mBank S.A. Group

IFRS Condensed Consolidated Financial Statements
for the first quarter 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.

Contents

Selected financial data

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

SELECTED FINANCIAL DATA FOR THE GROUP		in PLN '000		in EUR '000	
		Period from 01.01.2021 to 31.03.2021	Period from 01.01.2020 to 31.03.2020 - restated	Period from 01.01.2021 to 31.03.2021	Period from 01.01.2020 to 31.03.2020 - restated
I.	Interest income	1 019 381	1 334 977	222 957	303 659
II.	Fee and commission income	645 938	544 426	141 278	123 837
III.	Net trading income	63 178	44 805	13 818	10 192
IV.	Operating profit	643 143	275 770	140 667	62 728
V.	Profit before income tax	504 322	143 940	110 304	32 741
VI.	Net profit attributable to Owners of mBank S.A.	317 125	90 917	69 361	20 680
VII.	Net profit attributable to non-controlling interests	(32)	(11)	(7)	(3)
VIII.	Net cash flows from operating activities	16 022 595	2 862 904	3 504 428	651 208
IX.	Net cash flows from investing activities	(182 964)	(94 214)	(40 017)	(21 430)
X.	Net cash flows from financing activities	(1 712 825)	(105 198)	(374 625)	(23 929)
XI.	Total net increase / decrease in cash and cash equivalents	14 126 806	2 663 492	3 089 785	605 849
XII.	Basic earnings per share (in PLN/EUR)	7.49	2.15	1.64	0.49
XIII.	Diluted earnings per share (in PLN/EUR)	7.48	2.14	1.64	0.49
XIV.	Declared or paid dividend per share (in PLN/EUR)	-	-	-	-

SELECTED FINANCIAL DATA FOR THE GROUP		in PLN '000		in EUR '000	
		31.03.2021	31.12.2020 - restated	31.03.2021	31.12.2020 - restated
I.	Total assets	194 217 052	178 871 617	41 674 796	38 760 427
II.	Amounts due to other banks	2 954 112	2 399 740	633 889	520 010
III.	Amounts due to customers	152 097 133	137 698 668	32 636 769	29 838 491
IV.	Equity attributable to Owners of mBank S.A.	16 747 030	16 673 133	3 593 552	3 612 970
V.	Non-controlling interests	1 898	1 934	407	419
VI.	Share capital	169 468	169 468	36 364	36 723
VII.	Number of shares	42 367 040	42 367 040	42 367 040	42 367 040
VIII.	Book value per share (in PLN/EUR)	395.28	393.54	84.82	85.28
IX.	Total capital ratio	19.19	19.86	19.19	19.86

SELECTED FINANCIAL DATA FOR THE BANK	in PLN '000		in EUR '000	
	Period from 01.01.2021 to 31.03.2021	Period from 01.01.2020 to 31.03.2020 - restated	Period from 01.01.2021 to 31.03.2021	Period from 01.01.2020 to 31.03.2020 - restated
I. Interest income	889 799	1 184 805	194 615	269 500
II. Fee and commission income	605 434	502 308	132 419	114 257
III. Net trading income	58 590	45 110	12 815	10 261
IV. Operating profit	558 207	280 912	122 090	63 897
V. Profit before income tax	484 275	138 709	105 920	31 551
VI. Net profit	315 085	91 584	68 915	20 832
VII. Net cash flows from operating activities	15 679 809	2 737 050	3 429 455	622 580
VIII. Net cash flows from investing activities	(154 134)	(53 188)	(33 712)	(12 098)
IX. Net cash flows from financing activities	(1 395 060)	(49 039)	(305 125)	(11 155)
X. Total net increase / decrease in cash and cash equivalents	14 130 615	2 634 823	3 090 618	599 327
XI. Basic earnings per share (in PLN/EUR)	7.44	2.16	1.63	0.49
XII. Diluted earnings per share (in PLN/EUR)	7.43	2.16	1.62	0.49
XIII. Declared or paid dividend per share (in PLN/EUR)	-	-	-	-

SELECTED FINANCIAL DATA FOR THE BANK	in PLN '000		in EUR '000	
	31.03.2021	31.12.2020 - restated	31.03.2021	31.12.2020 - restated
I. Total assets	186 059 825	170 745 007	39 924 431	36 999 438
II. Amounts due to other banks	2 969 268	2 624 286	637 141	568 667
III. Amounts due to customers	152 090 771	137 778 034	32 635 404	29 855 689
IV. Equity	16 464 158	16 467 692	3 532 854	3 568 452
V. Share capital	169 468	169 468	36 364	36 723
VI. Number of shares	42 367 040	42 367 040	42 367 040	42 367 040
VII. Book value per share (in PLN/EUR)	388.61	388.69	83.39	84.23
VIII. Total capital ratio	21.99	22.95	21.99	22.95

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

- for items of the statement of financial position – exchange rate announced by the National Bank of Poland as at 31 March 2021: EUR 1 = 4.6603 PLN, 31 December 2020: EUR 1 = 4.6148 PLN.
- for items of the income statement – exchange rate calculated as the arithmetic mean of exchange rates announced by the National Bank of Poland as at the end of each month of the first quarter of 2021 and 2020: EUR 1 = 4.5721 PLN and EUR 1 = 4.3963 PLN respectively.

Introduction

The profit before income tax generated by mBank Group in Q1 2021 stood at PLN 504.3 million, while net profit attributable to the owners of mBank reached PLN 317.1 million. In Q1 2021 total income decreased slightly while total costs increased compared to the previous quarter.

The main factors determining the Group's financial results in Q1 2021 were as follows:

- **Lower total income** at the level of PLN 1 538.8 million, down -0,9% compared to Q4 2020. Net fee and commission income and net trading income increased, while net interest income declined in the period under review;
- **Increase of total costs** (including depreciation) compared to the previous quarter to the level of PLN 664.7 million due to recognition of the annual contribution to the resolution fund of the Bank Guarantee Fund (BFG);
- **Lower cost of risk** (sum of impairment on financial assets not measured at fair value through profit or loss and gains or losses from non-trading loans and advances mandatorily measured at fair value through profit or loss) at the level of PLN 164.7 million or 59 b.p. compared to 96 b.p. in Q4 2020;
- **Result on provisions for legal risk related to foreign currency loans** set up in Q1 2021 at PLN 66.3 million compare to PLN 633.0 million in Q4 2020;
- **Increase in tax on the Group's balance sheet items** on a quarterly basis to PLN 138.8 million;
- **Continued organic growth and business expansion** as demonstrated by:
  - **increase in the number of corporate customers** to 29 662 (+579 clients compared to the end of 2020), while the number of retail clients declined to 5 517.3 thousand due to closing of inactive accounts;
  - **increase in the sale of non-mortgage loans** by 26% compared to the previous quarter.

At the end of Q1 2021 net loans and advances to customers amounted to PLN 113 244.4 million. They increased by PLN 4 677.0 million or +4.3% quarter on quarter.

Gross loans to corporate customers grew by PLN 2 875.1 million (+6.2%) to PLN 48 900.6 million compared with the previous quarter. The volume of loans to individuals went up by PLN 1 833.9 million or by 2.8% against the end of December 2020 and reached PLN 67 785.5 million.

In Q1 2021, amounts due to customers rose by PLN 14 398.5 million or by 10.5% quarter on quarter. Amounts due to corporate customers increased by PLN 8 625.9 million or by 22.0% quarter on quarter and at the end of March 2021 reached PLN 47 682.0 million. Amounts due to individual customers grew by PLN 5 606.5 million or by 5.7% quarter on quarter and amounted to PLN 103 582.8 million.

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

- Gross ROE of 12.4% (-0.2% in Q4 2020);
- Net ROE of 7.8% (-4.2% in Q4 2020).

mBank Group's capital ratios decreased slightly in Q1 2021 compared to the end of 2020. The total risk exposure amount increased by PLN 3.7 billion while own funds also increased slightly. The Total Capital Ratio stood at 19.2% and the Common Equity Tier 1 ratio at 16.6%.

In Q1 2021, mBank Group maintained the restrictions on social contacts. The majority of employees, were working from home. The Group's business continuity went on uninterrupted and customer service was offered both at branches and remotely. Since the beginning of the pandemic Group uses restrictive security measures in all outlets, adequate to the currently valid rules for the red zones – no matter in which zone the outlet is located. The clients are encouraged to the remote service – mobile and online. Most of the activities at mBank do not require the visit in the branch. Clients can also use the 24-hour contact center.

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

Awards and distinctions received in first quarter of 2021

mBank is one of Top 10 private banking providers in Central and Eastern Europe according to the "Euromoney" magazine. International experts appreciated the way mBank is offering services to its clients and our approach to wealth management. This award is particularly important for mBank, which was distinguished in the region while being a local market player.

mBank was named the Polish leader in the contest "The Best Treasury & Cash Management Banks and Providers 2021" by Global Finance. For several years already mBank has been recognized by this magazine among other transactional banking providers. A variety of criteria were considered, including: profitability, market share and reach, customer service, competitive pricing, product innovation and the extent to which treasury and cash management providers have successfully differentiated themselves from their competitors.

The leasing subsidiary of mBank – mLeasing – was one of the winners of the "Forbes Diamonds", a prestigious annual contest appreciating the fastest-developing companies in Poland. The reward is particularly important for mBank, given the hardships and unprecedented challenges the year 2020 posed for the Polish economy. The highest quality and the strength of the mLeasing brand was proved.

In January 2021, mBank became a member of the Bloomberg Gender-Equality Index 2021. This index includes 380 companies from 44 countries and 11 economic sectors. It aims to track the performance of public companies committed to transparency in gender-data reporting. Companies are assessed in terms of actions for equality between women and men. mBank has been appreciated by the Bloomberg's experts for, among others, an equal access to promotions of women and men, offering flexible working hours and other solutions that help to combine work and family life. They also drew attention to the implemented anti-mobbing procedures and our support of women's entrepreneurship. Actions for gender equality are an important part of mBank's sustainable development strategy.

Cezary Stypułkowski, President of the Management Board of mBank, was recognised in the Top 3 of Banker of the Year ranking by Forbes Polska Magazine. The ranking incorporates key indicators (effectiveness, safety, growth) and jury's assessment. mBank has been recognized for, among others, business model and the mobile application whose number of users increased by +20% in the previous year.

Joanna Erdman again was deemed as one of the most influential women in the transactional industry by the Cashless.pl platform. At mBank she is responsible for strategic projects in the Daily Banking Area, including digital onboarding of the clients, eAdministration, and new products and payment innovations. She is an activist for Banking Cards Issuers Council and is a member of the Board of Cashless Poland Foundation.

Economy and the banking sector in Q1 2021

Epidemic situation

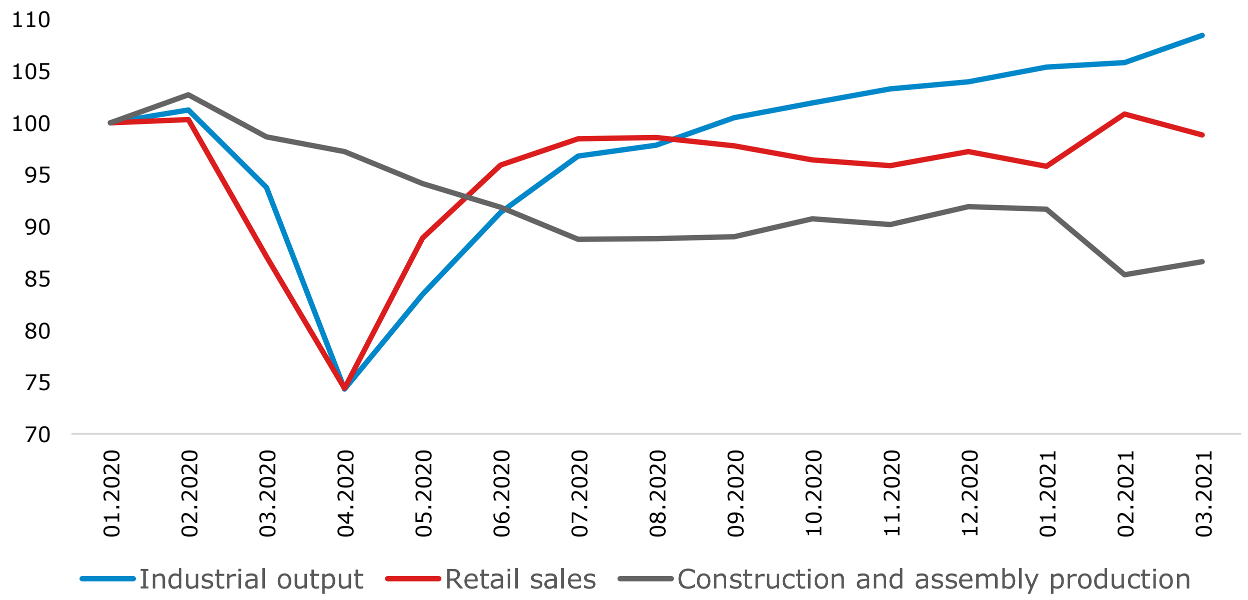
The beginning of Q1 was marked by epidemic restrictions imposed back in 2020, which were then gradually relaxed. However, with the rising number of new COVID-19 infections and the UK variant spreading around Poland, new epidemic restrictions have been placed, first regionally and then domestically, and currently are partially eased. The extent of restrictions in terms of curbs was similar to those imposed in autumn. The new restrictions have proven effective as evidenced by infection statistics. Nevertheless, the healthcare system is still facing unprecedented pressures and the government makes further reopening of the economy dependent mostly on the progress of the vaccination programme. As at the date of preparing this report there were 10 million vaccinations administered in Poland with two doses given to 2.5 million people. The average weekly rate of vaccination is slightly above one million doses and keeps rising.

Economic situation

The data suggest that the new tier of restrictions was effective in tackling the virus, and at the same time, less painful to the economy. With every wave of COVID-19 infections businesses tend to adapt better to operating in a pandemic environment. Just like at the time when the previous epidemic restrictions were imposed, the government launched aid programmes offering a similar range of support measures. Initial data showing how widely the support schemes are used suggest that this time the take-up rate will be lower compared to that recorded during the previous waves.

When discussing the economic situation, it is worth having a glance at how the basic sectors of the economy (industrial production, construction and sales) are coping. This can be easily summarised in one chart. The first wave of restrictions placed in Poland hit sales and production. The construction sector proved resilient to the shock, but embarked on a downward trend due to the approaching end of the EU financial framework. Today, the situation is different. Industrial production has not been affected by the consequences of the epidemic and is currently in the phase of catching up on production lost during lockdowns (the same is reflected by export statistics). Retail sales have been moving in sync with restrictions, but this time the decreases are fairly mild compared to those reported in spring 2020 (the last increase driven by the decision to lift restrictions in February will be offset in March and April due to re-imposition of restrictions). Having reached the bottom (with the last decline caused by low temperatures in February), construction and assembly production is expected to continue on an upward trend and accelerate as the EU-subsidised projects gain momentum. The most badly affected sectors include leisure, accommodation and catering services. Card transaction data suggest that these businesses have been slashed by 70-90% compared with the pre-COVID level. However, their GDP contribution is not higher than 2-3%.

Figure 1. Sectors of the economy – comparison (seasonally adjusted data, Jan 2020=100).



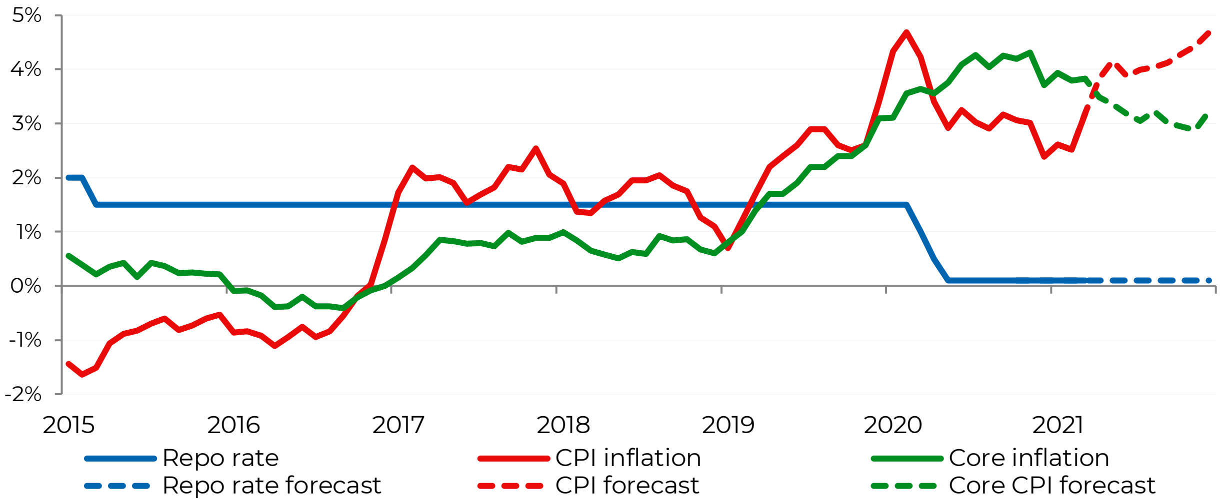
Source: Statistics Poland (GUS), own work

The current recession in Poland is largely industry-specific. The Bank estimates that GDP accelerated to around -1.0% YoY in Q1 (up from -2.8% YoY in Q4 2020). The good news is that the quarterly GDP growth will return to the positive territory. The new epidemic restrictions have not negatively impacted the forecast of the macroeconomic scenario. Contrary to that, incoming data – in particular the labour market statistics and industrial production – suggest that the growth rate of the economy will be higher than previously estimated. Currently, the Bank forecasts a growth of 4.7% and expects the easing of epidemic restrictions in May/June. The labour market statistics improved in Q1, most likely thanks to the gradual reopening of the economy. Even if this improvement was only temporary, a repeat is likely once the current epidemic restrictions are eased. The unemployment rate rose to 6.4% in March, which is totally in line with the seasonal trends, while the Bank is of an opinion that so far there have been no delayed effects of the long-lasting economic restrictions. Bank forecasts that the effects are yet to be seen, but the cyclical effect of the economic reopening will prevail and the year-end unemployment rate will be lower than it is today.

As a result of epidemic restrictions and government aid schemes, growth in household deposits and deposits of the non-financial sector remained high. In turn, loan statistics suggest that the deceleration of household loans (net of the FX effect) is losing momentum. Simultaneously, loans to the non-financial sector (net of the FX effect) decrease on a yearly basis. The volume of loans to the non-financial sector continues to decline. No premises backing reversal of this downward trend were identified. In the nearest future Bank expects the annual growth rates in deposits to decline (deposits will continue to grow, but at a slower pace), which will be combined with a gradual but slow pick-up in loans.

In March the CPI inflation rate stood at 3.2%. The external factors such as higher administered prices (of electricity and waste collection) or rising oil prices developed as expected. The rise in core inflation (which excludes the effects of food and energy), however, beat expectations and reached 3.9% YoY in March. The recent core inflation readings have defied the forecasts of virtually all research centres (including the National Bank of Poland). Core inflation is likely being pushed up by the cost effects of the widespread supply issues faced by the global economy (with supply falling short of demand). Still, core inflation is widely expected to decrease slowly to reflect the delayed effects of the economic slowdown. The Bank expects that the drop in inflation will be small-scale and that soon the demand-side factors pushing inflation up will let themselves known, helped by a recovery in consumption, partial use of savings, and labour market improvement. The prices of food and raw materials are also forecast to go up, which will anchor inflation expectations at a high level. The Bank expects the average annual inflation rate to reach 3.7% in 2021 (which is above the NBP's target) and slow down next year, but only subtly (due to the base effect), to 3.5%.

Figure 2. Current and forecast inflation and NBP interest rates



Source: Statistics Poland (GUS), National Bank of Poland (NBP), own work

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

The Monetary Policy Council (RPP) has kept rates unchanged and continued to use the instruments introduced earlier, in particular structural open market operations (bond buying). Since 11 March 2021 structural operations have been scaled up and the bond buying has expanded to several billions zlotys per operation. In December 2020 the central bank also used foreign exchange interventions to weaken the Polish zloty. Recently the RPP's rhetoric about the foreign exchange rate has been less adamant, which indirectly implies that at its current level the EUR/PLN foreign exchange rate falls within NBP's comfort zone and is well adjusted to the current phase of the economic cycle. The Bank predicts that interest rates will remain unchanged almost until the end of 2022 when the monetary policy will slowly start to normalise.

On the financial markets Q1 was marked by rising bond yields fuelled mostly by global factors, i.e. expectations for faster normalisation of interest rates in the U.S. The rising yields were observed mostly in long-term bonds, whereas the short end of the yield curve remained anchored on the expectation of a monetary loosening in Poland within the two years. Currently the market prices in a more aggressive path of monetary tightening compared with that forecast by the Bank. High inflation coupled with low nominal interest rates and legal risks connected with the expected ruling on foreign currency loans have weakened the zloty. On 29 March 2021 the EUR/PLN foreign exchange rate reached a new local high at 4.6800. In the nearest future the Bank expects that the pressure on a weaker zloty may continue, driven by the same set of factors as before; however, the outlook for the Polish currency will improve with time, bringing about a gradual appreciation of the zloty.

Indicator	2019	2020	2021
GDP, constant prices, annual average	4.5%	-2.8%	4.7%
Inflation (%), annual average	2.3%	3.4%	3.7%
Unemployment rate (%) (end of period)	5.2%	6.2%	5.8%
NBP reference rate (end of period)	1.5%	0.1%	0.1%
EUR/PLN (end of period)	4.25	4.56	4.55
Consumer credit (end of period)	6.0%	3.0%	4.8%
Corporate loans (end of period)	3.0%	-4.8%	4.5%
Consumer deposits (end of period)	9.7%	10.7%	5.9%
Corporate deposits (end of period)	10.0%	19.0%	15.4%

Financial position of mBank Group in Q1 2021

Profit and Loss Account of mBank Group

The profit before tax generated by mBank Group in Q1 2021 amounted to PLN 504.3 million, while net profit attributable to the owners of mBank reached PLN 317.1 million.

PLN M	Q4 2020	Q1 2021	Change in PLN M	Change in %
Interest income	1 063.2	1 019.4	-43.9	-4.1%
Interest expense	-86.3	-72.5	13.8	-16.0%
Net interest income	**976.9**	**946.9**	**-30.0**	**-3.1%**
Fee and commission income	611.1	645.9	34.8	5.7%
Fee and commission expense	-201.7	-177.9	23.8	-11.8%
Net fee and commission income	**409.5**	**468.1**	**58.6**	**14.3%**
Core income	**1 386.4**	**1 415.0**	**28.6**	**2.1%**
Dividend income	0.1	0.4	0.3	221.2%
Net trading income	42.3	63.2	20.9	49.5%
Other income	148.8	86.7	-62.1	-41.7%
Other operating income	52.9	55.0	2.1	4.0%
Other operating expenses	-78.1	-81.5	-3.4	4.3%
Total income	**1 552.3**	**1 538.8**	**-13.6**	**-0.9%**
Net impairment losses and fair value change on loans and advances	-262.6	-164.7	97.9	-37.3%
Result on provisions for legal risk related to foreign currency loans	-633.0	-66.3	566.7	-89.5%
Overhead costs and depreciation	-536.6	-664.7	-128.1	23.9%
Taxes on bank balance sheet items	-127.8	-138.8	-11.1	8.7%
Profit before income tax	**-7.6**	**504.3**	**511.9**	**-/+**
Income tax expense	-167.1	-187.2	-20.1	12.1%
Net profit attributable to:	**-174.7**	**317.1**	**491.8**	**-/+**
- Owners of mBank S.A.	**-174.7**	**317.1**	**491.8**	**-/+**
- Non-controlling interests	0.0	0.0	0.0	0.0%
ROA net	0.3%	0.7%		
ROE gross	-0.2%	12.4%		
ROE net	-4.2%	7.8%		
Cost / Income ratio	34.6%	43.2%		
Net interest margin	2.2%	2.1%		
Common Equity Tier 1 ratio	17.0%	16.6%		
Total capital ratio	19.9%	19.2%		

Core income – calculated as the sum of net interest income and net fee and commission income.
Other income – calculated as the sum of gains less losses from financial assets and liabilities not measured at fair value through profit or loss and gains or losses from non-trading financial assets (including equity instruments and debt securities) mandatorily measured at fair value through profit or loss (except for loans and advances).
Total income - calculated as the sum of net interest income, net fee and commission income, dividend income, net trading income, other income, other operating income and other operating expenses.
Total overhead costs (including deprecation) - calculated as the sum of total overhead costs and depreciation.
Net impairment losses and fair value change on loans and advances – the sum of impairment or reversal of impairment on financial assets not measured at fair value through profit or loss and gains or losses from non-trading loans and advances mandatorily measured at fair value through profit or loss.

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

Income of mBank Group

Total income generated by mBank Group decreased by 0.9% quarter on quarter and amounted to PLN 1 538.8 million. Core income, i.e. net interest income and net fee and commission income, grew quarter on quarter by 2,1% due to higher net fee and commission income and amounted to PLN 1 415.0 million.

Net interest income remained mBank Group's largest income source in Q1 2021 and decreased on a quarterly basis (PLN -30.0 million or -3.1%). Lower net interest income results from a shorter quarter (lower number of days by 2) as well as a series of interest rate cuts by 140 bps in total in March, April and May 2020. Interest income 43.9 million or by 4.1% on a quarterly basis. Interest income from loans and advances declined by declined by PLN 16.8 million or by 2.1% compared to the previous quarter. Interest income on investment securities decreased by PLN 25.1 million or by 16.7% due to lower value and profitability of these securities. Interest expenses declined further by PLN 13.8 million or by 16.0% compared to the previous quarter, mainly thanks to lower expenses arising from issue of debt securities (due to lower value of debt securities issued) as well as arising from deposits (thanks to lower interest paid on deposits).

Net interest margin of mBank Group decreased quarter on quarter and stood at 2.1% in Q1 2021 compared to 2.2% in Q4 2020.

Net fee and commission income, the second largest income contributor, increased compared with the previous quarter (+PLN 58.6 million or +14.3%) to PLN 468.1 million.

Fee and commission income increased by PLN 34.8 million or by 5.7% compared to the previous quarter. Commissions from bank accounts increased the most (by PLN 51.9 million or by 79.1% QoQ). The increase is mainly attributable to the fee for keeping the total client's funds over the fixed threshold on the beginning of the day in the first day of a calendar year charged from corporate clients.

Fee and commission expenses in Q1 2021 amounted to PLN 177.9 million, down on a quarterly basis by PLN 23.8 million or by 11.8%, mainly thanks to lower payment cards-related fees and cash services fees.

Net trading income increased by PLN 20.9 million or by 49.5% quarter on quarter and amounted to PLN 63.2 million. The increase was noted mainly in FX result due to high volatility of currency rates.

Other income (calculated as the sum of gains less losses from financial assets and liabilities not measured at fair value through profit or loss and gains or losses from non-trading financial assets, including equity instruments and debt securities, mandatorily measured at fair value through profit or loss) decreased by PLN 62.1 million quarter on quarter. Previous quarter was positively impacted by the revaluation and partial sale of Visa Inc. shares as well as revaluation of other shares and stakes.

Other operating income net of other operating expenses stood at PLN -26.5 million and decreased slightly compared to the previous quarter. In both quarters provisions for future commitments were created.

Costs of mBank Group

In Q1 2021, mBank Group continued the strict cost discipline aimed at improving the efficiency measured by cost/income ratio. Total overhead costs of mBank Group (including depreciation) stood at PLN 664.7 million and were higher compared to the previous quarter (by PLN 128.1 million or by 23.9%) due to recognition of the annual contribution to the BFG resolution fund.

PLN M	Q4 2020	Q1 2021	Change in PLN M	Change in %
Staff-related expenses	**-222.7**	**-241.7**	**-19.0**	**8.5%**
Material costs, including	**-163.4**	**-147.1**	**16.2**	**-9.9%**
- administration and real estate services costs	*-72.1*	*-62.3*	*9.7*	*-13.5%*
- IT costs	*-43.2*	*-39.9*	*3.3*	*-7.6%*
- marketing costs	*-35.6*	*-23.9*	*11.7*	*-33.0%*
- consulting costs	*-9.0*	*-17.5*	*-8.6*	*95.4%*
- other material costs	*-3.5*	*-3.4*	*0.0*	*-0.9%*
Taxes and fees	**-7.7**	**-8.1**	**-0.4**	**5.2%**
Contributions and transfer to the Bank Guarantee Fund	**-34.4**	**-153.5**	**-119.1**	**346.1%**
Contributions to the Social Benefits Fund	**0.0**	**-2.4**	**-2.4**	**+/-**
Depreciation	**-108.5**	**-111.9**	**-3.4**	**3.1%**
Total overhead costs and depreciation	**-536.6**	**-664.7**	**-128.1**	**23.9%**
Cost / Income ratio	34.6%	43.2%	-	-
Employment (FTE)	6 688	6 643	-44	-0.7%

In Q1 2021, staff-related expenses increased by PLN 19.0 million or by 8.5% quarter on quarter, which was driven by an increase of variable staff cost. The headcount in mBank Group decreased by 44 FTEs in the period under review due to the ongoing optimisation process.

In Q1 2020, material costs decreased by PLN 16.2 million or by 9.9% quarter on quarter. Marketing costs as well as administration and real estate services costs declined in the period under review. Depreciation rose by PLN 3.4 million or by 3.1% compared to the previous quarter to PLN 111.9 million.

Cost efficiency measured by the cost/income ratio deteriorated and stood at 43.2% in Q1 2021 compared to 34.6% in Q4 2020. The normalised cost/income ratio (including ¼ of the contribution to the resolution fund) reached 36.8%.

Net impairment losses and fair value change on loans and advances

In Q1 2021, net impairment losses and fair value change on loans and advances of mBank Group (calculated as the sum of two items: impairment or reversal of impairment on financial assets not measured at fair value through profit or loss and gains or losses from non-trading loans and advances mandatorily measured at fair value through profit or loss) amounted to PLN 164.7 million. Compared with Q4 2020, impairment on and change in the fair value of loans and advances declined by PLN 97.9 million or by 37.3%. Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss is related to the part of the portfolio of loans and advances measured at amortised cost. Gains or losses from non-trading loans and advances mandatorily measured at fair value through profit or loss are related to the credit risk of the portfolio of loans and advances measured with the use of that method.

PLN M	Q4 2020	Q1 2021	Change in PLN M	Change in %
Retail Banking	-113.0	-118.9	-5.9	5.2%
Corporate and Investment Banking	-133.3	-68.8	64.5	-48.4%
FX Mortgage Loans	-16.3	23.4	39.6	-243.7%
Treasury and Other	-0.1	-0.4	-0.3	306.7%
Total net impairment losses and fair value change on loans and advances	**-262.6**	**-164.7**	**97.9**	**-37.3%**

Impairment on and change in the fair value of loans and advances in the Retail Banking segment amounted to PLN 118.9 million and rose by 5.9 million compared to the previous quarter (+5.2%). The slight increase resulted from i.a. adjustment of the LLP models to the EBA new definition of default. At the same time, a part of provisions related to legislative moratoria created in 2020 was released.

Impairment on and change in the fair value of loans and advances in the Corporate and Investment Banking segment amounted to PLN 68.8 million, which represents a decrease by PLN 64.5 million quarter on quarter. The decrease results from a conservative approach to provisioning in 2020.

Consolidated statement of financial position

As of 2021, mBank Group has changed the way it presents the provision for individual court cases concerning indexation clauses in mortgage and housing loans in CHF. Part of the provision was recognized as a loan exposure, and has been presented in the financial report as a reduction of gross carrying amount of mortgage and housing loans which are anticipated to have diminished cash flows (compliant with IFRS 9 "Financial Instruments"). As a consequence, comparative data dated 1 January 2020, 31 March 2020 and 31 December 2020 has been adequately restated. More information can be found in Note 2 "Description of relevant accounting policies".

The balance sheet total of mBank Group stood at PLN 194 217.1 million at the end of Q1 2021, up by 8.6% compared with Q4 2020.

Assets of mBank Group

PLN M	31.03.2020 restated	31.12.2020 restated	31.03.2021	QoQ change	YoY change
Cash and balances with Central Bank	10 823.3	3 968.7	16 355.4	312.1%	51.1%
Loans and advances to banks	9 513.4	7 354.3	7 381.3	0.4%	-22.4%
Financial assets held for trading and derivatives held for hedges	3 533.3	2 398.8	3 374.3	40.7%	-4.5%
Net loans and advances to customers	110 493.9	108 567.4	113 244.4	4.3%	2.5%
Investment securities	34 748.3	51 728.9	48 570.7	-6.1%	39.8%
Intangible assets	968.2	1 178.7	1 197.8	1.6%	23.7%
Tangible assets	1 234.3	1 514.6	1 696.1	12.0%	37.4%
Other assets	2 130.7	2 160.3	2 397.0	11.0%	12.5%
Total assets	**173 445.4**	**178 871.6**	**194 217.1**	**8.6%**	**12.0%**

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

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

Loans and advances to customers were the largest asset category of mBank Group at the end of Q1 2021. Their share in total assets dropped slightly to 58.3% from 60.7% at the end of 2020. At the end of Q1 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 113 244.4 million. They increased by PLN 4 677.0 million or by 4.3% quarter on quarter.

Gross loans to corporate customers grew by PLN 2 875.1 million (+6.2%) to PLN 48 900.6 million compared with the previous quarter (net of reverse repo, buy/sell back transactions and the FX effect, loans and advances to corporate customers rose by 2.9% quarter on quarter). The increase was largely attributable to previously signed contracts. The sales of loans to corporate customers (including new sales, limit increases, and renewals) shrank by 38.7% to PLN 5 947.8 million in Q1 2021. The magnitude of the decrease of the new sales is on the one hand a result of soaring activity recorded in Q4 2020, and on the other hand it is a result of subdued demand for new funding amid weaker economic activity caused by the third wave of the COVID-19 pandemic and selective approach of mBank towards new lending. The highest decline was related to new investment loan contracts. Companies prefer to accumulate higher liquidity buffers and abstain from new investments due to the lingering uncertainty.

The volume of loans to individuals went up by PLN 1 833.9 million or by 2.8% against the end of December 2020 and reached PLN 67 785.5 million. Gross mortgage and housing loans to individuals increased by 3.5% quarter on quarter.

In Q1 2021, mBank Group sold 2 855.1 million mortgage loans, 28.2% more than a year ago, but by 3.2% less than in Q4 2020, when the bank registered record high sales. The sales of non-mortgage loans in Q1 2021 reached PLN 2 157.3 million, representing a decrease by 8.6% compared with Q1 2020, but an increase by 25.7% quarter on quarter.

Net of FX effect, loans to individuals increased by 2.8% quarter on quarter.

At the end of Q1 2021, gross loans and advances to the public sector increased by PLN 7.7 million or +3.3% quarter on quarter and amounted to PLN 238.8 million.

Investment securities were the second largest asset category at the end of Q1 2021. They amounted to PLN 48 570.7 million, accounting for 25.0% of total assets. Their value decreased by PLN 3 158.2 million or by 6.1% quarter on quarter.

mBank Group's total liabilities and equity

PLN M	31.03.2020 restated	31.12.2020 restated	31.03.2021	QoQ change	YoY change
Amounts due to other banks	1 702.1	2 399.7	2 954.1	23.1%	73.6%
Amounts due to customers	128 960.4	137 698.7	152 097.1	10.5%	17.9%
Debt securities in issue	18 000.3	13 996.3	13 652.5	-2.5%	-24.2%
Subordinated liabilities	2 594.3	2 578.3	2 564.5	-0.5%	-1.2%
Other liabilities	5 602.9	5 523.5	6 200.0	12.2%	10.7%
Total Liabilities	**156 860.1**	**162 196.5**	**177 468.1**	**9.4%**	**13.1%**
Total Equity	**16 585.3**	**16 675.1**	**16 748.9**	**0.4%**	**1.0%**
Total Liabilities and Equity	**173 445.4**	**178 871.6**	**194 217.1**	**8.6%**	**12.0%**

In Q1 2021, amounts due to customers, which are mBank Group's principal source of funding, rose by PLN 14 398.5 million or by 10.5% quarter on quarter. The share of amounts due to customers in total liabilities and equity reached 78.3%, which represents a rise compared with the end of December 2020.

Amounts due to corporate customers increased by PLN 8 625.9 million or by 22.0% quarter on quarter and reached PLN 47 862.0 million at the end of March 2021. The substantial increase of this category results mainly from an inflow of funds into current accounts (+PLN 9 475.2 million or +28.1% quarter on quarter). The total change of the category was impacted by a decline in loans and advances received by PLN 1 429.6 million, which was a consequence of early repayment of EUR loans received from European Investment Bank.

In the period under review, amounts due to individual customers grew by PLN 5 606.5 million or by 5.7% quarter on quarter and stood at PLN 103 582.8 million. An increase of funds in current accounts (+PLN 6 335.6 million) and a decrease in term deposits were noted.

Amounts due to the public sector stood at PLN 652.3 million at the end of Q1 2021, representing an increase by PLN 166.1 million or by 34.2% quarter on quarter.

Debt securities in issue were mBank Group's second largest liabilities and equity category (accounting for 7.0%). They declined by PLN 343.8 million or by 2.5% to PLN 13 652.5 million. Given the dominant share of debt securities issued in foreign currencies, the drop in this category was caused predominantly by the FX rate effect.

Amounts due to other banks stood at PLN 2 954.1 million at the end of Q1 2021, accounting for 1.5% of total liabilities and equity of mBank Group. Compared with Q4 2020, this category grew by PLN 554.4 million or by 23.1%, mainly as a result of higher balances in current accounts maintained by other institutions with mBank.

Total equity amounted to PLN 16 748.9 million at the end of Q1 2021. The share of equity in total liabilities and equity of mBank Group decreased slightly quarter on quarter to 8.6% (against 9.3% at the end of December 2020).

Quality of the loan portfolio of mBank Group

As at 31 March 2021, the amount of non-performing receivables was slightly smaller than in the previous quarter. Thanks to the simultaneous rise of receivables, the NPL ratio declined compared to the end 2020 and amounted to 4.6%.

The coverage ratio for total receivables increased quarter on quarter from 72.9% to 73.7% whereas coverage ratio for non-performing receivables stood at 58.5% compared to 58.3% at the end of 2020.

PLN M	31.12.2020	31.03.2021	QoQ change
Provisions for non-performing loans	-3 168.4	-3 162.3	-0.2%
Provisions for performing loans	-794.2	-825.3	3.9%
Total provisions	**-3 962.6**	**-3 987.6**	**0.6%**
Non-performing receivables	**5 432.5**	**5 408.9**	**-0.4%**
Performing receivables	**107 097.4**	**111 823.1**	**4.4%**
NPL ratio	4.8%	4.6%	
Coverage ratio of non-performing receivables	58.3%	58.5%	

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

Since January, 2021 changes in the breakdown of segmentation of mBank Group's activity were implemented. The changes comprised of, among others, closure of Financial Markets segment and were a consequence of organizational changes which were introduced in the Bank in 2020.

Additionally, a new segment FX Mortgage Loans has been separated from the Retail Banking area. The purpose of the revision is a separate presentation of financial results related to the product which has already been discontinued in the offer to retail clients but is still substantial from the point of view of related assets and its impact on the results of the Group. On this account a genuine and undistorted image of core activity of mBank Group is presented.

The FX Mortgage Loans segment comprises of activity related to management of the portfolio of mortgage loans in foreign currency with indexation clauses to retail clients. Such loans are no longer offered to mBank's clients.

PLN M	Q4 2020	Q1 2021	QoQ change	% share in profit before tax
Retail Banking	324.3	273.5	-15.6%	54.2%
Corporate and Investment Banking	197.7	185.9	-5.9%	36.9%
FX Mortgage Loans	-624.7	-39.4	-93.7%	-7.8%
Treasury and Others	95.2	84.3	-11.5%	16.7%
Profit before tax of mBank Group	**-7.6**	**504.3**	**-/+**	**100.0%**

Key financial data of the FX Mortgage Loans segment has been disclosed in the table below:

PLN M	Q4 2020	Q1 2021	Change in PLN M	Change in %
Net interest income	36.4	32.7	-3.7	-10.3%
Net fee and commission income	1.0	0.9	-0.1	-6.9%
Net trading income	0.2	-10.7	-10.9	+/-
Other operating income net of other operating expenses	0.0	-1.4	-1.4	0.0%
Total income	**37.6**	**21.5**	**-16.1**	**-42.9%**
Net impairment losses and fair value change on loans and advances	-16.3	23.4	39.6	-/+
Gains and losses on provisions against legal risk of FX loans	-633.0	-66.3	566.7	-89.5%
Overhead costs and depreciation	1.7	-3.6	-5.3	+/-
Taxes on bank balance sheet items	-14.7	-14.3	0.4	-2.6%
Profit before tax of FX Mortgage Loans	**-624.7**	**-39.4**	**585.3**	**-93.7%**

Retail Banking

mBank's Retail Banking segment serves 5 517.3 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 369 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 843.0 million, a slight decline by 0.7% on quarterly basis.
- Increase in the share of mBank in non-mortgage loans market from 6.6% to 6.7% quarter on quarter.
- Rise of mBank's share in retail deposits market from 7.7% to 8.0% quarterly.
- Quarterly rebound of sales of non-mortgage loans at PLN 2 157.3 million (i.e. increase by 25.7% quarter on quarter, but a drop by 8.6% year on year), while mortgage loans sales stood at PLN 2 855.1 million (a decline by 3.2% quarter on quarter and increase by 28.2% year on year).
- Maintained high share of loggings into client accounts via mobile banking application: 76% at the end of March 2021.
- Implementation of a fully electronic process to open a bank account remotely. Electronic ID and free mobile app eDO from the Polish Security Printing Works (Polska Wytwórnia Papierów Wartościowych), available for Android and iOS, are sufficient to launch an account. An online process answers the needs of the clients who prefer to complete the formal processes remotely, but safely.
- mBank launched a mobile application for the Junior Account. The application is intended for children below the age of 13 and enables checking the balance and reviewing the transaction history. 80% of accounts have been opened by parents who declare mBank as their main bank. 90% of the accounts belong to children at school age – between 7 and 13 years old.
- mBank has introduced an offer of foreign investment funds of three global asset management companies: AllianceBernstein, Fidelity, and Schroders. The funds distinguish themselves thanks to appealing management fees and lowest entry thresholds in the market. The offer includes 42 funds registered in Luxemburg. More than half of them (23) are equity funds.

Key financial data:

PLN M	Q4 2020	Q1 2021	Change in PLN M	Change in %
Net interest income	627.7	621.5	-6.2	-1.0%
Net fee and commission income	216.3	223.5	7.2	3.3%
Net trading income	9.6	8.9	-0.7	-7.8%
Net other operating income	-34.2	-7.3	26.9	-78.7%
Other income	29.4	-3.5	-32.9	-111.9%
Total income	**848.9**	**843.0**	**-5.8**	**-0.7%**
Net impairment losses and fair value change on loans and advances	-113.0	-118.9	-5.9	5.2%
Overhead costs and depreciation	-356.6	-388.0	-31.3	8.8%
Taxes on bank balance sheet items	-55.0	-62.6	-7.7	13.9%
Profit before tax of Retail Banking	**324.3**	**273.5**	**-50.7**	**-15.6%**

Key business data (mBank and mBank Hipoteczny only):

thou.	31.03.2020	31.12.2020	31.03.2021	YtD change	YoY change
Number of retail clients, including:	**5 649.1**	**5 661.8**	**5 517.3**	**-2.6%**	**-2.3%**
Poland	4 684.3	4 658.5	4 505.1	-3.3%	-3.8%
Foreign branches	964.7	1 003.4	1 012.1	0.9%	4.9%
The Czech Republic	671.6	702.7	708.0	0.8%	5.4%
Slovakia	293.1	300.7	304.1	1.1%	3.8%
PLN M					
Loans to retail clients, including:	**62 821.7**	**65 579.3**	**67 834.2**	**3.4%**	**8.0%**
Poland	**57 528.3**	**58 351.2**	**59 629.7**	**2.2%**	**3.7%**
mortgage loans	39 746.5	41 205.1	41 993.8	1.9%	5.7%
non-mortgage loans	17 781.8	17 146.1	17 635.9	2.9%	-0.8%
Foreign branches	**5 293.4**	**7 228.1**	**8 204.4**	**13.5%**	**55.0%**
The Czech Republic	3 957.2	5 182.0	5 764.4	11.2%	45.7%
Slovakia	1 336.1	2 046.1	2 440.1	19.3%	82.6%
Deposits of retail clients, including:	**82 780.1**	**98 221.0**	**103 649.5**	**5.5%**	**25.2%**
Poland	**71 672.8**	**84 402.2**	**88 496.3**	**4.9%**	**23.5%**
Foreign branches	**11 107.3**	**13 818.7**	**15 153.2**	**9.7%**	**36.4%**
The Czech Republic	7 437.7	9 564.6	10 642.7	11.3%	43.1%
Slovakia	3 669.6	4 254.1	4 510.6	6.0%	22.9%
Investment funds of mBank's individual clients[1]	**12 678.1**	**20 166.3**	**22 475.4**	**11.5%**	**77.3%**
thou.					
Credit cards, including:	**397.0**	**388.0**	**382.1**	**-1.5%**	**-3.8%**
Poland	356.3	349.4	344.3	-1.5%	-3.4%
Foreign branches	40.7	38.6	37.8	-2.1%	-7.2%
Debit cards, including:	**3 902.9**	**4 141.4**	**4 206.7**	**1.6%**	**7.8%**
Poland	3 280.4	3 472.1	3 533.8	1.8%	7.7%
Foreign branches	622.4	669.4	672.9	0.5%	8.1%

Corporate and Investment Banking

The Corporate and Investment Banking segment serves 29,662 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. In line with the resolution of the Supervisory Board of mBank adopted on 25 June 2020, the financial markets area has undergone a reorganization and was incorporated into other business areas of the Bank at the end of 2020.

Key highlights

- Increase of total income to PLN 562.7 million by 3.0% quarter on quarter
- Increase of mBank's market share in loans to enterprises from 8.5% to 8.7% on a quarterly basis.
- Increase of corporate deposits on the Group level (excluding repo transactions) by 7.7% year on year and quarterly increase of 21.9% to PLN 47 711.1 million. mBank's market share in deposits from enterprises reached 11.3%.
- mBank released a new version of the application Company Mobile, which is available to SMEs and corporate clients. Thanks to comprehensible interface and intuitive navigation the users can conveniently manage the finance of their company and authorize transactions. The interface of the application was refreshed. The client can review the most vital information and has access to key functions on the main page right after logging in. The task assistant can remind the client about new commissions awaiting authorization. The transactions can be authorized in the mobile application.
- Despite the uneasy pandemic time, the Great Orchestra of Christmas Charity played for the 29^{th} time. The foundation was raising funds for Paediatric laryngology. mBank is the main partner of the foundation and prepared among others an offer for corporate clients. The account maintenance and transfer fees of the participating clients (from January till June) are donated to the charity.
- mBank and InPost group have established cooperation 12 years ago. During the latest financing, mBank was the Lending Agent and the Collateral Agent. mBank's exposure amounted to PLN 375 million.

Key financial data:

Corporate and Investment Banking:

PLN M	Q4 2020	Q1 2021	Change in PLN M	Change in %
Net interest income	271.8	256.0	-15.8	-5.8%
Net fee and commission income	205.6	252.8	47.2	23.0%
Net trading income	66.8	67.0	0.2	0.3%
Gains less losses from financial assets and liabilities not measured at fair value through profit or loss	-1.5	2.1	3.6	-235.0%
Net other operating income	3.6	-15.1	-18.7	-522.7%
Total income	**546.2**	**562.7**	**16.4**	**3.0%**
Net impairment losses and fair value change on loans and advances	-133.3	-68.8	64.5	-48.4%
Overhead costs and depreciation	-170.0	-257.9	-87.8	51.7%
Taxes on bank balance sheet items	-45.3	-50.1	-4.9	10.7%
Profit before tax of Corporate and Investment Banking	**197.7**	**185.9**	**-11.7**	**-5.9%**

Key business data (Bank only):

	31.03.2020	31.12.2020	31.03.2021	YtD change	YoY change
Number of corporate clients, including:	**27 084**	**29 083**	**29 662**	**2.0%**	**9.5%**
K1	2 346	2 358	2 346	-0.5%	0.0%
K2	8 468	8 862	9 132	3.0%	7.8%
K3	16 270	17 863	18 184	1.8%	11.8%
PLN M					
Loans to corporate clients, including:	**30 607.7**	**28 082.6**	**29 242.9**	**4.1%**	**-4.5%**
K1	7 761.6	6 719.5	6 798.2	1.2%	-12.4%
K2	19 613.7	18 302.3	19 195.8	4.9%	-2.1%
K3	2 894.1	2 714.4	2 719.4	0.2%	-6.0%
Deposits of corporate clients, including:	**41 134.7**	**35 426.6**	**45 041.8**	**27.1%**	**9.5%**
K1	15 856.9	8 673.2	12 986.9	49.7%	-18.1%
K2	17 004.8	15 631.5	20 868.9	33.5%	22.7%
K3	7 427.4	9 958.4	10 401.9	4.5%	40.0%

Summary of results of mBank Group's subsidiaries

In Q1 2021, the profit before tax generated by mBank Group subsidiaries amounted to PLN 63.3 million, which represents a significant increase compared to the previous quarter. A high increase of results was noted mainly by mLeasing. It was mainly thanks to lower risk costs related to the repayment of overdue receivables by clients classified as default at the end of 2020. The total income of the subsidiary also increased.

The table below presents the profit before tax posted by individual subsidiaries in Q1 2021 compared with Q4 2020.

PLN M	Q4 2020	Q1 2021	Change in %
mFinanse	7.8	11.3	45.5%
mBank Hipoteczny	10.7	10.1	-4.9%
mLeasing[1]	-21.3	41.6	-/+
mFaktoring	8.3	3.4	-59.5%
Other[2]	-0.6	-3.1	385.9%
Total	**4.8**	**63.3**	1 216.8%

[1] *Including LeaseLink and Asekum.*
[2] *Other subsidiaries include G-Invest, Tele-Tech Investment, Future Tech and mElements (in addition, BDH and mFinance France in Q4 2020).*

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

Consolidated income statement

	Note	1st Quarter (current year) period from 01.01.2021 to 31.03.2021	1st Quarter (previous year) period from 01.01.2020 to 31.03.2020
Interest income, including:	5	1 019 381	1 334 977
Interest income accounted for using the effective interest method		*897 889*	*1 228 106*
Income similar to interest on financial assets at fair value through profit or loss		*121 492*	*106 871*
Interest expenses	5	(72 486)	(269 513)
Net interest income		**946 895**	**1 065 464**
Fee and commission income	6	645 938	544 426
Fee and commission expenses	6	(177 878)	(181 750)
Net fee and commission income		**468 060**	**362 676**
Dividend income	7	440	300
Net trading income	8	63 178	44 805
Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss	9	(11 473)	(60 215)
Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss	10	89 124	(3 272)
Other operating income	11	54 987	41 131
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss	12	(155 660)	(369 799)
Result on provisions for legal risk related to foreign currency loans		(66 268)	(12 911)
Overhead costs	13	(552 766)	(638 813)
Depreciation		(111 891)	(97 510)
Other operating expenses	14	(81 483)	(56 086)
Operating profit		**643 143**	**275 770**
Taxes on the Group balance sheet items		(138 821)	(131 830)
Profit before income tax		**504 322**	**143 940**
Income tax expense		(187 229)	(53 034)
Net profit		**317 093**	**90 906**
Net profit attributable to:			
- Owners of mBank S.A.		317 125	90 917
- Non-controlling interests		(32)	(11)
Net profit attributable to Owners of mBank S.A.		**317 125**	**90 917**
Weighted average number of ordinary shares	**15**	**42 367 040**	**42 350 367**
Earnings per share (in PLN)	**15**	**7.49**	**2.15**
Weighted average number of ordinary shares for diluted earnings	**15**	**42 416 982**	**42 386 596**
Diluted earnings per share (in PLN)	**15**	**7.48**	**2.14**

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

Consolidated statement of comprehensive income

	1st Quarter (current year) period from 01.01.2021 to 31.03.2021	1st Quarter (previous year) period from 01.01.2020 to 31.03.2020
Net profit	**317 093**	**90 906**
Other comprehensive income net of tax, including:	**(244 827)**	**338 825**
Items that may be reclassified subsequently to the income statement		
Exchange differences on translation of foreign operations (net)	564	(461)
Cash flows hedges (net)	(159 931)	284 794
Debt instruments at fair value through other comprehensive income (net)	(85 460)	54 492
Items that will not be reclassified to the income statement		
Actuarial gains and losses relating to post-employment benefits (net)	-	-
Total comprehensive income (net)	**72 266**	**429 731**
Total comprehensive income (net), attributable to:		
- Owners of mBank S.A.	72 298	429 742
- Non-controlling interests	(32)	(11)

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

Consolidated statement of financial position

ASSETS	Note	31.03.2021	31.12.2020 - restated
Cash and balances with the Central Bank		16 355 429	3 968 691
Financial assets held for trading and hedging derivatives	16	3 569 268	2 586 721
Non-trading financial assets mandatorily at fair value through profit or loss, including:	17	1 702 530	1 784 691
Equity instruments	17	*200 496*	*202 304*
Debt securities	17	*77 732*	*76 068*
Loans and advances to customers	17	*1 424 302*	*1 506 319*
Financial assets at fair value through other comprehensive income	18	31 866 172	35 498 061
Financial assets at amortised cost, including:	19	135 432 739	130 179 902
Debt securities	19	*16 426 323*	*15 952 501*
Loans and advances to banks	19	*7 381 296*	*7 354 268*
Loans and advances to customers	19	*111 625 120*	*106 873 133*
Fair value changes of the hedged items in portfolio hedge of interest rate risk		103 965	-
Intangible assets	20	1 197 772	1 178 698
Tangible assets	21	1 696 128	1 514 577
Current income tax assets		31 829	23 957
Deferred income tax assets	25	945 383	853 880
Other assets		1 315 837	1 282 439
TOTAL ASSETS		**194 217 052**	**178 871 617**
LIABILITIES AND EQUITY			
LIABILITIES			
Financial liabilities held for trading and hedging derivatives	22	1 731 193	1 338 564
Financial liabilities measured at amortised cost, including:		171 268 174	156 673 052
Amounts due to banks	23	*2 954 112*	*2 399 740*
Amounts due to customers	23	*152 097 133*	*137 698 668*
Debt securities issued		*13 652 467*	*13 996 317*
Subordinated liabilities		*2 564 462*	*2 578 327*
Fair value changes of the hedged items in portfolio hedge of interest rate risk		22 783	59 624
Provisions	24	513 468	501 691
Current income tax liabilities		104 045	225 796
Deferred income tax liabilities	25	212	690
Other liabilities		3 828 249	3 397 133
TOTAL LIABILITIES		**177 468 124**	**162 196 550**
EQUITY			
Equity attributable to Owners of mBank S.A.		**16 747 030**	**16 673 133**
Share capital:		**3 587 035**	**3 587 035**
Registered share capital		169 468	169 468
Share premium		3 417 567	3 417 567
Retained earnings:		**12 820 321**	**12 501 597**
Profit from the previous years		12 503 196	12 397 766
Profit for the current year		317 125	103 831
Other components of equity		**339 674**	**584 501**
Non-controlling interests		**1 898**	**1 934**
TOTAL EQUITY		**16 748 928**	**16 675 067**
TOTAL LIABILITIES AND EQUITY		**194 217 052**	**178 871 617**

Total capital ratio (in %)		**19.19**	**19.86**
Common Equity Tier 1 capital ratio (in %)		**16.62**	**16.99**
Book value		**16 747 030**	**16 673 133**
Number of shares		**42 367 040**	**42 367 040**
Book value per share (in PLN)		**395.28**	**393.54**

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

Consolidated statement of changes in equity

Changes in equity from 1 January to 31 March 2021

	Share capital		Retained earnings					Other components of equity				Equity attributable to Owners of mBank S.A., total	Non-controlling interests	Total equity
	Registered share capital	Share premium	Other supplementary capital	Other reserve capital	General banking risk reserve	Profit from the previous years	Profit for the current year attributable to Owners of mBank S.A.	Exchange differences on translation of foreign operations	Valuation of financial assets at fair value through other comprehensive income	Cash flows hedges	Actuarial gains and losses relating to post-employment benefits			
Equity as at 1 January 2021	**169 468**	**3 417 567**	**9 911 964**	**101 325**	**1 153 753**	**1 334 555**	**-**	**(2 392)**	**185 333**	**419 130**	**(17 570)**	**16 673 133**	**1 934**	**16 675 067**
Total comprehensive income	**-**	**-**	**-**	**-**	**-**	**-**	**317 125**	**564**	**(85 460)**	**(159 931)**	**-**	**72 298**	**(32)**	**72 266**
Transfer to other supplementary capital	-	-	69	-	-	(69)	-	-	-	-	-	-	-	
Other increase or decrease in equity	-	-	-	-	-	-	-	-	-	-	-		(4)	(4)
Stock option program for employees	**-**	**-**	**-**	**1 599**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1 599**	**-**	**1 599**
- value of services provided by the employees	-	-	-	*1 599*	-	-	-	-	-	-	-	*1 599*	-	*1 599*
Equity as at 31 March 2021	**169 468**	**3 417 567**	**9 912 033**	**102 924**	**1 153 753**	**1 334 486**	**317 125**	**(1 828)**	**99 873**	**259 199**	**(17 570)**	**16 747 030**	**1 898**	**16 748 928**

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., total	Non-controlling interests	Total equity
	Registered share capital	Share premium	Other supplementary capital	Other reserve capital	General banking risk reserve	Profit from the previous years	Profit for the current year attributable to Owners of mBank S.A.	Exchange differences on translation of foreign operations	Valuation of financial assets at fair value through other comprehensive income	Cash flows hedges	Actuarial gains and losses relating to post-employment benefits			
Equity as at 1 January 2020	**169 401**	**3 410 417**	**9 826 282**	**98 316**	**1 153 753**	**1 316 424**	**-**	**(5 435)**	**74 321**	**119 142**	**(11 318)**	**16 151 303**	**2 002**	**16 153 305**
Total comprehensive income	**-**	**-**	**-**	**-**	**-**	**-**	**103 831**	**3 043**	**111 012**	**299 988**	**(6 252)**	**511 622**	**(74)**	**511 548**
Issuance of ordinary shares	67	-	-	-	-	-	-	-	-	-	-	67	-	67
Transfer to other supplementary capital	-	-	85 682	-	-	(85 682)	-	-	-	-	-	-	-	-
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**	**9 911 964**	**101 325**	**1 153 753**	**1 230 724**	**103 831**	**(2 392)**	**185 333**	**419 130**	**(17 570)**	**16 673 133**	**1 934**	**16 675 067**

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

Changes in equity from 1 January to 31 March 2020

	Share capital		Retained earnings					Other components of equity						
	Registered share capital	Share premium	Other supplementary capital	Other reserve capital	General banking risk reserve	Profit from the previous years	Profit for the current year attributable to Owners of mBank S.A.	Exchange differences on translation of foreign operations	Valuation of financial assets at fair value through other comprehensive income	Cash flows hedges	Actuarial gains and losses relating to post-employment benefits	Equity attributable to Owners of mBank S.A., total	Non-controlling interests	Total equity
Equity as at 1 January 2020	**169 401**	**3 410 417**	**9 826 282**	**98 316**	**1 153 753**	**1 316 424**	**-**	**(5 435)**	**74 321**	**119 142**	**(11 318)**	**16 151 303**	**2 002**	**16 153 305**
Total comprehensive income	**-**	**-**	**-**	**-**	**-**	**-**	**90 917**	**(461)**	**54 492**	**284 794**	**-**	**429 742**	**(11)**	**429 731**
Other increase or decrease in equity	-	-	-	-	-	19	-	-	-	-	-	19	-	19
Stock option program for employees	**-**	**-**	**-**	**2 239**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**2 239**	**-**	**2 239**
- value of services provided by the employees	-	-	-	*2 239*	-	-	-	-	-	-	-	*2 239*	-	*2 239*
Equity as at 31 March 2020	**169 401**	**3 410 417**	**9 826 282**	**100 555**	**1 153 753**	**1 316 443**	**90 917**	**(5 896)**	**128 813**	**403 936**	**(11 318)**	**16 583 303**	**1 991**	**16 585 294**

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

Consolidated statement of cash flows

	Period from 01.01.2021 to 31.03.2021	Period from 01.01.2020 to 31.03.2020 - restated
Profit before income tax	**504 322**	**143 940**
Adjustments:	***15 518 273***	***2 718 964***
Income taxes paid	(318 251)	(119 228)
Depreciation, including depreciation of fixed assets provided under operating lease	120 529	108 121
Foreign exchange (gains) losses related to financing activities	(52 180)	718 878
(Gains) losses on investing activities	(130)	(251)
Dividends received	(440)	(300)
Interest income (income statement)	(1 019 381)	(1 334 977)
Interest expense (income statement)	72 486	269 513
Interest received	966 364	1 342 807
Interest paid	(48 294)	(317 858)
Changes in loans and advances to banks	1 745 586	(5 284 764)
Changes in financial assets and liabilities held for trading and hedging derivatives	(927 720)	257 809
Changes in loans and advances to customers	(4 651 310)	(5 533 145)
Changes in financial assets at fair value through other comprehensive income	3 495 898	(1 391 199)
Changes in securities at amortised cost	(426 493)	1 019 377
Changes of non-trading securities mandatorily at fair value through profit or loss	144	8 035
Changes in other assets	(9 888)	(254 790)
Changes in amounts due to banks	555 455	527 729
Changes in amounts due to customers	15 576 944	12 177 446
Changes in issued debt securities	(117 585)	33 176
Changes in provisions	11 777	45 944
Changes in other liabilities	544 762	446 641
A. Cash flows from operating activities	**16 022 595**	**2 862 904**
Disposal of intangible assets and tangible fixed assets	18 503	19 538
Dividends received	440	300
Purchase of intangible assets and tangible fixed assets	(201 907)	(114 052)
B. Cash flows from investing activities	**(182 964)**	**(94 214)**
Issue of debt securities	300 000	95 000
Repayments of other loans and advances	(1 358 250)	-
Redemption of debt securities	(599 993)	(150 000)
Payments of lease liabilities	(24 158)	(28 503)
Interest paid from loans and advances received from banks and from subordinated liabilities	(30 424)	(21 695)
C. Cash flows from financing activities	**(1 712 825)**	**(105 198)**
Net increase / decrease in cash and cash equivalents (A+B+C)	**14 126 806**	**2 663 492**
Effects of exchange rate changes on cash and cash equivalents	45 760	191 536
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	**18 421 612**	**11 134 416**

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

mBank S.A. stand-alone financial information

Income statement

	Note	1st Quarter (current year) period from 01.01.2021 to 31.03.2021	1st Quarter (previous year) period from 01.01.2020 to 31.03.2020
Interest income, including:		889 799	1 184 805
Interest income accounted for using the effective interest method		*772 465*	*1 082 320*
Income similar to interest on financial assets at fair value through profit or loss		*117 334*	*102 485*
Interest expenses		(55 369)	(227 649)
Net interest income		**834 430**	**957 156**
Fee and commission income		605 434	502 308
Fee and commission expenses		(153 359)	(155 221)
Net fee and commission income		**452 075**	**347 087**
Dividend income		440	26 645
Net trading income		58 590	45 110
Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss		(11 828)	(58 954)
Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss		88 923	(2 704)
Other operating income		19 654	6 102
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss		(161 656)	(329 884)
Result on provisions for legal risk related to foreign currency loans		(66 268)	(12 911)
Overhead costs		(497 902)	(576 353)
Depreciation		(96 891)	(85 123)
Other operating expenses		(61 360)	(35 259)
Operating profit		**558 207**	**280 912**
Taxes on the Bank balance sheet items		(131 269)	(124 115)
Share in profits (losses) of entities under the equity method		57 337	(18 088)
Profit before income tax		**484 275**	**138 709**
Income tax expense		(169 190)	(47 125)
Net profit		**315 085**	**91 584**

Net profit		**315 085**	**91 584**
Weighted average number of ordinary shares	**15**	**42 367 040**	**42 350 367**
Earnings per share (in PLN)	**15**	**7.44**	**2.16**
Weighted average number of ordinary shares for diluted earnings	**15**	**42 416 982**	**42 386 596**
Diluted earnings per share (in PLN)	**15**	**7.43**	**2.16**

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

mBank S.A. stand-alone financial information

Statement of comprehensive income

	1st Quarter (current year) period from 01.01.2021 to 31.03.2021	1st Quarter (previous year) period from 01.01.2020 to 31.03.2020
Net profit	**315 085**	**91 584**
Other comprehensive income net of tax, including:	**(320 218)**	**310 030**
Items that may be reclassified subsequently to the income statement		
Exchange differences on translation of foreign operations (net)	567	(588)
Cash flows hedges (net)	(150 230)	290 407
Share of other comprehensive income of entities under the equity method	(13 603)	(14 541)
Debt instruments at fair value through other comprehensive income (net)	(156 952)	34 752
Items that will not be reclassified to the income statement		
Actuarial gains and losses relating to post-employment benefits (net)	-	-
Total comprehensive income (net)	**(5 133)**	**401 614**

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

mBank S.A. stand-alone financial information

Statement of financial position

ASSETS	31.03.2021	31.12.2020 - restated
Cash and balances with the Central Bank	16 317 927	3 939 298
Financial assets held for trading and hedging derivatives	3 524 623	2 493 535
Non-trading financial assets mandatorily at fair value through profit or loss, including:	1 506 340	1 585 029
Equity instruments	*136 494*	*136 480*
Debt securities	*77 732*	*76 068*
Loans and advances to customers	*1 292 114*	*1 372 481*
Financial assets at fair value through other comprehensive income	45 024 809	47 731 612
Financial assets at amortised cost, including:	113 854 408	109 527 366
Debt securities	*16 376 352*	*15 952 501*
Loans and advances to banks	*11 213 875*	*10 845 844*
Loans and advances to customers	*86 264 181*	*82 729 021*
Fair value changes of the hedged items in portfolio hedge of interest rate risk	103 965	-
Investments in subsidiaries	2 247 899	2 204 922
Intangible assets	1 030 493	1 013 746
Tangible assets	1 435 595	1 246 496
Current income tax assets	30 557	22 826
Deferred income tax assets	282 228	206 924
Other assets	700 981	773 253
TOTAL ASSETS	**186 059 825**	**170 745 007**
LIABILITIES AND EQUITY		
LIABILITIES		
Financial liabilities held for trading and hedging derivatives	1 799 168	1 414 374
Financial liabilities measured at amortised cost, including:	163 977 698	149 315 812
Amounts due to banks	*2 969 268*	*2 624 286*
Amounts due to customers	*152 090 771*	*137 778 034*
Debt securities issued	*6 353 197*	*6 335 165*
Subordinated liabilities	*2 564 462*	*2 578 327*
Fair value changes of the hedged items in portfolio hedge of interest rate risk	22 783	59 624
Provisions	526 456	515 211
Current income tax liabilities	102 867	225 029
Deferred income tax liabilities	90	89
Other liabilities	3 166 605	2 747 176
TOTAL LIABILITIES	**169 595 667**	**154 277 315**
EQUITY		
Share capital	**3 587 035**	**3 587 035**
Registered share capital	169 468	169 468
Share premium	3 417 567	3 417 567
Retained earnings:	**12 777 290**	**12 460 606**
Profit from the previous years	12 462 205	12 367 559
Profit for the current year	315 085	93 047
Other components of equity	**99 833**	**420 051**
TOTAL EQUITY	**16 464 158**	**16 467 692**
TOTAL LIABILITIES AND EQUITY	**186 059 825**	**170 745 007**

Total capital ratio (in %)	**21.99**	**22.95**
Common Equity Tier 1 capital ratio (in %)	**18.95**	**19.59**
Book value	**16 464 158**	**16 467 692**
Number of shares	**42 367 040**	**42 367 040**
Book value per share (in PLN)	**388.61**	**388.69**

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

mBank S.A. stand-alone financial information

Statement of changes in equity

Changes from 1 January to 31 March 2021

	Share capital		Retained earnings					Other components of equity					Total
	Registered share capital	Share premium	Other supplementary capital	Other reserve capital	General banking risk reserve	Profit from the previous years	Profit for the current year	Exchange differences on translation of foreign operation	Valuation of financial assets at fair value through other comprehensive income	Cash flow hedges	Share in other comprehensive income of entities under the equity method	Actuarial gains and losses relating to post-employment benefits	
Equity as at 1 January 2021	**169 468**	**3 417 567**	**9 216 652**	**30 329**	**1 115 143**	**2 098 482**	**-**	**(2 297)**	**17 728**	**405 680**	**16 268**	**(17 328)**	**16 467 692**
Total comprehensive income	**-**	**-**	**-**	**-**	**-**	**-**	**315 085**	**567**	**(156 952)**	**(150 230)**	**(13 603)**	**-**	**(5 133)**
Stock option program for employees	**-**	**-**	**-**	**1 599**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1 599**
- value of services provided by the employees	-	-	-	*1 599*	-	-	-	-	-	-	-	-	*1 599*
Equity as at 31 March 2021	**169 468**	**3 417 567**	**9 216 652**	**31 928**	**1 115 143**	**2 098 482**	**315 085**	**(1 730)**	**(139 224)**	**255 450**	**2 665**	**(17 328)**	**16 464 158**

Changes from 1 January to 31 December 2020

	Share capital		Retained earnings					Other components of equity					Total
	Registered share capital	Share premium	Other supplementary capital	Other reserve capital	General banking risk reserve	Profit from the previous years	Profit for the current year	Exchange differences on translation of foreign operation	Valuation of financial assets at fair value through other comprehensive income	Cash flow hedges	Share in other comprehensive income of entities under the equity method	Actuarial gains and losses relating to post-employment benefits	
Equity as at 1 January 2020	**169 401**	**3 410 417**	**9 216 652**	**27 320**	**1 115 143**	**2 005 435**	**-**	**(5 151)**	**58 363**	**122 150**	**6 370**	**(11 093)**	**16 115 007**
Total comprehensive income	**-**	**-**	**-**	**-**	**-**	**-**	**93 047**	**2 854**	**(40 635)**	**283 530**	**9 898**	**(6 235)**	**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**	**9 216 652**	**30 329**	**1 115 143**	**2 005 435**	**93 047**	**(2 297)**	**17 728**	**405 680**	**16 268**	**(17 328)**	**16 467 692**

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

Changes from 1 January to 31 March 2020

	Share capital		Retained earnings					Other components of equity					Total
	Registered share capital	Share premium	Other supplementary capital	Other reserve capital	General banking risk reserve	Profit from the previous years	Profit for the current year	Exchange differences on translation of foreign operation	Valuation of financial assets at fair value through other comprehensive income	Cash flow hedges	Share in other comprehensive income of entities under the equity method	Actuarial gains and losses relating to post-employment benefits	
Equity as at 1 January 2020	**169 401**	**3 410 417**	**9 216 652**	**27 320**	**1 115 143**	**2 005 435**	**-**	**(5 151)**	**58 363**	**122 150**	**6 370**	**(11 093)**	**16 115 007**
Total comprehensive income	**-**	**-**	**-**	**-**	**-**	**-**	**91 584**	**(588)**	**34 752**	**290 407**	**(14 541)**	**-**	**401 614**
Stock option program for employees	**-**	**-**	**-**	**2 239**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**2 239**
- value of services provided by the employees	-	-	-	*2 239*	-	-	-	-	-	-	-	-	*2 239*
Equity as at 31 March 2020	**169 401**	**3 410 417**	**9 216 652**	**29 559**	**1 115 143**	**2 005 435**	**91 584**	**(5 739)**	**93 115**	**412 557**	**(8 171)**	**(11 093)**	**16 518 860**

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

mBank S.A. stand-alone financial information

Statement of cash flows

	Period from 01.01.2021 to 31.03.2021	Period from 01.01.2020 to 31.03.2020 - restated
Profit before income tax	**484 275**	**138 709**
Adjustments:	***15 195 534***	***2 598 341***
Income taxes paid	(313 438)	(108 101)
Depreciation	98 685	86 358
Foreign exchange (gains) losses related to financing activities	(93 267)	432 953
(Gains) losses on investing activities	(57 460)	17 988
Dividends received	(440)	(26 645)
Interest income (income statement)	(889 799)	(1 184 805)
Interest expense (income statement)	55 369	227 649
Interest received	834 853	1 122 299
Interest paid	(38 390)	(276 144)
Changes in loans and advances to banks	1 416 340	(5 055 356)
Changes in financial assets and liabilities held for trading and hedging derivatives	(972 568)	251 306
Changes in loans and advances to customers	(4 314 411)	(5 590 030)
Changes in financial assets at fair value through other comprehensive income	3 404 581	(1 778 856)
Changes in securities at amortised cost	(376 741)	1 019 377
Changes of non-trading securities mandatorily at fair value through profit or loss	(1 678)	8 552
Changes in other assets	72 355	(226 447)
Changes in amounts due to banks	346 065	608 942
Changes in amounts due to customers	15 467 769	12 584 371
Changes in issued debt securities	(8 212)	6 362
Changes in provisions	11 245	46 506
Changes in other liabilities	554 676	432 062
A. Cash flows from operating activities	**15 679 809**	**2 737 050**
Disposal of shares in subsidiaries, net of cash disposed	-	650
Disposal of intangible assets and tangible fixed assets	138	101
Dividends received	440	26 645
Purchase of intangible assets and tangible fixed assets	(154 712)	(80 584)
B. Cash flows from investing activities	**(154 134)**	**(53 188)**
Repayments of other loans and advances	(1 358 250)	-
Payments of lease liabilities	(21 598)	(27 344)
Interest paid from loans and advances received from banks and from subordinated liabilities	(15 212)	(21 695)
C. Cash flows from financing activities	**(1 395 060)**	**(49 039)**
Net increase / decrease in cash and cash equivalents (A+B+C)	**14 130 615**	**2 634 823**
Effects of exchange rate changes on cash and cash equivalents	45 760	191 536
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	**18 381 507**	**11 030 589**

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, 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. Before 19 November 2020, the head office of Bank was located at 18 Senatorska St., Warsaw.

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

As at 31 March 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 N°26 and Resolutions N°27 of the 26th Annual General Meeting of mBank S.A., which was held on 11 April 2013. With the registration of changes in company by-laws, the name of the Bank has changed from BRE Bank Spółka Akcyjna on mBank Spółka Akcyjna (abbreviated mBank S.A.).

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

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

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

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

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

As at 31 March 2021 the headcount of mBank S.A. amounted to 5 989 FTEs (Full Time Equivalents) and of the Group to 6 643 FTEs (31 March 2020: Bank 6 095 FTEs, Group 6 820 FTEs).

As at 31 March 2021 the employment in mBank S.A. was 7 006 persons and in the Group 9 308 persons (31 March 2020: Bank 7 165 persons, Group 9 522 persons).

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

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

Retail Banking

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

Corporate and Investment Banking

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

Treasury and Other

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

Other information concerning companies of the Group

As of December 2020, the consolidation of mFinance France S.A. was discontinued. The business activities of the company was conducted in the bussines segment "Treasury and Other". Discontinuation of consolidation resulted from the substitution described in detail in Note 28 of Consolidated financial statement of mBank Group S.A., published on 25 February 2021. In November 2020, the liquidation of the company began.

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

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

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

Company	31.03.2021		31.12.2020		31.03.2020	
	Share in voting rights (directly and indirectly)	Consolidation method	Share in voting rights (directly and indirectly)	Consolidation method	Share in voting rights (directly and indirectly)	Consolidation method
mBank Hipoteczny S.A.	100%	full	100%	full	100%	full
mLeasing Sp. z o.o.	100%	full	100%	full	100%	full
mFinanse S.A.	100%	full	100%	full	100%	full
mFaktoring S.A.	100%	full	100%	full	100%	full
Future Tech Fundusz Inwestycyjny Zamknięty	98.04%	full	98.04%	full	98.04%	full
Tele-Tech Investment Sp. z o.o.	100%	full	100%	full	100%	full
G-Invest Sp. z o.o. (previously Garbary Sp. z o.o.)	100%	full	100%	full	100%	full
Asekum Sp. z o.o.	100%	full	100%	full	100%	full
LeaseLink Sp. z o.o.	100%	full	100%	full	100%	full
mElements S.A.	100%	full	100%	full	100%	full
mFinance France S.A.*	99.998%	-	99.998%	-	99.998%	full
BDH Development Sp. z o.o.	-		-	-	100%	full

* The subsidiary under liquidation process since November 2020.

The Management Board of mBank S.A. approved these condensed consolidated financial statements for issue on 28 April 2021.

2. Description of relevant accounting policies

Accounting basis

The Condensed Consolidated Financial Statements of mBank S.A. Group have been prepared for the 3-month period ended 31 March 2021. Comparative data include the period from 1 January 2020 to 31 March 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 (FVTPL), debt and equity instruments at fair value through other comprehensive income (FVOCI) and liabilities related to cash-settled share-based payment transactions, all of which have been measured at fair value. Non-current assets held for sale or group of these assets classified as held for sale are stated at the lower of the carrying value and fair value less costs to sell.

The data for the year 2020 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 change in accounting policies described below.

Starting from 2021, the Group changed the accounting policy for recognizing provisions for individual court cases concerning indexation clauses in mortgage and housing loans in CHF. Previously, these provisions were recognized in accordance with IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" as provisions for legal proceedings. As part of these provisions relates to a new estimate of cash flows from the portfolio of existing mortgage and housing loans, the Group has allocated part of the provisions to loan exposures and recognized them in these financial statements as a deduction from the gross carrying amount of mortgage and housing loans for which the Group expects the cash flows to decrease in accordance with IFRS 9 "Financial Instruments" paragraph B5.4.6. The recognition of a portion of the provisions for the repaid loan portfolio and legal costs remained unchanged.

The Group changed its accounting policies 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 provisions on the financial position, financial performance and cash flows of the Group. The amendment also made it possible to adjust the recognition of provisions for legal risk related to mortgage and housing loans in CHF in the Group's financial statements to 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 but are not yet binding or have not been adopted early

- 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, binding for annuals periods starting on or after 1 June 2023.

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

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

Standards and interpretations not yet endorsed by the European Union

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

- Amendments to IFRS 16, Covid-19-Related Rent Concessions beyond 30 June 2021, published by International Accounting Standards Board on 31 March 2021, binding for annuals periods starting on or after 1 April 2021.

  In amendment to IFRS 16 Covid-19-Related Rent Concessions beyond 30 June 2021 (the 2021 amendment) the Board extended the availability of the practical expedient that permits lessees not to assess whether rent concessions that occur as a direct consequence of the COVID-19 pandemic and meet specified conditions are lease modifications by one year. The 2021 amendment resulted in the practical expedient applying to rent concessions for which any reduction in lease payments affects only payments originally due on or before 30 June 2022, provided the other conditions for applying the practical expedient are met.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- Amendment to IAS 8, Definition of Accounting Estimates, published by International Accounting Standards Board on 12 February 2021, binding for annuals 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 annuals 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.

Comparative data

- Provisions for individual court cases concerning indexation clauses in mortgage and housing loans in CHF

Starting from 2021, the Group changed the accounting policy for recognizing provisions for individual court cases concerning indexation clauses in mortgage and housing loans in CHF. Previously, these provisions were recognized in accordance with IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" as provisions for legal proceedings. As part of these provisions relates to a new estimate of cash flows from the portfolio of existing mortgage and housing loans, the Group has allocated part of the provisions to loan exposures and recognized them in these financial statements as a deduction from the gross carrying amount of mortgage and housing loans for which the Group expects the cash flows to decrease in accordance with IFRS 9 "Financial Instruments" paragraph B5.4.6. The comparative data as at 1 January 2020, 31 March 2020 and 31 December 2020 and for the period from 1 January to 31 March 2020 have been restated accordingly. The recognition of a portion of the provisions for the repaid loan portfolio and legal costs 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 Group did not divide the adjustment into the part resulting from the incorrect presentation of securities and the part resulting from the change in accounting principles due to the excessive workload in relation to the information value of such division. The comparative data for the period from 1 January to 31 December 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.

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

The impact of the introduced adjustments on the comparative data is presented in the following tables.

Restatements in consolidated statement of financial position at 1 January 2020

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

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

Restatements in consolidated statement of financial position at 31 March 2020

ASSETS	31.03.2020 before restatement	restatement	31.03.2020 after restatement
Financial assets at amortised cost, including:	128 646 199	(377 848)	128 268 351
Debt securities	*10 277 145*	-	*10 277 145*
Loans and advances to banks	*9 513 378*	-	*9 513 378*
Loans and advances to customers	*108 855 676*	*(377 848)*	*108 477 828*
Other assets	45 177 062	-	45 177 062
TOTAL ASSETS	**173 823 261**	**(377 848)**	**173 445 413**

LIABILITIES AND EQUITY	31.03.2020 before restatement	restatement	31.03.2020 after restatement
Provisions	795 533	(377 848)	417 685
Other liabilities	156 442 434	-	156 442 434
TOTAL LIABILITIES	**157 237 967**	**(377 848)**	**156 860 119**
TOTAL EQUITY	**16 585 294**	**-**	**16 585 294**
TOTAL LIABILITIES AND EQUITY	**173 823 261**	**(377 848)**	**173 445 413**

Restatements in consolidated statement of financial position at 31 December 2020

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

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

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

Restatements in consolidated statement of cash flows for the period from 1 January to 31 March 2020

	period from 01.01.2020 to 31.03.2020 before restatement	restatement	period from 01.01.2020 to 31.03.2020 after restatement
Profit before income tax	**143 940**	**-**	**143 940**
Adjustments, including:	***2 566 638***	***152 326***	***2 718 964***
Changes in financial assets and liabilities held for trading and hedging derivatives	105 483	152 326	257 809
Changes in loans and advances to customers	(5 543 438)	10 293	(5 533 145)
Changes in provisions	56 237	(10 293)	45 944
Other adjustments	7 948 356	-	7 948 356
A. Cash flows from operating activities	**2 710 578**	**152 326**	**2 862 904**
B. Cash flows from investing activities	**(94 214)**	**-**	**(94 214)**
C. Cash flows from financing activities	**(105 198)**	**-**	**(105 198)**
Net increase / decrease in cash and cash equivalents (A+B+C)	**2 511 166**	**152 326**	**2 663 492**
Effects of exchange rate changes on cash and cash equivalents	191 536	-	191 536
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	**12 312 631**	**(1 178 215)**	**11 134 416**

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

Stand-alone data of the Bank

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
Debt securities	*11 234 873*	-	*11 234 873*
Loans and advances to banks	*7 337 703*	-	*7 337 703*
Loans and advances to customers	*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 31 March 2020

ASSETS	31.03.2020 before restatement	restatement	31.03.2020 after restatement
Financial assets at amortised cost, including:	109 611 446	(377 848)	109 233 598
Debt securities	*10 277 145*	-	*10 277 145*
Loans and advances to banks	*12 303 594*	-	*12 303 594*
Loans and advances to customers	*87 030 707*	*(377 848)*	*86 652 859*
Other assets	54 888 255	-	54 888 255
TOTAL ASSETS	**164 499 701**	**(377 848)**	**164 121 853**

LIABILITIES AND EQUITY	31.03.2020 before restatement	restatement	31.03.2020 after restatement
Provisions	793 966	(377 848)	416 118
Other liabilities	147 186 875	-	147 186 875
TOTAL LIABILITIES	**147 980 841**	**(377 848)**	**147 602 993**
TOTAL EQUITY	**16 518 860**	**-**	**16 518 860**
TOTAL LIABILITIES AND EQUITY	**164 499 701**	**(377 848)**	**164 121 853**

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
Debt securities	*15 952 501*	-	*15 952 501*
Loans and advances to banks	*10 845 844*	-	*10 845 844*
Loans and advances to customers	*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**

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

Restatements in statement of cash flows for the period from 1 January to 31 March 2020

	period from 01.01.2020 to 31.03.2020 before restatement	restatement	period from 01.01.2020 to 31.03.2020 after restatement
Profit before income tax	**138 709**	**-**	**138 709**
Adjustments, including:	***2 446 015***	***152 326***	***2 598 341***
Changes in financial assets and liabilities held for trading and hedging derivatives	98 980	152 326	251 306
Changes in loans and advances to customers	(5 600 323)	10 293	(5 590 030)
Changes in provisions	56 799	(10 293)	46 506
Other adjustments	7 890 559	-	7 890 559
A. Cash flows from operating activities	**2 584 724**	**152 326**	**2 737 050**
B. Cash flows from investing activities	**(53 188)**		**(53 188)**
C. Cash flows from financing activities	**(49 039)**		**(49 039)**
Net increase / decrease in cash and cash equivalents (A+B+C)	**2 482 497**	**152 326**	**2 634 823**
Effects of exchange rate changes on cash and cash equivalents	191 536		191 536
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	**12 208 804**	**(1 178 215)**	**11 030 589**

The changes in the comparative data, as described above, has been included in these financial statements in all the notes to which these change referred.

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

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

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

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 52.0 million or increase by PLN 63.4 million as at 31 March 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.

COVID-19 pandemic impact on the mBank Group activities

<u>Support measures implemented in the Group as a result of the COVID-19 pandemic</u>

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 December 2020 and in Slovakia from 1 April 2020 to 31 March 2021.

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

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

The Group in Poland also offers to retail clients support under so-called Crisis Shield 4.0, effective from 23 June 2020. The customers who lost their job or another major source of income after

13 March 2020, have the right to suspend the loan repayment for up to 3 months without charging interest during the period of suspension of the agreement. This assistance tool is considered as a legislative moratorium within the meaning of the EBA guidelines. The scale of applications submitted for this form of assistance is still not significant.

The moratorium offered by the Group in Corporate Banking in 2020 enabled changes in the schedule of payments by suspending the payments of principal amounts for the limited period up to 6 months. In addition, small and medium-sized enterprises who are the Group's clients, had the possibility to suspend the repayment of full instalments for up to 3 months.

The Group made available for the Corporate Banking clients also new financing aimed at stabilizing their liquidity situation, according to which collateral in the form of BGK (Bank Gospodarstwa Krajowego) guarantees is used. These guarantees do not constitute a government subsidies as defined in IAS 20. A transaction secured with a BGK guarantee must meet the conditions defined in a specific portfolio guarantee line agreement signed between the Group and BGK. The BGK guarantee secures up to 80% of the exposure, but not more than the specified maximum level defined in the agreement. The Group may use the BGK guarantee in the first place in case of non-payment of a borrower. If the Group have used BGK guarantee, potential recoveries from the borrower are shared between mBank Group and BGK on a pari passu basis.

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

On 2 December 2020, the EBA decided to reactivate guidelines on legislative and non-legislative moratoria on loan repayments applied in the light of the COVID-19 due to another wave of pandemics. On this basis, the Polish Bank Association (ZBP) decided to resume the non-legislative moratorium and offer supporting instruments from 18 January to 31 March 2021. The renewed moratorium was notified by the EBA through UKNF (the Polish Financial Supervision Authority), but it's scale is significantly reduced than that of the first moratorium.

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

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

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

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

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

Number of obligors subject to assistance tools in Poland, as of 31.03.2021	31.03.2021	
	Number of obligors	of which: granted
Moratoria	64 494	64 320
Government guarantees (BGK)	72	72

Total assistance tools in Poland at 31.03.2021, granted since 13.03.2020	31.03.2021				
	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	**14 329 260**	**13 105 668**	**1 223 592**	**(74 989)**	**1 148 603**
- Individual customers	6 344 284	6 318 865	25 419	(1 890)	23 529
- Corporate customers	7 984 976	6 786 803	1 198 173	(73 099)	1 125 074
Government guarantees (BGK)	**643 611**	**-**	**643 611**	**(6 180)**	**637 431**
- Individual customers	-	-	-	-	-
- Corporate customers	643 611	-	643 611	(6 180)	637 431

The tables below present information on total assistance tools in Poland broken down into active help and expired help at the date of 31 March 2021.

a) active assistance tools as of 31 March 2021

Active assistance tools in Poland as of 31.03.2021, granted in the period 13.03.2020-31.03.2021	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	**878 695**	**12 127**	**41 121**	**517 326**	**(38 911)**
- Individual customers	19 647	76	16 565	5 466	(418)
- Corporate customers	859 048	12 051	24 556	511 860	(38 493)
Government guarantees (BGK)	**643 611**	**4 907**	**-**	**269 548**	**(6 180)**
- Individual customers	-	-	-	-	-
- Corporate customers	643 611	4 907	-	269 548	(6 180)

Active assistance tools in Poland as of 31.03.2021, granted in the period 13.03.2020-31.03.2021	Non-performing				Gross carrying amount – Inflows to non-performing exposures
	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	
Moratoria	**344 897**	**523**	**-**	**(36 078)**	**6 104**
- Individual customers	5 772	325	-	(1 472)	5 766
- Corporate customers	339 125	198	-	(34 606)	338
Government guarantees (BGK)	**-**	**-**	**-**	**-**	**-**
- Individual customers	-	-	-	-	-
- Corporate customers	-	-	-	-	-

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

b) expired assistance tools as of 31 March 2021

Expired assistance tools in Poland as of 31.03.2021, granted in the period 13.03.2020-31.03.2021	Performing				
	Gross carrying amount	Of which: exposures with forbearance measures	Of which: instruments with significant increase in credit risk since initial recognition but not credit-impaired (Stage 2)	Accumulated impairment	Of which: instruments with significant increase in credit risk since initial recognition but not credit-impaired (Stage 2)
Moratoria	**12 799 440**	**120 095**	**1 982 375**	**(103 606)**	**(67 865)**
- Individual customers	6 210 423	47 126	464 948	(45 468)	(29 257)
- Corporate customers	6 589 017	72 969	1 517 427	(58 138)	(38 608)
Government guarantees (BGK)	**-**	**-**	**-**	**-**	**-**
- Individual customers	-	-	-	-	-
- Corporate customers	-	-	-	-	-

Expired assistance tools in Poland as of 31.03.2021, granted in the period 13.03.2020-31.03.2021	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	**306 228**	**59 568**	**57 309**	**(81 610)**	**73 155**
- Individual customers	108 442	4 651	4 685	(47 436)	61 880
- Corporate customers	197 786	54 917	52 624	(34 174)	11 275
Government guarantees (BGK)	**-**	**-**	**-**	**-**	**-**
- Individual customers	-	-	-	-	-
- Corporate customers	-	-	-	-	-

The tables below present information on total assistance tools, in Czech Republic and Slovakia, broken down into active help and expired help at the date of 31 March 2021.

Number of obligors subject to assistance tools in Czech Republic and Slovakia, granted in the period of 01.04.2020-31.03.2021	31.03.2021	
	Number of obligors	of which: granted
Moratoria	7 241	7 184

Total assistance tools in Czech Republic and Slovakia at 31.03.2021, granted in the period of 01.04.2020-31.03.2021	31.03.2021				
	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	**517 063**	**491 557**	**25 506**	**(184)**	**25 322**
- Individual customers	517 063	491 557	25 506	(184)	25 322
- Corporate customers	-	-	-	-	-

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

a) active assistance tools as of 31 March 2021

Active assistance tools in Czech Republic and Slovakia as of 31.03.2021, granted in the period of 01.04.2020-31.03.2021	**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	**25 506**	**-**	**25 506**	**2 242**	**(184)**
- Individual customers	25 506	-	25 506	2 242	(184)
- Corporate customers	-	-	-	-	-

All loans subject to active COVID-19 assistance tools, in Czech Republic and Slovakia, were classified to the category of 'performing loans' as of 31 March 2021.

b) expired assistance tools as of 31 March 2021

Expired assistance tools in Czech Republic and Slovakia as of 31.03.2021, granted in the period of 01.04.2020-31.03.2021	**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	**486 106**	**31 129**	**29 732**	**(3 099)**	**(2 018)**
- Individual customers	486 106	31 129	29 732	(3 099)	(2 018)
- Corporate customers	-	-	-	-	-

Expired assistance tools in Czech Republic and Slovakia as of 31.03.2021, granted in the period of 01.04.2020-31.03.2021	**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	**5 451**	**363**	**1 091**	**(2 735)**	**-**
- Individual customers	5 451	363	1 091	(2 735)	-
- Corporate customers	-	-	-	-	-

In Poland, in the Czech Republic and in Slovakia, vast majority of loans subject to COVID-19 repayment moratoria, benefited only from the suspension of the principal repayments (it accounted for about 92% of the total exposure covered by the moratoria, value recorded on 31 March 2021). Consequently the customers are still obligated to make repayments but in a lower amount. The delay in the interest payments is subject to the standard days-past-due calculation. Overdue interest payment exceeding 30 days results in the reclassification of exposure to stage 2, and exceeding 90 days - to stage 3.

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

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

The process of client and transaction risk monitoring takes into account the impact of the COVID-19 pandemic on the client's situation and the strength of the impact (i.e. temporary turbulence, long-term problem for the business model, etc.) as well as the plan to mitigate this impact implemented by the client. The Group conducts sector analysis of clients that have applied for moratorium and are still covered by the supporting aid. Among those clients, the largest exposure as of 31 March 2021 is held by clients operating in the following sectors: accommodation and food service activities (35%), real estate activities (35%), transport and storage (19%).

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

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

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

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

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

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

Additional cost of risk due to COVID-19 pandemic:

- actions taken in 2020 and in first quarter 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.

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

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

In the first quarter of 2021, Group withdrew gradually from using additional premises for maintaining loans subject to the moratoria in stage 2. In the following months of first quarter 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 31 March 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.

- actions taken in 2020 and in first quarter 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 2.0 million in the first quarter of 2021. The total gross carrying amount of the temporarily reclassified portfolio as at 31 March 2021 was PLN 14.1 million.

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 quarter of 2021 a total of PLN 37.2 million of additional cost of expected credit losses was released.

Due to the fact that changes in risk parameters following the outbreak of the COVID-19 pandemic were implemented over a period of several months in a very dynamically changing macroeconomic environment, the Group decided to present the total value of their impact on 31 December 2020, and separately the impact in first quarter of 2021, as presented in the tables below:

Net impairment losses and fair value change on loans and advances	2020		
	Individual customers	Corporate customers	Total
Financial asset measured at amortized 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)**

The most important write-offs in stage 3 were concerned in corporate clients from the following sectors: retail and wholesale trade, scientific and technical activities and transport and storage.

Net impairment losses and fair value change on loans and advances	Period from 01.01.2021 to 31.03.2021		
	Individual customers	Corporate customers	Total
Financial asset measured at amortized cost	**41 832**	**(4 715)**	**37 117**
Stage 1	-	(54)	**(54)**
Stage 2	43 790	92	**43 882**
Stage 3	(1 958)	(4 753)	**(6 711)**
Financial assets measured at fair value through profit or loss	**-**	**44**	**44**

As of 31 March 2021, the Group did not applied management corrections (overlays).

Since the last financial statement publication, i.e. from 31 December 2020, the Group has not modified the forecasts of future macroeconomic conditions, thus the Group does not identify any significant changes in the expectations of the future economic conditions that could significantly affect the estimates of expected credit losses.

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

The reason for changes in the key values in the Group's risk models were changes in macroeconomic indicators following the outbreak of the COVID-19 pandemic.

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

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

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

- cyclical recalibration of the 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,
- recalibration of the long-term LGD model for corporates adjusting the estimated level of losses to the observed in recent years,
- adjustment of the LLP models to the EBA new definition of default,
- improvement of the sensitivity of the quantitative staging model,
- redevelopment of Limit Utilization and Prepayment Ratio components within EAD model.

Provisions for legal risks relating to indexation clauses in mortgage and housing loans in CHF

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

The Group closely observes the developments in courts verdicts in legal proceedings regarding mortgage and housing loans in CHF, including impact of the Court of Justice of the European Union (CJEU) judgment as well as analyses the PFSA's Chairman proposal, what was described in details in the Point 26 of Selected explanatory information. As of 31 March 2021, the Group recognized a provision for individual court cases concerning indexation clauses in mortgage and housing loans in CHF in the amount of PLN 1 487 102 thousand (as of 31 December 2020: PLN 1 426 563 thousand), of which PLN 1 299 477 thousand decreased the gross carrying amount of loans and PLN 187 625 thousand was included in the item "Provisions for legal proceedings" (31 December 2020: PLN 1 264 677 thousand and PLN 161 886 thousand, respectively). Starting from 2021, the Group changed the accounting policy for recognizing provisions for individual court cases concerning indexation clauses in mortgage and housing loans in CHF. Previously, these provisions were recognized in accordance with IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" as provisions for legal proceedings. As part of these provisions relates to a new estimate of cash flows from the portfolio of existing mortgage and housing loans, the Group has allocated part of the provisions to loan exposures and recognized them in these financial statements as a deduction from the gross carrying amount of mortgage and housing loans for which the Group expects the cash flows to decrease in accordance with IFRS 9 "Financial Instruments" paragraph B5.4.6. The methodology of calculation of the provision 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 in the provision in the first quarter of 2021 resulted mainly from (i) higher than expected inflow of cases in the first quarter of 2021 (ii) changes in level of loss on loan exposure in case of losing the case by the Bank. The Bank believes that since the current line of jurisprudence in CHF cases is inconsistent, the probability of losing court cases must, to a large extent, be based on professional judgement supported by external legal opinion until Polish Supreme Court and the CJEU address all the legal uncertainties (in particular, whether abusive provisions can be replaced with other provisions, whether the theory of balance or the theory of two conditionalities will apply, what is a limitation period for parties' claims and whether banks may receive a compensation for usage of the principal granted).

The population of borrowers who will file a lawsuit against the Bank has been projected for a period of 5 years (since 31 December 2020) based on the Bank's history of legal cases in the past and assumes a further inflow of new cases. The Bank assumes that vast majority of the projected cases will be filed until 2022, and then their number will decrease following the expected clarification of the legal environment.

For the purpose of calculating the provisions mBank assumes that approximately 18% of FX borrowers (i.e. 15.7 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 (18% of customers represent 24% 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 first quarter of 2021 the Bank increased the assumed number of court cases by 1.7%. This was caused by the greater than projected number of lawsuits. 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 amount of the provision would increase by approximately PLN 58.9 million (while other relevant assumptions remain constant) as compared to 31 March 2020.

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 31 March 2021 mBank received 205 final rulings in individual lawsuits (31 December 2020: 173 final rulings), out of which 75 rulings were favourable to the Bank and 130 rulings were unfavourable (31 December 2020: 70 rulings favourable and 103 unfavourable).

At the same time 279 proceedings (as of 31 March 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 unfavourable for the Bank. Unfavourable judgments were issued based on the same patterns of facts which resulted in different verdicts. Approximately 49% 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 31 March 2021 the Bank assumes probability of losing in court at the level of 50%, basing on its own judgement and 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 amount of the provision would change by +/- PLN 28.7 million.

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 each other's claims at the same time. 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 amount of the provision would change by +/- PLN 24.6 million.

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

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 provision for legal risk related to indexed loans.

More information on provisions for legal risks relating to indexation clauses in mortgage and housing loans in CHF is presented in the Point 26 of Selected explanatory information.

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 31 March 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 10.5 million (PLN 13.8 million as of 31 December 2020).

The total negative impact of early repayments of retail loans on the Group's gross profit for the first quarter of 2021 amounted to PLN 20.5 million (first quarter of 2020: PLN 20.7 million).

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

Fair value of derivatives and other financial instruments

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

Deferred tax assets

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

Income tax in interim financial statements

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

The calculation of the average annual effective income tax rate requires the use of a pre-tax income forecast for the entire fiscal year and permanent differences between the carrying amounts of assets and liabilities and their tax base. The projected annual effective tax rate used to calculate the income tax expense during the first quarter of 2021 was 37.1%.

Revenue and expenses from sale of insurance products bundled with loans

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

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

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

Liabilities due to post-employment employee benefits

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

Leasing classification

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

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

4. Business segments

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

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

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

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

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

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

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

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

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.

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.

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

Business segment reporting on the activities of mBank S.A. Group for the period from 1 January to 31 March 2021 – data regarding consolidated income statement.

	Retail Banking	Corporate and Investment Banking	Treasury and Other	FX Mortgage Loans	Total figure for the Group
Net interest income	621 491	255 970	36 770	32 664	**946 895**
- sales to external clients	492 851	250 181	168 353	35 510	**946 895**
- sales to other segments	128 640	5 789	(131 583)	(2 846)	**-**
Net fee and commission income	223 502	252 834	(9 207)	931	**468 060**
Dividend income	-	-	440	-	**440**
Trading income	8 850	66 961	(1 908)	(10 725)	**63 178**
Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss	(11 899)	424	2	-	**(11 473)**
Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss	(1 095)	2 062	88 157	-	**89 124**
Other operating income	16 552	27 478	10 950	7	**54 987**
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss	(109 412)	(69 184)	(414)	23 350	**(155 660)**
Result on provisions for legal risk related to foreign currency loans	-	-	-	(66 268)	**(66 268)**
Overhead costs	(314 473)	(221 830)	(13 080)	(3 383)	**(552 766)**
Amortisation	(73 487)	(36 029)	(2 154)	(221)	**(111 891)**
Other operating expenses	(23 838)	(42 621)	(13 598)	(1 426)	**(81 483)**
Operating profit	**336 191**	**236 065**	**95 958**	**(25 071)**	**643 143**
Taxes on Group balance sheet items	(62 645)	(50 148)	(11 696)	(14 332)	**(138 821)**
Gross profit of the segment	**273 546**	**185 917**	**84 262**	**(39 403)**	**504 322**
Income tax					**(187 229)**
Net profit attributable to Owners of mBank S.A.					**317 125**
Net profit attributable to non-controlling interests					**(32)**

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

31.03.2021	Retail Banking	Corporate and Investment Banking	Treasury and Other	FX Mortgage Loans	Total figure for the Group
Assets of the segment	58 663 369	47 919 372	73 392 626	14 241 685	**194 217 052**
Liabilities of the segment	104 578 434	48 714 349	23 958 378	216 963	**177 468 124**

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

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

Business segment reporting on the activities of mBank S.A. Group for the period from 1 January to 31 March 2020 – data regarding consolidated income statement

	Retail Banking	Corporate and Investment Banking	Treasury and Other	FX Mortgage Loans	Total figure for the Group
Net interest income	691 470	292 253	44 145	37 596	**1 065 464**
- sales to external clients	553 270	314 095	157 485	40 614	**1 065 464**
- sales to other segments	138 200	(21 842)	(113 340)	(3 018)	**-**
Net fee and commission income	169 838	201 631	(9 791)	998	**362 676**
Dividend income	-	-	300	-	**300**
Trading income	7 946	43 446	(6 679)	92	**44 805**
Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss	(58 865)	(1 249)	(101)	-	**(60 215)**
Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss	(291)	(5 991)	3 010	-	**(3 272)**
Other operating income	13 231	26 213	1 687	-	**41 131**
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss	(158 586)	(188 305)	1 732	(24 640)	**(369 799)**
Result on provisions for legal risk related to foreign currency loans	-	-	-	(12 911)	**(12 911)**
Overhead costs	(348 690)	(260 995)	(24 788)	(4 340)	**(638 813)**
Amortisation	(68 339)	(27 524)	(1 624)	(23)	**(97 510)**
Other operating expenses	(29 528)	(20 573)	(5 985)	-	**(56 086)**
Operating profit	**218 186**	**58 906**	**1 906**	**(3 228)**	**275 770**
Taxes on Group balance sheet items	(53 566)	(47 304)	(16 417)	(14 543)	**(131 830)**
Gross profit of the segment	**164 620**	**11 602**	**(14 511)**	**(17 771)**	**143 940**
Income tax					**(53 034)**
Net profit attributable to Owners of mBank S.A.					**90 917**
Net profit attributable to non-controlling interests					**(11)**

Information about geographical areas on the activities of mBank S.A. Group for the period from 1 January to 31 March 2021 and for the period from 1 January to 31 March 2020

	from 1 January to 31 March 2021			from 1 January to 31 March 2020		
	Poland	Foreign Countries	Total	Poland	Foreign Countries	Total
Net interest income	887 327	59 568	**946 895**	982 516	82 948	**1 065 464**
Net fee and commission income	460 559	7 501	**468 060**	358 368	4 308	**362 676**
Dividend income	440	-	**440**	300	-	**300**
Trading income	62 408	770	**63 178**	45 349	(544)	**44 805**
Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss	(11 473)	-	**(11 473)**	(60 215)	-	**(60 215)**
Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss	89 130	(6)	**89 124**	(3 272)	-	**(3 272)**
Other operating income	54 381	606	**54 987**	40 542	589	**41 131**
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss	(164 008)	8 348	**(155 660)**	(379 279)	9 480	**(369 799)**
Result on provisions for legal risk related to foreign currency loans	(66 268)	-	**(66 268)**	(12 911)	-	**(12 911)**
Overhead costs	(518 839)	(33 927)	**(552 766)**	(603 077)	(35 736)	**(638 813)**
Amortisation	(108 687)	(3 204)	**(111 891)**	(94 128)	(3 382)	**(97 510)**
Other operating expenses	(80 841)	(642)	**(81 483)**	(55 684)	(402)	**(56 086)**
Operating profit	**604 129**	**39 014**	**643 143**	**218 509**	**57 261**	**275 770**
Taxes on Group balance sheet items	(129 791)	(9 030)	**(138 821)**	(122 990)	(8 840)	**(131 830)**
Gross profit of the segment	**474 338**	**29 984**	**504 322**	**95 519**	**48 421**	**143 940**
Income tax			**(187 229)**			**(53 034)**
Net profit attributable to Owners of mBank S.A.			**317 125**			**90 917**
Net profit attributable to non-controlling interests			**(32)**			**(11)**

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

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

	31.03.2021			31.12.2020		
	Poland	Foreign Countries	Total	Poland	Foreign Countries	Total
Assets of the segment, including:	180 465 621	13 751 431	**194 217 052**	165 076 476	13 795 141	**178 871 617**
- tangible assets	2 862 303	31 597	**2 893 900**	2 662 301	30 974	2 693 275
- deferred income tax assets	942 766	2 617	**945 383**	851 308	2 572	853 880
Liabilities of the segment	162 205 919	15 262 205	**177 468 124**	148 275 155	13 921 395	**162 196 550**

5. Net interest income

the period	from 01.01.2021 to 31.03.2021	from 01.01.2020 to 31.03.2020
Interest income		
Interest income accounted for using the effective interest method	**897 889**	**1 228 106**
Interest income of financial assets at amortised cost, including:	850 784	1 117 694
- Loans and advances	*773 653*	*1 045 177*
- Debt securities	*77 937*	*61 649*
- Cash and short-term placements	*737*	*15 585*
- Gains or losses on non-substantial modification (net)	*(3 637)*	*(6 297)*
- Other	*2 094*	*1 580*
Interest income on financial assets at fair value through other comprehensive income	47 105	110 412
- Debt securities	*47 105*	*110 412*
Income similar to interest on financial assets at fair value through profit or loss, including:	**121 492**	**106 871**
Financial assets held for trading	4 169	11 863
- Loans and advances	*1 094*	*1 672*
- Debt securities	*3 075*	*10 191*
Non-trading financial assets mandatorily at fair value through profit or loss, including:	13 711	38 339
- Loans and advances	*13 711*	*38 339*
Interest income on derivatives classified into banking book	24 077	30 368
Interest income on derivatives concluded under the fair value hedge	26 250	20 029
Interest income on derivatives concluded under the cash flow hedge	53 285	6 272
Total interest income	**1 019 381**	**1 334 977**

the period	from 01.01.2021 to 31.03.2021	from 01.01.2020 to 31.03.2020
Interest expenses		
Financial liabilities held for trading	(1 347)	-
Financial liabilities measured at amortised cost, including:	(67 815)	(266 436)
- Deposits	*(14 755)*	*(169 402)*
- Loans received	*(1 343)*	*(2 722)*
- Issue of debt securities	*(37 080)*	*(72 494)*
- Subordinated liabilities	*(13 350)*	*(19 287)*
- Lease liabilities	*(591)*	*(547)*
- Other financial liabilities	*(696)*	*(1 984)*
Other	(3 324)	(3 077)
Total interest expense	**(72 486)**	**(269 513)**

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

6. Net fee and commission income

the period	from 01.01.2021 to 31.03.2021	from 01.01.2020 to 31.03.2020
Fee and commission income		
Credit-related fees and commissions	124 146	114 150
Commissions from bank accounts	117 164	48 561
Payment cards-related fees	92 113	114 670
Commissions from currency transactions	89 024	85 666
Fees from brokerage activity and debt securities issue	71 651	39 024
Commissions from money transfers	41 238	35 000
Commissions for agency service regarding sale of insurance products of external financial entities	30 119	27 372
Commissions due to guarantees granted and trade finance commissions	24 588	23 990
Commissions for agency service regarding sale of other products of external financial entities	20 668	20 331
Fees from cash services	10 031	12 342
Commissions on trust and fiduciary activities	8 344	8 177
Fees from portfolio management services and other management-related fees	5 830	2 554
Other	11 022	12 589
Fee and commission income	**645 938**	**544 426**

the period	from 01.01.2021 to 31.03.2021	from 01.01.2020 to 31.03.2020
Fee and commission expense		
Payment cards-related fees	(55 916)	(59 222)
Commissions paid to external entities for sale of the Group's products	(40 050)	(39 438)
Commissions of insurance products	(3 099)	(3 053)
Commissions paid for sale of external financial entities	(6 392)	(5 986)
Discharged brokerage fees	(11 203)	(7 303)
Cash services	(7 816)	(10 999)
Fees to NBP, KIR and GPW Benchmark	(2 808)	(2 870)
Other discharged fees	(50 594)	(52 879)
Total fee and commission expense	**(177 878)**	**(181 750)**

7. Dividend income

the period	from 01.01.2021 to 31.03.2021	from 01.01.2020 to 31.03.2020
Financial assets at fair value through profit and loss	140	300
Investments in subsidiaries, joint ventures and associates accounted for using the equity method	300	-
Total dividend income	**440**	**300**

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

8. Net trading income

the period	from 01.01.2021 to 31.03.2021	from 01.01.2020 to 31.03.2020
Foreign exchange result	**43 294**	**6 232**
Net exchange differences on translation	(152 829)	(31 113)
Net transaction gains/(losses)	196 123	37 345
Gains or losses on financial assets and liabilities held for trading	**27 934**	**38 228**
Derivatives, including:	21 493	13 743
- Interest-bearing instruments	*15 782*	*17 910*
- Market risk instruments	*5 711*	*(4 167)*
Debt securities	6 468	22 945
Loans and advances	(27)	1 540
Gains or losses from hedge accounting	**(8 050)**	**345**
Net profit on hedged items	185 510	(82 204)
Net profit on fair value hedging instruments	(191 305)	80 139
Ineffective portion of cash flow hedge	(2 255)	2 410
Net trading income	**63 178**	**44 805**

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

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

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

the period	from 01.01.2021 to 31.03.2021	from 01.01.2020 to 31.03.2020
Equity instruments	2	(101)
Debt securities	(2 419)	(20 634)
Loans and advances	(9 056)	(39 480)
Total gains or losses on non-trading financial assets mandatorily at fair value through profit or loss	**(11 473)**	**(60 215)**

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 31.03.2021	from 01.01.2020 to 31.03.2020
Gains less losses from derecognition, including:	90 970	(2 202)
- Financial assets measured at fair value through other comprehensive income	*90 275*	*758*
- Financial assets at amortised cost	*622*	*(2 960)*
- Financial liabilities at amortised cost	*73*	*-*
Gains less losses related to sale and revaluation of investments in subsidiaries and associates	(1 846)	(1 070)
Gains or losses from financial assets and liabilities not measured at fair value through profit or loss	**89 124**	**(3 272)**

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

11. Other operating income

the period	from 01.01.2021 to 31.03.2021	from 01.01.2020 to 31.03.2020
Income from sale or liquidation of fixed assets, intangible assets, assets held for sale and inventories	19 081	19 920
Income from services provided	3 823	2 214
Net income from operating lease	390	1 435
Income due to release of provisions for future commitments	5 342	986
Income from recovering receivables designated previously as prescribed, remitted or uncollectible	561	773
Income from compensations, penalties and fines received	60	206
Net revenues from the sale of an organised part of the company mFinanse S.A.	5 500	6 067
Other	20 230	9 530
Total other operating income	**54 987**	**41 131**

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

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

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

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

the period	from 01.01.2021 to 31.03.2021	from 01.01.2020 to 31.03.2020
Net income from operating lease, including:		
- Income from operating lease	8 028	10 861
- Income from right-of-use assets in sublease	1 000	1 185
- Depreciation cost of fixed assets provided under operating lease and right-of-use assets in sublease	(8 638)	(10 611)
Total net income from operating lease	**390**	**1 435**

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 31.03.2021	from 01.01.2020 to 31.03.2020
Financial assets at amortised cost, including:	**(198 209)**	**(318 268)**
- Debt securities	(45)	(5)
Stage 1	*(45)*	*(5)*
- Loans and advances	(198 164)	(318 263)
Stage 1	*(34 425)*	*(45 878)*
Stage 2	*44 672*	*(15 204)*
Stage 3	*(211 730)*	*(254 216)*
POCI	*3 319*	*(2 965)*
Financial assets at fair value through other comprehensive income	**(764)**	**288**
- Debt securities	(764)	288
Stage 1	*(348)*	*357*
Stage 2	*(416)*	*(69)*
Commitments and guarantees given	**43 313**	**(51 819)**
Stage 1	*1 640*	*(647)*
Stage 2	*13 848*	*3 818*
Stage 3	*25 908*	*(55 208)*
POCI	*1 917*	*218*
Net impairment losses on financial assets not measured at fair value through profit or loss	**(155 660)**	**(369 799)**

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

13. Overhead costs

the period	from 01.01.2021 to 31.03.2021	from 01.01.2020 to 31.03.2020
Staff-related expenses	(241 686)	(263 761)
Material costs, including:	(147 139)	(170 214)
- costs of administration and real estate services	*(62 343)*	*(63 420)*
- IT costs	*(39 938)*	*(43 151)*
- marketing costs	*(23 883)*	*(37 040)*
- consulting costs	*(17 539)*	*(22 058)*
- other material costs	*(3 436)*	*(4 545)*
Taxes and fees	(8 051)	(6 139)
Contributions and transfers to the Bank Guarantee Fund	(153 493)	(197 183)
Contributions to the Social Benefits Fund	(2 397)	(1 516)
Total overhead costs	**(552 766)**	**(638 813)**

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

the period	from 01.01.2021 to 31.03.2021	from 01.01.2020 to 31.03.2020
Wages and salaries	(192 815)	(209 463)
Social security expenses	(38 085)	(39 535)
Remuneration concerning share-based payments, including:	(1 652)	(2 426)
- share-based payments settled in mBank S.A. shares	*(1 599)*	*(2 239)*
- cash-settled share-based payments	*(53)*	*(187)*
Other staff expenses	(9 134)	(12 337)
Staff-related expenses, total	**(241 686)**	**(263 761)**

14. Other operating expenses

the period	from 01.01.2021 to 31.03.2021	from 01.01.2020 to 31.03.2020
Costs arising from sale or liquidation of fixed assets, intangible assets, assets held for resale and inventories	(18 453)	(19 776)
Provisions for future commitments	(28 667)	(6 379)
Costs arising from provisions created for other receivables (excluding loans and advances)	(3 476)	(228)
Donations made	(4 537)	(2 540)
Compensation, penalties and fines paid	(6 899)	(326)
Debt collection expenses	(9 574)	(9 884)
Other operating costs	(9 877)	(16 953)
Total other operating expenses	**(81 483)**	**(56 086)**

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.

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

15. Earnings per share

Earnings per share for 3 months– mBank S.A. Group consolidated data

the period	from 01.01.2021 to 31.03.2021	from 01.01.2020 to 31.03.2020
Basic:		
Net profit attributable to Owners of mBank S.A.	317 125	90 917
Weighted average number of ordinary shares	42 367 040	42 350 367
Net basic profit per share (in PLN per share)	**7.49**	**2.15**
Diluted:		
Net profit attributable to Owners of mBank S.A., applied for calculation of diluted earnings per share	317 125	90 917
Weighted average number of ordinary shares	42 367 040	42 350 367
Adjustments for:		
- share options	49 942	36 229
Weighted average number of ordinary shares for calculation of diluted earnings per share	42 416 982	42 386 596
Diluted earnings per share (in PLN per share)	**7.48**	**2.14**

Earnings per share for 3 months – mBank S.A. stand-alone data

the period	from 01.01.2021 to 31.03.2021	from 01.01.2020 to 31.03.2020
Basic:		
Net profit	315 085	91 584
Weighted average number of ordinary shares	42 367 040	42 350 367
Net basic profit per share (in PLN per share)	**7.44**	**2.16**
Diluted:		
Net profit applied for calculation of diluted earnings per share	315 085	91 584
Weighted average number of ordinary shares	42 367 040	42 350 367
Adjustments for:		
- share options	49 942	36 229
Weighted average number of ordinary shares for calculation of diluted earnings per share	42 416 982	42 386 596
Diluted earnings per share (in PLN per share)	**7.43**	**2.16**

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

	31.03.2021	31.12.2020
Derivatives, including:	**1 879 166**	**1 722 353**
- Held for trading derivative financial instruments classified into banking book	251 708	145 107
- Held for trading derivative financial instruments classified into trading book	1 660 822	1 620 288
- Derivative financial instruments held for fair value hedging	254 194	330 455
- Derivative financial instruments held for cash flow hedging	594 653	748 948
- Offsetting effect	(882 211)	(1 122 445)
Debt securities	**1 495 167**	**676 466**
- General governments, including:	1 146 806	366 517
pledged securities	*162 452*	*19 021*
- Credit institutions	141 814	109 109
- Other financial corporations	82 476	72 785
- Non-financial corporations	124 071	128 055
Loans and advances	**194 935**	**187 902**
- Corporate customers	194 935	187 902
Total financial assets held for trading	**3 569 268**	**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 CIRS). With the exception of specific currency swap contracts, such transactions do not result in swaps of capital. The credit risk of the Group consists of the potential cost of replacing swap contracts if the parties fail to discharge their liabilities. This risk is monitored daily by reference to the current fair value, proportion of the face value of the contracts and market liquidity. The Group evaluates the parties to such contracts using the same methods as for its credit business, to control the level of its credit exposure.

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

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

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

Hedge accounting

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

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

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

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

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

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

Fair value hedge accounting

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

At the end of each month, the Group evaluates effectiveness of the applied hedging by carrying out analysis of changes in fair value of the hedged and hedging instruments in respect of the hedged risk in order to confirm that hedging relationships are effective in accordance with the accounting policy described in Note 2.13 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,
- 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,
- 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.

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

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

the period	from 01.01.2021 to 31.03.2021	from 01.01.2020 to 31.03.2020
Interest income on derivatives concluded under the fair value hedge accounting (Note 5)	26 250	20 029
Net profit on hedged items (Note 8)	185 510	(82 204)
Net profit on fair value hedging instruments (Note 8)	(191 305)	80 139
The total results of fair value hedge accounting recognised in the income statement	**20 455**	**17 964**

Cash flow hedge accounting

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

The Group applies cash flow hedge accounting of the part of loans at a variable interest rate indexed to the market rate portfolio, granted by the Bank. An Interest Rate Swap is the hedging instrument changing the variable interest rate to a fixed interest rate. The interest rate risk is the hedged risk within applied by the Group cash flow hedge accounting. The ineffective portion of the gains or losses on the hedging instrument is presented in Note 9 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 April 2021 to August 2029 is the period in which the cash flows are expected, and when they are expected to have an impact on the result.

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

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

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

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

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

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 April 2021 to September 2025.

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

The following note presents other comprehensive income due to cash flow hedges for the period from 1 January to 31 March 2021 and for the period from 1 January to 31 March 2020.

the period	from 01.01.2021 to 31.03.2021	from 01.01.2020 to 31.03.2020
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	(130 510)	446 011
Profits / (Losses) recognized in other comprehensive income in the period	(66 935)	(94 412)
- *net interest income*	*(53 285)*	*(6 272)*
- *foreign exchange result*	*(13 650)*	*(88 140)*
Accumulated other gross comprehensive income at the end of the reporting period	**319 999**	**498 687**
Deferred income tax on accumulated other comprehensive income at the end of the reporting period	(60 800)	(94 751)
Accumulated other net comprehensive income at the end of the reporting period	**259 199**	**403 936**
Impact on other comprehensive income in the reporting period (gross)	(197 445)	351 599
Deferred tax on cash flow hedges	37 514	(66 805)
Impact on other comprehensive income in the reporting period (net)	**(159 931)**	**284 794**

the period	from 01.01.2021 to 31.03.2021	from 01.01.2020 to 31.03.2020
Gains/losses recognised in comprehensive income (gross) during the reporting period, including:		
Unrealised gains/losses included in other comprehensive income (gross)	(197 445)	351 599
Results of cash flow hedge accounting recognised in the income statement	64 680	96 822
- amount included as interest income in income statement during the reporting period (Note 5)	*53 285*	*6 272*
- ineffective portion of hedge recognised included in other net trading income in income statement (Note 8)	*(2 255)*	*2 410*
- foreign exchange result	*13 650*	*88 140*
Impact on other comprehensive income in the reporting period (gross)	**(132 765)**	**448 421**

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

	31.03.2021	31.12.2020
Equity instruments	**200 496**	**202 304**
- Other financial corporations	139 551	139 718
- Non-financial corporations	60 945	62 586
Debt securities	**77 732**	**76 068**
- Other financial corporations	77 732	76 068
Loans and advances	**1 424 302**	**1 506 319**
- Individual customers	1 133 349	1 216 809
- Corporate customers	290 474	288 777
- Public sector customers	479	733
Total non-trading financial assets mandatorily at fair value through profit or loss	**1 702 530**	**1 784 691**
Short-term (up to 1 year)	1 030 161	1 083 487
Long-term (over 1 year)	672 369	701 204

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

18. Financial assets at fair value through other comprehensive income

31.03.2021	Carrying amount	Gross carrying amount				Accumulated impairment			
		Stage 1	Stage 2	Stage 3	POCI	Stage 1	Stage 2	Stage 3	POCI
Debt securities	**31 866 172**	**31 772 541**	**100 070**	**-**	**-**	**(4 103)**	**(2 336)**	**-**	**-**
- Central banks	499 989	499 989	-	-	-	-	-	-	-
- General governments, including:	28 798 757	28 798 850	-	-	-	(93)	-	-	-
pledged securities	*1 169 038*	*1 169 038*	-	-	-	-	-	-	-
- Credit institutions	252 454	252 651	-	-	-	(197)	-	-	-
- Other financial institutions	1 783 800	1 785 641	-	-	-	(1 841)	-	-	-
pledged securities	*45 050*	*45 050*	-	-	-	-	-	-	-
- Non-financial corporations	531 172	435 410	100 070	-	-	(1 972)	(2 336)	-	-
Total financial assets at fair value through other comprehensive income	**31 866 172**	**31 772 541**	**100 070**	**-**	**-**	**(4 103)**	**(2 336)**	**-**	**-**

Short-term (up to 1 year) gross	7 275 041
Long-term (over 1 year) gross	24 597 570

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

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

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

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

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

Change from 1 January to 31 March 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)**	**-**	**-**	**-**	**(865)**	**260**	**(169)**	**(6 439)**
Stage 1	(3 754)	(125)	-	-	(865)	260	381	(4 103)
Stage 2	(1 911)	125	-	-	-	-	(550)	(2 336)
Expected credit losses allowance, total	**(5 665)**	**-**	**-**	**-**	**(865)**	**260**	**(169)**	**(6 439)**

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 31 March 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**	**-**	**-**	**-**	**4 679 244**	**(8 578 550)**	**268 191**	**31 872 611**
Stage 1	35 392 158	10 540	-	-	4 679 244	(8 578 550)	269 149	31 772 541
Stage 2	111 568	(10 540)	-	-	-	-	(958)	100 070
Financial assets at fair value through other comprehensive income, gross	**35 503 726**	**-**	**-**	**-**	**4 679 244**	**(8 578 550)**	**268 191**	**31 872 611**

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
Financial assets at fair value through other comprehensive income, gross	**22 778 283**	**-**	**-**	**-**	**26 442 762**	**(13 513 270)**	**(204 049)**	**35 503 726**

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

19. Financial assets at amortised cost

31.03.2021	Carrying amount	Gross carrying amount				Accumulated impairment			
		Stage 1	Stage 2	Stage 3	POCI	Stage 1	Stage 2	Stage 3	POCI
Debt securities	**16 426 323**	**16 426 503**	**-**	**-**	**-**	**(180)**	**-**	**-**	**-**
- General governments, including:	11 027 344	11 027 344	-	-	-	-	-	-	-
pledged securities	*837 286*	*837 286*	-	-	-	-	-	-	-
- Credit institutions	2 199 458	2 199 458	-	-	-	-	-	-	-
pledged securities	*339 891*	*339 891*	-	-	-	-	-	-	-
- Other financial corporations	3 199 521	3 199 701	-	-	-	(180)	-	-	-
Loans and advances to banks	**7 381 296**	**7 381 862**	**-**	**-**	**-**	**(566)**	**-**	**-**	**-**
Loans and advances to customers	**111 625 120**	**102 072 436**	**8 228 946**	**4 690 665**	**313 579**	**(344 985)**	**(426 401)**	**(2 882 948)**	**(26 172)**
Individual customers	64 851 541	61 652 525	2 762 796	2 122 028	114 777	(182 806)	(271 534)	(1 352 197)	5 952
Corporate customers	46 536 082	40 186 144	5 462 649	2 567 568	198 802	(161 919)	(154 864)	(1 530 174)	(32 124)
Public sector customers	237 497	233 767	3 501	1 069	-	(260)	(3)	(577)	-
Total financial assets at amortised cost	**135 432 739**	**125 880 801**	**8 228 946**	**4 690 665**	**313 579**	**(345 731)**	**(426 401)**	**(2 882 948)**	**(26 172)**

Short-term (up to 1 year) gross	48 003 897
Long-term (over 1 year) gross	91 110 094

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

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

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

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

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

Loans and advances to customers 31.03.2021	Gross carrying amount	including: Individual customers	Corporate customers	Public sector customers
Current accounts	12 532 075	7 574 789	4 955 719	1 567
Term loans, including:	85 706 990	58 776 554	26 693 666	236 770
- housing and mortgage loans to natural persons	*46 257 248*	*46 257 248*		
Reverse repo or buy/sell back	1 440 753	-	1 440 753	-
Finance leases	12 431 053	-	12 431 053	-
Other loans and advances	2 871 977	-	2 871 977	-
Other receivables	322 778	300 783	21 995	-
Total gross carrying amount	**115 305 626**	**66 652 126**	**48 415 163**	**238 337**

Loans and advances to customers 31.03.2021	Accumulated impairment	including: Individual customers	Corporate customers	Public sector customers
Current accounts	(937 474)	(636 994)	(300 480)	-
Term loans, including:	(2 223 085)	(1 163 591)	(1 058 654)	(840)
- housing and mortgage loans to natural persons	*(426 500)*	*(426 500)*		
Finance leases	(462 959)	-	(462 959)	-
Other loans and advances	(56 988)	-	(56 988)	-
Total accumulated impairment	**(3 680 506)**	**(1 800 585)**	**(1 879 081)**	**(840)**

Total gross carrying amount	**115 305 626**	**66 652 126**	**48 415 163**	**238 337**
Total accumulated impairment	(3 680 506)	(1 800 585)	(1 879 081)	(840)
Total carrying amount	**111 625 120**	**64 851 541**	**46 536 082**	**237 497**

Short-term (up to 1 year) gross	38 266 994
Long-term (over 1 year) gross	77 038 632

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

	31.03.2021	31.12.2020
Net housing and mortgage loans to natural persons (in PLN '000), including:	**45 830 748**	**44 249 186**
- PLN	25 039 713	23 789 950
- CHF	11 802 884	12 295 153
- EUR	4 148 591	3 844 598
- CZK	4 628 422	4 113 213
- USD	188 085	182 238
- Other currency	23 053	24 034
Net housing and mortgage loans to natural persons in original currencies (main currencies in '000)		
- PLN	25 039 713	23 789 950
- CHF	2 802 271	2 883 411
- EUR	890 198	833 102
- CZK	25 958 620	23 463 851
- USD	47 405	48 488

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

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

No.	Sectors	Gross value 31.03.2021	%	Gross value 31.12.2020	%
1.	Household customers	66 652 126	57.80%	64 734 776	58.58%
2.	Real estate	7 249 703	6.29%	7 211 368	6.53%
3.	Construction	4 901 487	4.25%	4 843 129	4.38%
4.	Financial activities	3 076 003	2.67%	1 668 335	1.51%
5.	Transport and logistics	3 021 259	2.62%	2 758 935	2.50%
6.	Food sector	2 675 595	2.32%	2 869 995	2.60%
7.	Metals	2 315 493	2.01%	2 159 089	1.95%
8.	Motorisation	2 036 842	1.77%	1 800 110	1.63%
9.	Construction materials	2 020 602	1.75%	1 908 325	1.73%
10.	Chemicals and plastic products	1 911 779	1.66%	1 836 669	1.66%
11.	Wood, furniture and paper products	1 754 126	1.52%	1 682 940	1.52%
12.	Scientific and technical activities	1 563 016	1.36%	1 350 347	1.22%
13.	Power and heating distribution	1 526 137	1.32%	1 358 741	1.23%
14.	Retail trade	1 393 641	1.21%	1 332 389	1.21%
15.	Wholesale trade	1 369 137	1.19%	1 231 929	1.11%
16.	IT	1 123 450	0.97%	1 077 032	0.97%
17.	Human health	923 139	0.80%	778 940	0.70%
18.	Pharmacy	884 160	0.77%	895 675	0.81%
19.	Fuel	883 572	0.77%	757 337	0.69%
20.	Rental and leasing activities	820 603	0.71%	871 694	0.79%

As at 31 March 2021, the total exposure of the Group in the above sectors (excluding household customers) amounts to 35.96% of the credit portfolio (31 December 2020: 34.74%).

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

Movements in expected credit losses allowance

Change from 1 January to 31 March 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)**	**-**	**-**	**-**	**(14)**	**-**	**(31)**	**-**	**-**	**-**	**(180)**
Stage 1	(135)	-	-	-	(14)	-	(31)	-	-	-	(180)
Loans and advances to banks	**(602)**	**-**	**-**	**-**	**(138)**	**127**	**49**	**(2)**	**-**	**-**	**(566)**
Stage 1	(602)	-	-	-	(138)	127	49	(2)	-	-	(566)
Loans and advances to customers	**(3 640 826)**	**-**	**-**	**-**	**(92 115)**	**87 439**	**(198 643)**	**(8 071)**	**96 929**	**74 781**	**(3 680 506)**
Stage 1	(296 810)	(189 591)	51 179	3 980	(35 548)	15 897	115 421	(9 513)	-	-	(344 985)
Stage 2	(441 217)	181 960	(61 562)	48 375	(6 500)	20 657	(152 968)	(15 146)	-	-	(426 401)
Stage 3	(2 871 497)	7 631	10 383	(52 355)	(50 023)	48 409	(149 807)	2 909	96 621	74 781	(2 882 948)
POCI	(31 302)	-	-	-	(44)	2 476	(11 289)	13 679	308	-	(26 172)
Expected credit losses allowance, total	**(3 641 563)**	**-**	**-**	**-**	**(92 267)**	**87 566**	**(198 625)**	**(8 073)**	**96 929**	**74 781**	**(3 681 252)**

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 31 March 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**	**-**	**-**	**-**	**249 768**	**-**	**-**	**224 099**	**16 426 503**
Stage 1	15 952 636	-	-	-	249 768	-	-	224 099	16 426 503
Loans and advances to banks	**7 354 870**	**-**	**-**	**-**	**6 323 980**	**(6 403 075)**	**-**	**106 087**	**7 381 862**
Stage 1	7 354 870	-	-	-	6 323 980	(6 403 075)	-	106 087	7 381 862
Loans and advances to customers	**110 513 959**	**-**	**-**	**-**	**12 166 142**	**(6 328 534)**	**(96 929)**	**(949 012)**	**115 305 626**
Stage 1	91 214 989	7 243 699	(2 291 610)	(112 775)	11 719 473	(4 883 116)	-	(818 224)	102 072 436
Stage 2	14 290 332	(7 191 840)	2 469 073	(303 361)	325 110	(1 276 955)	-	(83 413)	8 228 946
Stage 3	4 714 440	(51 859)	(177 463)	413 214	77 576	(126 010)	(96 621)	(62 612)	4 690 665
POCI	294 198	-	-	2 922	43 983	(42 453)	(308)	15 237	313 579
Financial assets at amortised cost, gross	**133 821 465**	**-**	**-**	**-**	**18 739 890**	**(12 731 609)**	**(96 929)**	**(618 826)**	**139 113 991**

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

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**

20. Intangible assets

	31.03.2021	31.12.2020
Goodwill	27 760	27 760
Patents, licences and similar assets, including:	883 922	897 283
- computer software	*711 054*	*722 688*
Other intangible assets	8 276	8 812
Intangible assets under development	277 814	244 843
Total intangible assets	**1 197 772**	**1 178 698**

21. Tangible assets

	31.03.2021	31.12.2020
Tangible assets, including:	**691 188**	**614 346**
- land	653	653
- buildings and structures	151 244	153 403
- equipment	173 258	166 759
- vehicles	195 950	199 575
- other fixed assets	170 083	93 956
Fixed assets under construction	**70 794**	**183 142**
The right to use, including:	**934 146**	**717 089**
- real estate	884 859	667 387
- the right of perpetual of usufruct of land	47 499	47 670
- cars	1 653	1 547
- other	135	485
Total tangible assets	**1 696 128**	**1 514 577**

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

	31.03.2021	31.12.2020
Derivatives, including:	1 486 232	1 338 564
- Held for trading derivative financial instruments classified into banking book	402 975	322 135
- Held for trading derivative financial instruments classified into trading book	1 262 615	1 280 170
- Derivative financial instruments held for fair value hedging	136 871	7 646
- Derivative financial instruments held for cash flow hedging	29 123	60
- Offsetting effect	(345 352)	(271 447)
Liabilities from short sale of securities	244 961	-
Total financial liabilities held for trading and derivatives held for hedges	**1 731 193**	**1 338 564**

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

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

31.03.2021	Amount due to banks	Amount due to customers	including:		
			Individual customers	Corporate customers	Public sector customers
Deposits	**2 121 709**	**148 048 287**	**103 397 825**	**44 037 893**	**612 569**
Current accounts	1 433 312	137 790 313	94 039 329	43 152 899	598 085
Term deposits	-	10 107 091	9 358 496	734 111	14 484
Repo transactions	688 397	150 883	-	150 883	-
Loans and advances received	**500**	**1 824 957**	**-**	**1 824 957**	**-**
Other financial liabilities	**831 903**	**2 223 889**	**184 999**	**1 999 156**	**39 734**
Liabilities in respect of cash collaterals	558 865	801 471	82 607	718 864	-
Leasing liabilities	-	1 004 392	-	964 669	39 723
Other liabilities	273 038	418 026	102 392	315 623	11
Deposits and other financial liabilities, total	**2 954 112**	**152 097 133**	**103 582 824**	**47 862 006**	**652 303**

Short-term (up to 1 year)	2 949 933	149 354 863
Long-term (over 1 year)	4 179	2 742 270

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

	31.03.2021	31.12.2020
Provisions for legal proceedings, including:	247 967	200 536
- provisions for individual cases concerning indexation clauses in repaid mortgage and housing loans in CHF and for legal costs	*187 625*	*161 886*
- provisions for other legal proceedings relating to loans in foreign currencies	*25 863*	*26 581*
- provisions for remaining legal proceedings	*34 479*	*12 069*
Provisions for commitments and guarantees given	169 567	205 661
Other provisions	95 934	95 494
Provisions, total	**513 468**	**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 mortgage and housing loans in CHF is presented in Note 3.

The item Other provisions includes provisions recognized related to the judgment of the CJEU of 11 September 2020 regarding reimbursement of commissions in case of earlier loan repayments of consumer loans and mortgage loans.

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

Movements in the provisions

Change from 1 January to 31 March	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:	**25 739**	**(718)**	**22 410**	**440**
- increase of provisions	-	232	23 650	5 017
- release of provisions	-	(118)	(506)	(568)
- utilization	(17 901)	(832)	(734)	(4 212)
- reclassification from/to other position of statement of financial position	43 640	-	-	-
- foreign exchange differences	-	-	-	203
Provisions as at the end of the period	**187 625**	**25 863**	**34 479**	**95 934**

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

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

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

Change from 1 January to 31 March 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**	**-**	**-**	**-**	**10 119**	**(10 598)**	**(16 529)**	**5 522**	**77 505**
Stage 1	44 157	22 619	(2 231)	(34)	6 087	(3 443)	(22 671)	(3 233)	41 251
Stage 2	36 829	(21 820)	2 397	(321)	2 819	(4 668)	5 223	3 355	23 814
Stage 3	5 510	(799)	(166)	355	909	(1 889)	804	5 404	10 128
POCI	2 495	-	-	-	304	(598)	115	(4)	2 312
Guarantees and other financial facilities	**116 670**	**-**	**-**	**-**	**3 993**	**(37 047)**	**8 422**	**24**	**92 062**
Stage 1	4 541	954	(177)	-	3 198	(3 027)	1 205	35	6 729
Stage 2	6 134	(954)	177	(20)	304	(1 252)	(259)	(11)	4 119
Stage 3	80 055	-	-	20	357	(32 768)	2 359	-	50 023
POCI	25 940	-	-	-	134	-	5 117	-	31 191
Provisions on off-balance sheet commitments and financial guarantees	**205 661**	**-**	**-**	**-**	**14 112**	**(47 645)**	**(8 107)**	**5 546**	**169 567**

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

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

25. Assets and liabilities for deferred income tax

Deferred income tax assets	31.03.2021	31.12.2020
As at the beginning of the period	**1 635 815**	**1 473 790**
Changes recognized in the income statement	119 106	163 244
Changes recognized in other comprehensive income	(4 317)	9 464
Other changes	(4 623)	(10 683)
As at the end of the period	**1 745 981**	**1 635 815**

Provisions for deferred income tax	31.03.2021	31.12.2020
As at the beginning of the period	**(782 625)**	**(536 160)**
Changes recognized in the income statement	(109 043)	(132 986)
Changes recognized in other comprehensive income	90 858	(113 479)
Other changes	-	-
As at the end of the period	**(800 810)**	**(782 625)**

Income tax	from 01.01.2021 to 31.03.2021	from 01.01.2020 to 31.03.2020
Current income tax	(197 292)	(49 773)
Deferred income tax recognised in the income statement	10 063	(3 261)
Income tax recognised in the income statement	**(187 229)**	**(53 034)**
Recognised in other comprehensive income	86 541	(83 745)
Total income tax	**(100 688)**	**(136 779)**

26. Fair value of assets and liabilities

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

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

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

The approach to the method used for the loans that are fair valued in line of IFRS9 requirements, is described in the Note 3.3.7 to the Consolidated Financial Statements of mBank Group for 2020, published on 25 February 2021.

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

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

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

Positions that are recognised in GL through amortised cost

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

	31.03.2021		31.12.2020	
	Carrying value	Fair value	Carrying value	Fair value
Financial assets at amortised cost				
Debt securities	**16 426 323**	**16 549 497**	**15 952 501**	**16 445 401**
Loans and advances to banks	**7 381 296**	**7 374 693**	**7 354 268**	**7 347 513**
Loans and advances to customers, including:	**111 625 120**	**112 352 963**	**106 873 133**	**107 694 550**
Loans and advances to individuals	**64 851 541**	**66 772 674**	**62 929 892**	**64 818 035**
Current accounts	6 937 795	7 155 590	6 807 188	6 948 249
Term loans	57 612 963	59 316 301	55 831 484	57 578 566
Other	300 783	300 783	291 220	291 220
Loans and advances to corporate entities	**46 536 082**	**45 337 510**	**43 713 672**	**42 641 296**
Current accounts	4 655 239	4 487 162	4 105 526	3 989 429
Term loans, including finance lease	37 603 106	24 602 841	37 016 811	36 060 532
Reverse repo or buy/sell back transactions	1 440 753	1 440 753	103 832	103 832
Other loans and advances	2 814 989	14 784 759	2 471 122	2 471 122
Other	21 995	21 995	16 381	16 381
Loans and advances to public sector	**237 497**	**242 779**	**229 569**	**235 219**
Financial liabilities at amortised cost				
Amounts due to other banks	**2 954 112**	**2 954 112**	**2 399 740**	**2 399 740**
Amounts due to customers	**152 097 133**	**152 120 370**	**137 698 668**	**137 726 122**
Debt securities in issue	**13 652 467**	**13 812 413**	**13 996 317**	**14 172 566**
Subordinated liabilities	**2 564 462**	**2 541 411**	**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.

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

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

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

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

Positions that are recognised in GL through fair value

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

31.03.2021	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	**3 569 268**	**1 146 806**	**1 755 626**	**666 836**
Loans and advances to customers	194 935	-	-	194 935
Debt securities	1 495 167	1 146 806	-	348 361
Derivative financial instruments, including:	1 879 166	-	1 755 626	123 540
Derivative financial instruments held for trading	1 912 530	-	1 912 530	-
Hedging derivative financial instruments	848 847	-	725 307	123 540
Offsetting effect	(882 211)	-	(882 211)	-
Non-trading financial assets mandatorily at fair value through profit or loss	**1 702 530**	**962**	**-**	**1 701 568**
Loans and advances to customers	1 424 302	-	-	1 424 302
Debt securities	77 732	-	-	77 732
Equity securities	200 496	962	-	199 534
Financial assets at fair value through other comprehensive income	**31 866 172**	**30 345 236**	**499 989**	**1 020 947**
Debt securities	31 866 172	30 345 236	499 989	1 020 947
Total financial assets	**37 137 970**	**31 493 004**	**2 255 615**	**3 389 351**
Financial liabilities				
Derivative financial instruments, including:	1 486 232	-	1 486 232	-
Derivative financial instruments held for trading	1 665 590	-	1 665 590	-
Hedging derivative financial instruments	165 994	-	165 994	-
Offsetting effect	(345 352)	-	(345 352)	-
Liabilities from short sale of securities	244 961	244 961	-	-
Total financial liabilities	**1 731 193**	**244 961**	**1 486 232**	**-**

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

Assets and Liabilities Measured at Fair Value Based on Level 3 - changes from 1 January to 31 March 2021	Debt trading securities	Derivative financial instruments	Non-trading debt securities mandatorily at fair value through profit or loss	Non-trading equity securities mandatorily at fair value through profit or loss	Debt securities at fair value through other comprehensive income
As at the beginning of the period	**309 949**	**121 029**	**76 068**	**201 344**	**990 351**
Gains and losses for the period:	**2 151**	**2 511**	**1 664**	**(1 810)**	**7 615**
Recognised in profit or loss:	2 151	14 488	1 664	(1 810)	-
Net trading income	*2 151*	*14 488*	*4 083*	*12*	-
Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss	-	-	*(2 419)*	-	-
Gains or losses on subsidiaries and associates	-	-	-	*(1 822)*	-
Recognised in other comprehensive income:	-	(11 977)	-	-	7 615
Financial assets at fair value through other comprehensive income	-	-	-	-	*7 615*
Cash flow hedges	-	*(11 977)*	-	-	-
Purchases	339 353	-	-	-	181 687
Redemptions	(14 956)	-	-	-	(25 000)
Sales	(779 868)	-	-	-	(607 267)
Issues	491 732	-	-	-	473 561
As at the end of the period	**348 361**	**123 540**	**77 732**	**199 534**	**1 020 947**

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

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

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

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

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

Level 1

As at 31 March 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 1 146 806 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 28 762 404 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 1 582 832 thousand (31 December 2020: PLN 1 181 224 thousand).

In addition, as at 31 March 2021 level 1 includes the value of the registered privileged shares of Giełda Papierów Wartościowych in the amount of PLN 962 thousand (31 December 2020: PLN 960 thousand).

As at 31 March 2021, level 1 also includes liabilities from short sale of securities in the amount of PLN 244 961 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 499 989 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).

As at 31 March 2021 and 31 December 2020, level 2 also includes the value of options referencing on the WIG20 index. For options valuation on WIG 20 index an internal Bank's model (based on implied volatility model) using market parameters is applied.

Level 3

Level 3 of the hierarchy presents the fair values of commercial debt securities issued by local banks and companies in the amount of PLN 1 410 687 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, resulting from the reclassification of preferred stock in Visa Inc.

Level 3 includes also the fair value of local government bonds in the amount of PLN 36 353 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 31 March 2021 includes the value of loans and advances to customers in the amount of PLN 1 619 237 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 199 534 thousand (31 December 2020: PLN 201 344 thousand). The equity securities presented at level 3 have been valuated using the market multiples method. The market multiples method, consists of valuating the equity capital of a company by using a relation between the market values of the own equity capital or market values of the total capital invested in comparable companies (goodwill) and selected economic and financial figures.

Level 3 also includes the valuation of CIRS contracts concluded under cash flow hedge accounting of the PLN mortgage loan portfolio and covered bonds issued by mBank Hipoteczny (for more information, see Note 16). As at 31 March 2021, the valuation of these contracts was positive (presented in assets) and amounted to PLN 123 540 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 the first quarter of 2021 fulfils the requirements of the International Accounting Standard (IAS) 34 "Interim Financial Reporting" relating to interim financial reports.

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

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

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

3. Seasonal or cyclical nature of the business

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

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

In the first quarter of 2021 the COVID-19 pandemic significantly affected the Group's results, mainly by affecting the level of expected credit losses charges and valuation of loan portfolio measured at fair value through profit or loss. Detailed information in this regard is presented in Note 3 "Major estimates and judgments made in connection with the application of accounting policy principles".

Since 1 January 2021, the EBA guidelines on the application of the definition of default under Article 178 of Regulation of the European Parliament and the Council (EU) No 575/2013 from 26 June 2013 has become effective. The impact of the implementation of the EBA guidelines on the credit risk costs at consolidated level amounted to PLN 37.8 million and at the entity level amounted to PLN 32.5 million (the amounts at the moment of implementation of the guidelines).

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

Events as indicated above did not occur in the Group.

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

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

- mLeasing Sp. z o.o. issued short-term bonds in the amount of PLN 300 000 thousand and redeemed short-term bond in the amount of PLN 299 993 thousand,
- mBank Hipoteczny S.A. redeemed mortgage bonds in the amount of PLN 300 000 thousand.

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

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

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

Events as indicated above did not occur in the Group.

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

Events as indicated above did not occur in the Group.

10. Changes in contingent liabilities and commitments

In the first 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 first 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 first 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. Material liabilities assumed on account of acquisition of tangible fixed assets

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

15. Reversals of provisions against restructuring costs

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

16. Acquisitions and disposals of tangible fixed asset items

In the first 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.

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

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

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

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

19. Corrections of errors from previous reporting periods

In the first 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 (amortized cost)

The actions related to COVID-19 pandemic, undertaken in Poland as well as worldwide, also influenced on the fair value of financial assets and liabilities. Since the beginning of first quarter 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.

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".

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

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

In the first 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 31 March 2021 was 42 367 040 shares (31 December 2020: 42 367 040 shares) at PLN 4 nominal value each. All issued shares were fully paid up.

REGISTERED SHARE CAPITAL (THE STRUCTURE) AS AT 31 MARCH 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
Total number of shares			**42 367 040**			
Total registered share capital				**169 468 160**		
Nominal value per share (PLN)		**4**				

* As at the end of the reporting period

24. Material share packages

Commerzbank AG is a shareholder holding over 5% of the share capital and votes at the General Meeting and as at 31 March 2021 it held 69.28% of the share capital and votes at the General Meeting of mBank S.A. In the first quarter of 2021 there were no changes in the ownership structure of Bank's material shares packages.

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

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

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

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

	Number of shares held as at the date of publishing the report 2020	Number of shares acquired from the date of publishing the report for 2020 to the date of publishing the report for Q1 2021	Number of shares sold from the date of publishing the report for 2020 to the date of publishing the report for Q1 2021	Number of shares held as at the date of publishing the report for Q1 2021
Management Board				
1. Cezary Stypułkowski	23 250	-	-	23 250
2. Andreas Böger	819	-	-	819
3. Krzysztof Dąbrowski	1 682	-	-	1 682
4. Cezary Kocik	2 161	-	-	2 161
5. Marek Lusztyn	-	-	-	-
6. Adam Pers	158	-	-	158

As at the date of publishing the report for 2020 and as at the date of publishing the report for the first quarter of 2021, the Members of the Management Board had no and they have no rights to Bank's shares.

As at the date of publishing the report for 2020 and as at the date of publishing the report for the first quarter of 2021, the Member of the Supervisory Board of mBank S.A. Mr Jörg Hessenmüller had the 7 958 Bank's shares.

As at the date of publishing the report for 2020 and as at the date of publishing the report for the first quarter 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 31 March 2021 amounted to PLN 247 967 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.

<u>Information on the most important court proceedings relating to the issuer's contingent liabilities</u>

1. Claims of Interbrok's clients

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

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.

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

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

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

   - interest on the loans covered by the class action will be charged at the fixed interest rate applicable on the date the loans were granted;
   - a claim of the class members will arise for reimbursement of amounts potentially paid in excess of the fixed interest in the period covered by the class action.

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

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

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

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

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

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

   As at 31 March 2021 the total value of claims in this class actions amounted to PLN 377 million.

6. Individual court proceedings concerning indexation clauses

   Apart from the class action proceeding there are also individual court proceedings initiated against the Bank by its customers in connection with CHF loan agreements. As of 31 March 2021 – 8 981 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 1 867.5 million (31 December 2020: PLN 1 454.2 million).

   Out of the individual proceedings 8 396 proceedings (31 December 2020: 6 870 proceedings) with the total value of claims amounting to PLN 1 856.0 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 31 March 2021 amounted to PLN 11.8 billion (i.e. CHF 2.8 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 31 March 2021 amounted to PLN 6.9 billion (31 December 2020: PLN 6.8 billion).

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

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

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

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

On 29 April 2021, a ruling by the CJEU (C-19/20) on 5 questions referred for a preliminary ruling by the District Court in Gdańsk is planned. As part of the first question, the court will answer whether the declaration of unfairness of the clause in its original wording may result in the collapse of the entire contract when, on the date of the judgment, as a result of an amendment to the content of the contract made by the parties in the form of an annex, the condition has been changed so that it is not unfair. In the second question, the court will answer whether it is possible to find unfairness of only some elements of a contractual condition relating to the currency exchange rate determined by the bank, to which the credit granted to the consumer is indexed by eliminating the provision concerning the unilaterally and unclearly determined bank margin being a component of the exchange rate, and leaving an unambiguous provision relating to the average rate of the central bank (NBP). The third question is whether the introduction by the national legislature has introduced measures to prevent the continued use of unfair contract terms, such as that at issue in the main proceedings, militates against the finding that only certain elements of the term in question are unfair in the manner described in the second question. The fourth question is to determine the starting point for the limitation period for the parties' claims. As part of the fifth question, the court will answer the question whether the national court is obliged to inform the consumer about the legal consequences of the invalidity of the contract, including the bank's possible restitution claims.

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 Supreme Court will answer to abusive provisions can be replaced with provisions of civil law or common practice, whether it is possible to maintain indexed/denominate loan as a PLN loan with an interest rate based on LIBOR, whether the theory of balance or the theory of two conditionalities will apply on the event of the CHF loan invalidity, the starting point of the limitation period in the case of the bank's claim for reimbursement of the amounts paid under the loan and whether banks and consumers can receive a remuneration from for using use of their funds by the other party. The Supreme Court will hold a non-public seating on this case on 11 May 2021.

Moreover, on 16 January 2021 the motion for adopting a resolution has been submitted to the Supreme Court by the Financial Ombudsman. The Supreme Court will answer to questions related to the rules of settlements between parties after the credit contract is ruled invalid as well as to questions related to the limitation period of parties' claims. The Supreme Court will held a non-public seating on this case on 7 May 2021.

The Bank will analyse the content of the resolutions after its publication, in particular its expected impact on further jurisprudence and the parameters used in the calculation of legal risk provisions.

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 provision for legal risk related to indexed loans.

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

Tax inspections

In the first quarter of 2021, no subsidiary of mBank Group was subject to the inspection of tax authorities.

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. 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 the bank define the rights and obligations of consumers contrary to good morals and grossly violate their interest and, thus, are abusive. mBank does not agree with this stance. mBank responded to the decision on instituting the proceedings in letters dated 28 May 2019 and 10 January 2020. As at the date of approval these consolidated financial statements, the UOKiK President did not take any further actions in the case in question, did not take a stance, and did not respond to mBank's letters. The Office postponed the termination of proceeding until 31 July 2021.

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

27. Off-balance sheet liabilities

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

Consolidated data of mBank S.A. Group

	31.03.2021	31.12.2020
1. Contingent liabilities granted and received	**47 830 294**	**46 086 123**
Commitments granted	**40 658 911**	**39 469 906**
- financing	30 960 017	31 986 226
- guarantees and other financial facilities	8 003 584	7 460 891
- other commitments	1 695 310	22 789
Commitments received	**7 171 383**	**6 616 217**
- financial commitments	684 477	459 429
- guarantees	6 486 906	6 156 788
2. Derivative financial instruments (nominal value of contracts)	**742 300 779**	**661 936 056**
Interest rate derivatives	599 726 293	530 987 180
Currency derivatives	137 697 482	126 619 578
Market risk derivatives	4 877 004	4 329 298
Total off-balance sheet items	**790 131 073**	**708 022 179**

Stand-alone data of mBank S.A.

	31.03.2021	31.12.2020
1. Contingent liabilities granted and received	**47 516 068**	**45 752 511**
Commitments granted	**40 344 685**	**39 136 295**
- financing	30 050 678	31 040 531
- guarantees and other financial facilities	8 598 697	8 072 975
- other commitments	1 695 310	22 789
Commitments received	**7 171 383**	**6 616 216**
- financial commitments	684 477	459 429
- guarantees	6 486 906	6 156 787
2. Derivative financial instruments (nominal value of contracts)	**738 975 750**	**658 022 093**
Interest rate derivatives	596 008 305	527 305 492
Currency derivatives	138 090 441	126 387 303
Market risk derivatives	4 877 004	4 329 298
Total off-balance sheet items	**786 491 818**	**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 31 March 2021 and as at 31 December 2020, and related costs and income for the period from 1 January to 31 March 2021 and from 1 January to 31 March 2020 are presented in the table below.

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

	mBank's subsidiaries			Commerzbank AG			Other companies of the Commerzbank AG Group		
As at the end of the period	**31.03.2021**	**31.12.2020**	**31.03.2020**	**31.03.2021**	**31.12.2020**	**31.03.2020**	**31.03.2021**	**31.12.2020**	**31.03.2020**
Statement of Financial Position									
Assets	21 230	109 256		938 363	863 952		15 553	2 806	
Liabilities	11 111	14 144		3 150 713	3 091 380		69 765	69 810	
Income Statement									
Interest income	225		623	7 219		6 918	50		147
Interest expense	-		(46)	(5 752)		(7 496)	(5)		(971)
Fee and commission income	43		134	1 261		1 290	218		-
Fee and commission expense	-		-	-		-	-		-
Other operating income	68		31	523		370	-		-
Overhead costs, amortisation and other operating expenses	(1 233)		-	(966)		(2 422)	-		-
Contingent liabilities granted and received									
Liabilities granted	371 532	372 741		1 979 197	1 721 547		3 550	7 409	
Liabilities received	-	-		1 885 855	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 31 March 2021 recognized in the Group's income statement for that period amounted to PLN 5 553 thousand (in the period from 1 January to 31 March 2020: PLN 8 660 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 three-month period, ended on 31 March 2021, Group has not concluded any substantial agreements regarding credit and loan guarantees or guarantees granted of a significant amount.

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

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

On 15 March 2021, Supervisory Board of mBank S.A. and Management Board of mBank S.A. received the resignation of Mrs. Sabine Schmittroth, effective from 25 March 2021 from membership in the Bank's Supervisory Board.

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

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

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

31. Factors affecting the results in the coming quarter

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

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

32. Other information

- Requirements on mBank Group capital ratios as of 31 March 2021

The minimum required level of capital ratios at the end of 31 March 2021 amounted to:

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

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

On 31 March 2021, mBank received approval from the supervisory authorities of the ECB and the PFSA to implement a new LGD model for the retail portfolio. This change will affect growth of risk weighed assets and will be used in the calculation of capital adequacy from June 2021.

Taking into account this change in the calculation of capital ratios for the end of March 2021, the total capital ratio and Tier I ratio would decrease at the level of mBank Group by 0.81 p.p. and 0.72 p.p. respectively (on a standalone basis 1.05 p.p. and 0.86 p.p.) still meeting the minimum capital requirements at both levels.

- Ratings of mBank assigned by Fitch placed on Negative Watch

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

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

33. Events after the balance sheet date

- Establishment of the Subsidiary mTFI S.A.

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

- Completion of the liquidation of the subsidiary mFinance France S.A.

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