changes in shares held by the members of the Management Board of mBank S.A.

	Number of shares held as at the date of publishing the report for the HY 2021	Number of shares acquired from the date of publishing the report for HY 2021 to the date of publishing the report for Q3 2021	Number of shares sold from the date of publishing the report for HY 2021 to the date of publishing the report for Q3 2021	Number of shares held as at the date of publishing the report for Q3 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	-	-	-	-

The following table presents the summary of changes in shares held by the members of the Management Board of mBank S.A.

	Number of rights to shares held as at the date of publishing the report for the HY 2021	Number of rights to shares acquired from the date of publishing the report for HY 2021 to the date of publishing the report for Q3 2021	Number of rights to shares sold from the date of publishing the report for HY 2021 to the date of publishing the report for Q3 2021	Number of rights to shares held as at the date of publishing the report for Q3 2021
Management Board				
1. Cezary Stypułkowski	-	1 475	-	1 475
2. Andreas Böger	-	738	-	738
3. Krzysztof Dąbrowski	-	738	-	738
4. Cezary Kocik	-	820	-	820
5. Marek Lusztyn	-	-	-	-
6. Adam Pers	-	1 252	-	1 252

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 held the 7 958 Bank's shares. As at the date of publishing the report for the three quarters of 2021, Mr. Jörg Hessenmüller is no longer the Member of the Supervisory Board of mBank S.A.

As at the date of publishing the report for the first half of 2021 and as at the date of publishing the report for three quarters 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 September 2021 amounted to PLN 484 754 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. Drózdź 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 plaintiff 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 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.

By the decision from 28 September 2021, the Court the court has retaken the suspended proceeding and appointed the date of the hearing on 12 January 2022.

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

5. 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 September 2021, 12 150 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 3 010.1 million (31 December 2020: PLN 1 454.2 million).

Out of the individual proceedings 11 691 proceedings (31 December 2020: 6 870 proceedings) with the total value of claims amounting to PLN 3 000.3 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 September 2021 amounted to PLN 10.9 billion (i.e. CHF 2.6 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 September 2021 amounted to PLN 7.2 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 in 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.

By the decision of 12 August 2021, another question was addressed to the CJEU, the subject of which is to determine whether in the event of cancellation of the loan agreement, the parties, in addition to the reimbursement of money paid in the performance of this agreement and statutory interest for delay from the moment of the call for payment, may also claim any other benefits in particular remuneration, unjust enrichment, compensation, reimbursement or valorisation of the benefit. The case has not yet been dealt with in the CJEU.

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/denominated 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 sitting 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.

At a closed session on 2 September 2021, the Supreme Court, pursuant to Article 267 of the Treaty on the Functioning of the European Union, decided to refer to the Court of Justice of the European Union with three questions for a preliminary ruling on the issue of appointing judges in the Republic of Poland. The verdict on the questions asked by the First President of the Supreme Court was not issued.

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 7 May 2021 (III CZP 6/21), a resolution of 7 of the Supreme Court's judges which have 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).

On 29 July 2021 the Supreme Court composed of 3 judges presented the legal issue to be resolved by a panel of 7 judges of the Supreme Court, which came down to the answer to the question whether, in the event of a loan agreement being declared invalid, a loan granted in Polish currency, indexed to a foreign currency, repaid by borrowers, the amount of possible enrichment of the lender should be calculated taking into account only the nominal amount of loan instalments, or the interest rate on instalments according to the reference rate appropriate for loans indexed to a foreign currency or appropriate for loans in PLN should be taken into account. The deadline for examining the issue was initially set for 8 November 2021, was removed from the case list, and the judge-rapporteur was also changed.

The Bank will analyse the content of the resolutions of the Supreme Court, 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.

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 proceeding has been extended until 30 November 2021.
- 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.
- On 21 July 2017 the UOKiK instigated proceedings against mBank with regard to violation of consumers' collective interests. The UOKiK charged the bank with failing to adequately inform clients about FX risk and about shifting FX risk onto consumers, and with incorrectly determining (inflating) credit instalments. In the letter dated 18 August 2017 the bank responded to the charges. The UOKiK President decided to extend the proceedings by 31 August 2018 in the letter dated 12 April 2018. In the letter dated 18 February 2019 the UOKiK President requested detailed information on the handling of mortgages indexed to foreign currencies, to which the bank replied. The UOKiK President once again extended the proceedings by 30 September 2021 in the letter dated 11 June 2021. In the letter dated 14 October 2021 the UOKiK President informed the bank that the evidentiary proceedings had ended and appointed a time limit for the bank to peruse the case file and to comment on the evidence collected in the case. In the letter dated 27 October 2021, the UOKiK President prolonged the time limit to comment on the collected evidence until 22 November 2021.

27. Off-balance sheet liabilities

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

Consolidated data of mBank S.A. Group

	30.09.2021	31.12.2020
1. Contingent liabilities granted and received	50 194 412	46 086 123
Commitments granted	42 265 659	39 469 906
- financing	31 219 747	31 986 226
- guarantees and other financial facilities	7 208 296	7 460 891
- other commitments	3 837 616	22 789
Commitments received	7 928 753	6 616 217
- financial commitments	468 961	459 429
- guarantees	7 459 792	6 156 788
2. Derivative financial instruments (nominal value of contracts)	892 833 100	661 936 056
Interest rate derivatives	738 525 120	530 987 180
Currency derivatives	147 820 806	126 619 578
Market risk derivatives	6 487 174	4 329 298
Total off-balance sheet items	943 027 512	708 022 179

Stand-alone data of mBank S.A.

	30.09.2021	31.12.2020
1. Contingent liabilities granted and received	49 897 690	45 752 511
Commitments granted	41 968 937	39 136 295
- financing	30 347 230	31 040 531
- guarantees and other financial facilities	7 784 091	8 072 975
- other commitments	3 837 616	22 789
Commitments received	7 928 753	6 616 216
- financial commitments	468 961	459 429
- guarantees	7 459 792	6 156 787
2. Derivative financial instruments (nominal value of contracts)	888 631 828	658 022 093
Interest rate derivatives	734 828 994	527 305 492
Currency derivatives	147 315 660	126 387 303
Market risk derivatives	6 487 174	4 329 298
Total off-balance sheet items	938 529 518	703 774 604

28. Transactions with related entities

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

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

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

As at the end of the period	mBank's subsidiaries			Commerzbank AG			Other companies of the Commerzbank AG Group		
	30.09.2021	31.12.2020	30.09.2020	30.09.2021	31.12.2020	30.09.2020	30.09.2021	31.12.2020	30.09.2020
Statement of Financial Position									
Assets	24 225	109 256		2 672 743	863 952		7 326	2 806	
Liabilities	30 572	14 144		2 947 616	3 091 380		71 136	69 810	
Income Statement									
Interest income	304		1 304	19 651		36 190	101		349
Interest expense	-		(83)	(17 503)		(29 866)	(16)		(2 405)
Fee and commission income	143		267	4 161		4 482	244		35
Fee and commission expense	(10 399)		(323)	-		-	-		-
Other operating income	660		93	1 476		1 157	-		-
Overhead costs, amortisation and other operating expenses	(1)		(180)	(4 720)		(6 184)	-		-
Contingent liabilities granted and received									
Liabilities granted	373 868	372 741		1 945 999	1 721 547		3 539	7 409	
Liabilities received	-	-		1 882 370	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 September 2021 recognized in the Group's income statement for that period amounted to PLN 18 889 thousand (in the period from 1 January to 30 September 2020: PLN 23 228 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 nine-month period, ended on 30 September 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 27 August 2021, Mr. Jörg Hessenmüller applied a resignation from membership in the Bank's Supervisory Board. The resignation is effective from 30 September 2021.

From 30 September 2021, the composition of the Supervisory Board of mBank S.A. is as follows:

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

Moreover, on 25 October 2021, Mr. Armin Barthel PhD has been appointed as a member of the Supervisory Board of mBank S.A. for the period until the end of the current term of the Bank's Supervisory Board.

31. Factors affecting the results in the coming quarter

In the third quarter 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.

The increase of interest rates by 40 base points performed by The Monetary Policy Council (Rada Polityki Pieniężnej) on 6 October 2021 will positively impact on the Group's interest income. The forecast of potential inflow in the 12-month period is approximated on PLN 180 million. The ultimate inflow may be different than forecast due to macroeconomic environment, business activity and increasing volume.

In the upcoming quarter, the factors which may have an impact on the results are the potential resolutions of Supreme Court, other national institutions or of the Court of Justice of the European Union, regarding the foreign currency loans, described extensively in Point 26 of elected explanatory information.

32. Other information

Requirements on mBank Group capital ratios as of 30 September 2021

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

- Individual total capital ratio: 14.29% and Tier 1 capital ratio: 11.48%
- Consolidated total capital ratio: 13.87% and Tier 1 capital ratio: 11.16%.

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.

33. Events after the balance sheet date

Admission of newly issued mBank S.A. shares to trading on the primary market of the Warsaw Stock Exchange

On 8 October 2021, the Management Board of Giełda Papierów Wartościowych w Warszawie S.A. (Warsaw Stock Exchange) admitted 8 365 ordinary bearer shares of the Bank with nominal value of PLN 4.00 per share to trading on the stock market and decided that they would be traded on the primary stock market starting from 12 October 2021 under the usual procedure.

Appointing the new Member of the Supervisory Board

On 25 October 2021, Mr. Armin Barthel PhD has been appointed as a member of the Supervisory Board of mBank S.A. for the period until the end of the current term of the Bank's Supervisory Board.