mBank S.A.
IFRS Condensed Financial Statements
for the first half of 2021

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

SELECTED FINANCIAL DATA

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

SELECTED FINANCIAL DATA FOR THE BANK		in PLN ths		in EUR ths	
		Period from 01.01.2021 to 30.06.2021	Period from 01.01.2020 to 30.06.2020 - restated	Period from 01.01.2021 to 30.06.2021	Period from 01.01.2020 to 30.06.2020 - restated
I.	Interest income	1 782 816	2 252 110	392 069	507 084
II.	Fee and commission income	1 207 305	1 001 940	265 505	225 596
III.	Net trading income	96 195	89 497	21 155	20 151
IV.	Operating profit	872 850	606 214	191 953	136 495
V.	Profit before income tax	684 339	343 236	150 497	77 283
VI.	Net profit	398 026	174 392	87 532	39 266
VII.	Net cash flows from operating activities	17 769 314	6 757 549	3 907 749	1 521 525
VIII.	Net cash flows from investing activities	(263 290)	(136 663)	(57 902)	(30 771)
IX.	Net cash flows from financing activities	(1 431 150)	(720 680)	(314 732)	(162 268)
X.	Total net increase / decrease in cash and cash equivalents	16 074 874	5 900 206	3 535 115	1 328 486
XI.	Basic earnings per share (in PLN/EUR)	9.39	4.12	2.07	0.93
XII.	Diluted earnings per share (in PLN/EUR)	9.38	4.11	2.06	0.93
XIII.	Declared or paid dividend per share (in PLN/EUR)	-	-	-	-

SELECTED FINANCIAL DATA FOR THE BANK		in PLN ths		in EUR ths	
		30.06.2021	31.12.2020 - restated	30.06.2021	31.12.2020 - restated
I.	Total assets	190 479 265	170 745 007	42 133 973	36 999 438
II.	Amounts due to other banks	2 836 108	2 624 286	627 346	568 667
III.	Amounts due to customers	156 517 196	137 778 034	34 621 571	29 855 689
IV.	Equity	16 313 991	16 467 692	3 608 651	3 568 452
V.	Share capital	169 468	169 468	37 486	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)	385.06	388.69	85.18	84.23
VIII.	Total capital ratio	20.10	22.95	20.10	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 30 June 2021: EUR 1 = 4.5208 PLN, 31 December 2020: EUR 1 = 4.6148 PLN;
- for items of the income statement – exchange rate calculated as the arithmetic mean of exchange rates announced by the National Bank of Poland as at the end of each month of the first half of 2021 and 2020: EUR 1 = 4.5472 PLN and EUR 1 = 4.4413 PLN respectively.

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CONDENSED INCOME STATEMENT

	Point	Period from 01.04.2021 to 30.06.2021	Period from 01.01.2021 to 30.06.2021	Period from 01.04.2020 to 30.06.2020	Period from 01.01.2020 to 30.06.2020
Interest income, including:		893 017	1 782 816	1 067 305	2 252 110
Interest income accounted for using the effective interest method		*779 841*	*1 552 306*	*944 189*	*2 026 509*
Income similar to interest on financial assets at fair value through profit or loss		*113 176*	*230 510*	*123 116*	*225 601*
Interest expenses		(57 398)	(112 767)	(172 421)	(400 070)
Net interest income		**835 619**	**1 670 049**	**894 884**	**1 852 040**
Fee and commission income		601 871	1 207 305	499 632	1 001 940
Fee and commission expenses		(164 273)	(317 632)	(147 688)	(302 909)
Net fee and commission income		**437 598**	**889 673**	**351 944**	**699 031**
Dividend income		28 521	28 961	4 179	30 824
Net trading income		37 605	96 195	44 387	89 497
Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss		4 223	(7 605)	16 095	(42 859)
Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss		(9 687)	79 236	8 040	5 336
Other operating income		6 236	25 890	16 942	23 044
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss	14	(203 456)	(365 112)	(292 532)	(622 416)
Costs of legal risk related to foreign currency loans		(248 537)	(314 805)	(188 972)	(201 883)
Overhead costs		(416 996)	(914 898)	(406 412)	(982 765)
Depreciation		(97 779)	(194 670)	(103 204)	(188 327)
Other operating expenses		(58 704)	(120 064)	(20 049)	(55 308)
Operating profit		**314 643**	**872 850**	**325 302**	**606 214**
Taxes on the Bank balance sheet items		(139 422)	(270 691)	(130 599)	(254 714)
Share in profits (losses) of entities under the equity method		24 843	82 180	9 824	(8 264)
Profit before income tax		**200 064**	**684 339**	**204 527**	**343 236**
Income tax expense		(117 123)	(286 313)	(121 719)	(168 844)
Net profit		**82 941**	**398 026**	**82 808**	**174 392**

Net profit		**82 941**	**398 026**	**82 808**	**174 392**
Weighted average number of ordinary shares	**26**	**42 367 040**	**42 367 040**	**42 350 367**	**42 350 367**
Earnings per share (in PLN)	**26**	**1.96**	**9.39**	**1.96**	**4.12**
Weighted average number of ordinary shares for diluted earnings	**26**	**42 429 506**	**42 429 506**	**42 386 009**	**42 386 009**
Diluted earnings per share (in PLN)	**26**	**1.95**	**9.38**	**1.95**	**4.11**

CONDENSED STATEMENT OF COMPREHENSIVE INCOME

	Period from 01.04.2021 to 30.06.2021	Period from 01.01.2021 to 30.06.2021	Period from 01.04.2020 to 30.06.2020	Period from 01.01.2020 to 30.06.2020
Net profit	**82 941**	**398 026**	**82 808**	**174 392**
Other comprehensive income net of tax, including:	**(235 055)**	**(555 273)**	**121 537**	**431 567**
Items that may be reclassified subsequently to the income statement				
Exchange differences on translation of foreign operations (net)	(211)	356	210	(378)
Cash flows hedges (net)	(88 321)	(238 551)	66 348	356 755
Share of other comprehensive income of entities under the equity method (net)	(3 947)	(17 550)	15 823	1 282
Debt instruments at fair value through other comprehensive income (net)	(154 012)	(310 964)	39 156	73 908
Items that will not be reclassified to the income statement				
Investment properties	11 436	11 436	-	-
Total comprehensive income (net)	**(152 114)**	**(157 247)**	**204 345**	**605 959**

CONDENSED STATEMENT OF FINANCIAL POSITION

ASSETS	**30.06.2021**	**31.12.2020 - restated**	**01.01.2020 - restated**
Cash and balances with the Central Bank	16 492 257	3 939 298	7 861 776
Financial assets held for trading and derivatives held for hedges	3 037 374	2 493 535	2 921 749
Non-trading financial assets mandatorily at fair value through profit or loss, including:	1 475 647	1 585 029	2 035 189
Equity instruments	*137 372*	*136 480*	*87 597*
Debt securities	*82 064*	*76 068*	*133 774*
Loans and advances to customers	*1 256 211*	*1 372 481*	*1 813 818*
Financial assets at fair value through other comprehensive income	46 307 775	47 731 612	30 298 647
Financial assets at amortised cost, including:	117 193 431	109 527 366	100 942 738
Debt securities	*15 033 956*	*15 952 501*	*11 234 873*
Loans and advances to credit institutions	*14 154 590*	*10 845 844*	*7 337 703*
Loans and advances to customers	*88 004 885*	*82 729 021*	*82 370 162*
Fair value changes of the hedged items in portfolio hedge of interest rate risk	161 103	-	-
Investments in subsidiaries	2 282 788	2 204 922	2 164 112
Non-current assets and disposal groups classified as held for sale	-	-	91 605
Intangible assets	1 038 079	1 013 746	823 109
Tangible assets	1 212 993	1 246 496	945 606
Investment properties	127 510	-	-
Current income tax assets	14 600	22 826	11 878
Deferred income tax assets	346 723	206 924	273 257
Other assets	788 985	773 253	491 052
TOTAL ASSETS	**190 479 265**	**170 745 007**	**148 860 718**
LIABILITIES AND EQUITY			
LIABILITIES			
Financial liabilities held for trading and derivatives held for hedges	1 849 734	1 414 374	987 933
Financial liabilities measured at amortised cost, including:	168 078 294	149 315 812	128 979 983
Amounts due to banks	*2 836 108*	*2 624 286*	*1 180 782*
Amounts due to customers	*156 517 196*	*137 778 034*	*121 936 987*
Debt securities issued	*6 182 766*	*6 335 165*	*3 361 997*
Subordinated liabilities	*2 542 224*	*2 578 327*	*2 500 217*
Fair value changes of the hedged items in portfolio hedge of interest rate risk	33 788	59 624	136
Provisions	580 852	515 211	369 612
Current income tax liabilities	90 215	225 029	150 859
Deferred income tax liabilities	87	89	82
Other liabilities	3 532 304	2 747 176	2 257 106
TOTAL LIABILITIES	**174 165 274**	**154 277 315**	**132 745 711**
EQUITY			
Share capital:	**3 587 035**	**3 587 035**	**3 579 818**
Registered share capital	169 468	169 468	169 401
Share premium	3 417 567	3 417 567	3 410 417
Retained earnings:	**12 862 178**	**12 460 606**	**12 364 550**
- Profit from the previous years	12 464 152	12 367 559	12 364 550
- Profit for the current year	398 026	93 047	-
Other components of equity	**(135 222)**	**420 051**	**170 639**
TOTAL EQUITY	**16 313 991**	**16 467 692**	**16 115 007**
TOTAL LIABILITIES AND EQUITY	**190 479 265**	**170 745 007**	**148 860 718**

Total capital ratio	**20.10**	**22.95**	**22.84**
Common Equity Tier 1 capital ratio	**17.32**	**19.59**	**19.42**
Book value	**16 313 991**	**16 467 692**	**16 115 007**
Number of shares	**42 367 040**	**42 367 040**	**42 350 367**
Book value per share (in PLN)	**385.06**	**388.69**	**380.52**

CONDENSED STATEMENT OF CHANGES IN EQUITY

Changes in equity from 1 January to 30 June 2021

	Share capital		Retained earnings		Other components of equity	Total equity
	Registered share capital	Share premium	Profit from the previous years	Profit for the current year		
Equity as at 1 January 2021	**169 468**	**3 417 567**	**12 460 606**	**-**	**420 051**	**16 467 692**
Total comprehensive income	**-**	**-**	**-**	**398 026**	**(555 273)**	**(157 247)**
Stock option program for employees	**-**	**-**	**3 546**	**-**	**-**	**3 546**
- value of services provided by the employees	*-*	*-*	*3 546*	*-*	*-*	*3 546*
- settlement of exercised options	*-*	*-*	*-*	*-*	*-*	*-*
Equity as at 30 June 2021	**169 468**	**3 417 567**	**12 464 152**	**398 026**	**(135 222)**	**16 313 991**

Changes in equity from 1 January to 31 December 2020

	Share capital		Retained earnings		Other components of equity	Total equity
	Registered share capital	Share premium	Profit from the previous years	Profit for the current year		
Equity as at 1 January 2020	**169 401**	**3 410 417**	**12 364 550**	**-**	**170 639**	**16 115 007**
Total comprehensive income	**-**	**-**	**-**	**93 047**	**249 412**	**342 459**
Issuance of ordinary shares	67	-	-	-	-	67
Stock option program for employees	**-**	**7 150**	**3 009**	**-**	**-**	**10 159**
- value of services provided by the employees	*-*	*-*	*10 159*	*-*	*-*	*10 159*
- settlement of exercised options	*-*	*7 150*	*(7 150)*	*-*	*-*	*-*
Equity as at 31 December 2020	**169 468**	**3 417 567**	**12 367 559**	**93 047**	**420 051**	**16 467 692**

Changes in equity from 1 January to 30 June 2020

	Share capital		Retained earnings		Other components of equity	Total equity
	Registered share capital	Share premium	Profit from the previous years	Profit for the current year		
Equity as at 1 January 2020	**169 401**	**3 410 417**	**12 364 550**	**-**	**170 639**	**16 115 007**
Total comprehensive income	**-**	**-**	**-**	**174 392**	**431 567**	**605 959**
Stock option program for employees	**-**	**-**	**4 246**	**-**	**-**	**4 246**
- value of services provided by the employees	*-*	*-*	*4 246*	*-*	*-*	*4 246*
- settlement of exercised options	*-*	*-*	*-*	*-*	*-*	*-*
Equity as at 30 June 2020	**169 401**	**3 410 417**	**12 368 796**	**174 392**	**602 206**	**16 725 212**

CONDENSED STATEMENT OF CASH FLOW

	Period from 01.01.2021 to 30.06.2021	Period from 01.01.2020 to 30.06.2020 - restated
Profit before income tax	**684 339**	**343 236**
Adjustments:	***17 084 975***	***6 414 313***
Income taxes paid	(453 603)	(187 336)
Depreciation, including depreciation of fixed assets provided under operating lease	198 901	192 200
Foreign exchange (gains) losses related to financing activities	(287 499)	229 825
(Gains) losses on investing activities	(82 348)	4 778
Dividends received	(28 961)	(30 824)
Interest income (income statement)	(1 782 816)	(2 252 110)
Interest expense (income statement)	112 767	400 070
Interest received	1 819 819	2 491 619
Interest paid	(75 442)	(494 815)
Changes in loans and advances to banks	197 450	18 994
Changes in financial assets and liabilities held for trading and hedging derivatives	(588 037)	(106 068)
Changes in loans and advances to customers	(7 097 938)	(3 770 766)
Changes in financial assets at fair value through other comprehensive income	3 017 006	(13 432 216)
Changes in securities at amortised cost	893 791	(1 316 333)
Changes of non-trading equity securities mandatorily at fair value through profit or loss	(6 888)	(10 246)
Changes in other assets	93 195	(129 882)
Changes in amounts due to banks	222 395	966 057
Changes in amounts due to customers	19 908 919	23 260 125
Changes in issued debt securities	(25 725)	176 166
Changes in provisions	65 641	32 718
Changes in other liabilities	984 348	372 357
A. Cash flows from operating activities	**17 769 314**	**6 757 549**
Disposal of shares in subsidiaries, net of cash disposed	4 280	650
Disposal of intangible assets and tangible fixed assets	290	1 814
Dividends received	28 961	30 824
Acquisition of shares in subsidiaries	(17 000)	-
Purchase of intangible assets and tangible fixed assets	(279 821)	(169 951)
B. Cash flows from investing activities	**(263 290)**	**(136 663)**
Proceeds from issue of debt securities	-	35 000
Repayments of other loans and advances	(1 358 250)	-
Repayment of debt securities in issue	-	(178 042)
Payments of other financial liabilities	-	(479 271)
Payments of financial lease liabilities	(44 599)	(54 816)
Interest paid from loans and advances received from banks and subordinated liabilities	(28 301)	(43 551)
C. Cash flows from financing activities	**(1 431 150)**	**(720 680)**
Net increase / decrease in cash and cash equivalents (A+B+C)	**16 074 874**	**5 900 206**
Effects of exchange rate changes on cash and cash equivalents	8 958	22 640
Cash and cash equivalents at the beginning of the reporting period	4 205 132	8 204 230
Cash and cash equivalents at the end of the reporting period	**20 288 964**	**14 127 076**

EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS

1. Description of relevant accounting policies

Accounting basis

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

The Financial Statements of mBank S.A. 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), investment properties and liabilities related to cash-settled share-based payment transactions, all of which have been measured at fair value. Non-current assets held for sale or group of these assets classified as held for sale are stated at the lower of the carrying value and fair value less costs to sell.

The data for the year 2020 before the restatement, described further in the section "Comparative data", presented in these condensed 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 Bank. 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 financial statements are disclosed in Note 2.

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 Bank'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 Bank presents separately each material class of similar positions. The Bank presents separately positions of dissimilar nature or function unless they are immaterial.

These condensed financial statements were prepared under the assumption that all the entities of the Bank 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 Bank is endangered in the period of 12 months from the reporting date.

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

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

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

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

New standards, interpretations and amendments to published standards

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

Standards and interpretations endorsed by the European Union

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

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

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

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

- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 Interest Rate Benchmark Reform – Phase 2, published by International Accounting Standards Board on 27 August 2020, approved by the European Union on 13 January 2021, binding for annual periods starting on or after 1 January 2021.

  Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 Interest Rate Benchmark Reform – Phase 2 relate to the modification of financial assets, financial liabilities and lease liabilities, specific hedge accounting requirements, and disclosure requirements applying IFRS 7 to accompany the amendments regarding modifications and hedge accounting.

  Regarding modification of financial assets, financial liabilities and lease liabilities a practical expedient for modifications required by the reform (modifications required as a direct consequence of the IBOR reform and made on an economically equivalent basis) has been introduced. These modifications are accounted for by updating the effective interest rate. All other modifications are accounted for using the current IFRS requirements. A similar practical expedient is proposed for lessee accounting applying IFRS 16.

  Regarding hedge accounting amendments, hedge accounting is not discontinued solely because of the IBOR reform. Hedging relationships (and related documentation) must be amended to reflect modifications to the hedged item, hedging instrument and hedged risk. Amended hedging relationships should meet all qualifying criteria to apply hedge accounting, including effectiveness requirements.

  Specific disclosures are also required in order to allow users to understand the nature and extent of risks arising from the IBOR reform to which the entity is exposed to and how the entity manages those risks as well as the entity's progress in transitioning from IBORs to alternative benchmark rates, and how the entity is managing this transition.

  IFRS 4 was also amended to require insurers that apply the temporary exemption from IFRS 9 to apply the amendments in accounting for modifications directly required by IBOR reform.

  Bank analysed the impact of applying the amendments to the standards on the financial statements in the period of their initial application. The detailed information regarding this analysis was presended for the first time in the financial statements for the period ended 31 December 2020.

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

- Annual Improvements to IFRS Standards 2018-2020, published by International Accounting Standards Board on 14 May 2020, approved by the European Union on 28 June 2021 and binding for annual periods starting on or after 1 January 2022.

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

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

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

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

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

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

- Amendments to IAS 16 Property, Plant and Equipment: Proceeds before Intended Use, published by International Accounting Standards Board on 14 May 2020, approved by the European Union on 28 June 2021 and binding for annual periods starting on or after 1 January 2022.

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

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

- Amendments to IAS 37 Onerous contracts – Cost of Fulfilling the Contract, published by International Accounting Standards Board on 14 May 2020, approved by the European Union on 28 June 2021 and binding for annual periods starting on or after 1 January 2022.

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

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

- Amendments to IFRS 3 Reference to the Conceptual Framework, published by International Accounting Standards Board on 14 May 2020, approved by the European Union on 28 June 2021 and binding for annual periods starting on or after 1 January 2022.

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

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

Standards and interpretations not yet endorsed by the European Union

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

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

The amendments to the standards require that the entities recognise in the financial statements deferred tax assets and liabilities resulting form transactions, other than business combinations, in which equal amounts of deductible and taxable temporary differences arise on initial recognition

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Comparative data

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

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

- Cash equivalents

Since the end of 2020, the Bank 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 Bank 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 Bank 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 Bank in the comparative periods presented in these financial statements. The data on capital ratios for comparative periods remained unchanged.

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

Restatements in 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 30 June 2020

ASSETS	30.06.2020 before restatement	restatement	30.06.2020 after restatement
Financial assets at amortised cost, including:	107 107 552	(547 100)	106 560 452
Debt securities	*12 551 206*	-	*12 551 206*
Loans and advances to banks	*9 980 205*	-	*9 980 205*
Loans and advances to customers	*84 576 141*	*(547 100)*	*84 029 041*
Other assets	67 272 525	-	67 272 525
TOTAL ASSETS	**174 380 077**	**(547 100)**	**173 832 977**

LIABILITIES AND EQUITY	30.06.2020 before restatement	restatement	30.06.2020 after restatement
Provisions	949 430	(547 100)	402 330
Other liabilities	156 705 435	-	156 705 435
TOTAL LIABILITIES	**157 654 865**	**(547 100)**	**157 107 765**
TOTAL EQUITY	**16 725 212**	**-**	**16 725 212**
TOTAL LIABILITIES AND EQUITY	**174 380 077**	**(547 100)**	**173 832 977**

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**

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

	Period from 01.01.2020 to 30.06.2020 before restatement	restatement	Period from 01.01.2020 to 30.06.2020 after restatement
Profit before income tax	**343 236**	**-**	**343 236**
Adjustments, including:	***6 546 892***	***(132 579)***	***6 414 313***
Changes in financial assets and liabilities held for trading and hedging derivatives	26 511	(132 579)	(106 068)
Changes in loans and advances to customers	(3 950 311)	179 545	(3 770 766)
Changes in provisions	212 263	(179 545)	32 718
Other adjustments	10 258 429	-	10 258 429
A. Cash flows from operating activities	**6 890 128**	**(132 579)**	**6 757 549**
B. Cash flows from investing activities	**(136 663)**	**-**	**(136 663)**
C. Cash flows from financing activities	**(720 680)**	**-**	**(720 680)**
Net increase / decrease in cash and cash equivalents (A+B+C)	**6 032 785**	**(132 579)**	**5 900 206**
Effects of exchange rate changes on cash and cash equivalents	22 640	-	22 640
Cash and cash equivalents at the beginning of the reporting period	9 534 771	(1 330 541)	8 204 230
Cash and cash equivalents at the end of the reporting period	**15 590 196**	**(1 463 120)**	**14 127 076**

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

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

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

The Bank closely observes the developments in courts verdicts in legal proceedings regarding mortgage and housing loans in CHF, including impact of the Court of Justice of the European Union (CJEU) and Supreme Court judgments as well as analyses the PFSA's Chairman proposal, what was described in details in the Note 27.

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

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

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

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

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

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

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

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

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

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

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

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

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

More information on individual court proceedings concerning indexation clauses in mortgage and housing loans in CHF is presented in the Note 27.

Impairment of loans and advances

The Bank 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 Bank 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 45.3 million or increase by PLN 48.2 million as at 30 June 2021, respectively (as at 31 December 2020: PLN 41 million and PLN 43 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 Financial Statements of mBank S.A. for 2020, published on 25 February 2021.

The Bank is planning to introduce dedicated model for specialized lending portfolio in the third quarter of 2021. The estimated impact of the model implementation on the expected credit loss is increase of PLN 92 million. Main part of the impact is a result of change in staging structure of this portfolio (increase of Stage 2 share), due to pandemic situation. The Bank decided to include this effect in the income statement in the first half of 2021.

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

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

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

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

- change in the method of calculating days past due;
- implementation of the materiality threshold (relative and absolute) in accordance with the Regulation of the Minister of Finance, Investment and Development of 3 October 2019,
- guidelines on forced restructuring. The materiality threshold from which the Bank considers a reduced financial liability to be defaulted is 1%. Bank adopted adequate mechanisms in order to ensure that all exposures classified as forborne non-performing are classified as default and subject to distressed restructuring; any concession extended to an obligor already in default, lead to classify the obligor as a distressed restructuring,

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

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

On the implementation date of the EBA/GL/2016/07 guidelines, the share of NPL exposure in the loan portfolio decreased. On an individual basis the NPLREG ratio (ratio calculated according to EBA guidelines) decreased by 0.1 pp (from 3.62% as of 31 December 2020 to 3.52% as of 1 January 2021).

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

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

The impact of the implementation of the EBA/GL/2016/07 guidelines on the costs of credit risk, recognized by the Bank in the profit and loss in the first half of 2021 amounted to PLN 32.5 million.

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

COVID-19 pandemic impact on the mBank activities

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

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

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

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

The moratorium reopened in Poland in January 2021 and in Retail Banking area was offered by the Bank 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 Bank in Poland also offers to retail clients support under so-called Crisis Shield 4.0, effective from 23 June 2020. The customers who lost their job or another major source of income after 13 March 2020, have the right to suspend the loan repayment for up to 3 months without charging interest during the period of suspension of the agreement. This assistance tool is considered as a legislative moratorium within the meaning of the EBA guidelines. The scale of applications submitted for this form of assistance is still not significant. From 1 January 2021 till 30 June 2021 the moratorium was granted to 93 borrowers. The gross accounting amount of these loans and advances under moratorium as of 30 June 2021 amounted to PLN 17.0 million.

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

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

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

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

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

Number of obligors subject to assistance tools in Poland in the period 13.03.2020 – 30.06.2021	
Moratoria	52 794
Government guarantees (BGK)	62

Value of the loans in Poland with the assistance tools, granted in the period 13.03.2020 – 30.06.2021	30.06.2021				
	Gross carrying amount	of which: gross carrying amount of contracts with expired moratoria	of which: gross carrying amount of contracts with active moratoria	Accumulated impairment, accumulated negative changes in fair value due to credit risk – active moratoria	Net carrying amount risk – active moratoria
Moratoria	**8 271 944**	**8 262 868**	**9 076**	**(805)**	**8 271**
- Individual customers	5 197 169	5 193 338	3 831	(692)	3 139
- Corporate customers	3 074 775	3 069 530	5 245	(113)	5 132
Government guarantees (BGK)	**708 759**	**-**	**708 759**	**(4 345)**	**704 414**
- Individual customers	-	-	-	-	-
- Corporate customers	708 759	-	708 759	(4 345)	704 414

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

a) active assistance tools as of 30 June 2021

Active assistance tools in Poland as of 31.03.2021, granted in the period 13.03.2020 – 30.06.2021	Gross carrying amount	Performing			
		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	**6 829**	**4 766**	**6 489**	**6 297**	**(118)**
- Individual customers	1 654	126	1 654	1 561	(23)
- Corporate customers	5 175	4 640	4 835	4 736	(95)
Government guarantees (BGK)	**708 759**	**4 215**	**-**	**293 687**	**(4 345)**
- Individual customers	-	-	-	-	-
- Corporate customers	708 759	4 215	-	293 687	(4 345)

Active assistance tools in Poland as of 30.06.2021, granted in the period 13.03.2020 – 30.06.2021	Gross carrying amount	Non-performing			Gross carrying amount – Inflows to non-performing exposures
		of which: exposures with forbearance measures	of which: unlikely to pay that are not past-due or past-due <= 90 days	Accumulated impairment	
Moratoria	**2 247**	**449**	**-**	**(687)**	**2 076**
- Individual customers	2 177	441	-	(669)	2 014
- Corporate customers	70	8	-	(18)	62
Government guarantees (BGK)	-	-	-	-	-
- Individual customers	-	-	-	-	-
- Corporate customers	-	-	-	-	-

b) expired assistance tools as of 30 June 2021

Expired assistance tools in Poland as of 30.06.2021, granted in the period 13.03.2020 – 30.06.2021	Performing				
	Gross carrying amount	of which: exposures with forbearance measures	of which: instruments with significant increase in credit risk since initial recognition but not credit-impaired (Stage 2)	Accumulated impairment	of which: instruments with significant increase in credit risk since initial recognition but not credit-impaired (Stage 2)
Moratoria	**8 065 827**	**105 609**	**874 057**	**(76 182)**	**(50 084)**
- Individual customers	5 050 728	49 571	422 246	(41 644)	(27 445)
- Corporate customers	3 015 099	56 038	451 811	(34 538)	(22 639)
Government guarantees (BGK)	**-**	**-**	**-**	**-**	**-**
- Individual customers	-	-	-	-	-
- Corporate customers	-	-	-	-	-

Expired assistance tools in Poland as of 30.06.2021, granted in the period 13.03.2020 – 30.06.2021	Non-performing				
	Gross carrying amount	of which: exposures with forbearance measures	of which: unlikely to pay that are not past-due or past-due <= 90 days	Accumulated impairment	Gross carrying amount – Inflows to non-performing exposures
Moratoria	**197 041**	**10 651**	**-**	**(94 605)**	**55 035**
- Individual customers	142 610	5 870	-	(69 227)	45 053
- Corporate customers	54 431	4 781	-	(25 378)	9 982
Government guarantees (BGK)	**-**	**-**	**-**	**-**	**-**
- Individual customers	-	-	-	-	-
- Corporate customers	-	-	-	-	-

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

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

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

a) active assistance tools as of 30 June 2021

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

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

b) expired assistance tools as of 30 June 2021

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

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

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

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

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

In assessing the financial situation of corporate clients, the Bank uses only individual assessment as the most appropriate and precise (the Bank 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 Bank defined a list of industries/segments of industries with high risk of being affected by COVID-19. The list is reviewed periodically.

The client (including the client supported by the Bank due to the effect of COVID-19) is placed on the Watch List (LW - list of clients under observation), based on standard criteria defined in the Bank 's internal regulations. 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. 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 mBank 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 Bank does not classify the granting of the moratoria due to the COVID-19 crisis as forbearance.

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

Due to the deterioration of the economic situation in the country resulting from the COVID-19 pandemic, the Bank has taken additional actions aimed at including this information in the expected credit losses. Due to the uncertainty caused by dynamic situation changes, the Bank '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 Bank as part of taking into account the impact of the epidemic on clients' financial situation,
2. modification of the weight of macroeconomic scenarios, consisting in assigning a 100% weight to the pessimistic scenario, in the expected credit loss model, applied in the first quarter of 2020,
3. updating models of the relationship between the long-term PD parameter and macroeconomic variables, based on historical data and the currently observed economic situation, in the second quarter of 2020,
4. updating macroeconomic forecasts, taking into account the impact of COVID-19 and state aid actions, affecting long-term PD, EAD and LGD parameters, as well as the level of exposure allocation to Stage 2, in particular by increasing the expected level of allocation for some portfolios due to the expected increase in the loss ratio, in the second quarter of 2020,
5. restoration of macroeconomic scenario weights of 60% for the baseline scenario, 20% for the optimistic and 20% for the pessimistic respectively, in the expected credit loss model, while taking into account the current macroeconomic forecasts implemented directly in the risk parameters, in the second quarter of 2020,
6. monitoring of macroeconomic forecasts in order to verify the macroeconomic data used in the models in terms of their adequacy to the actual development of the economic situation in Poland. There was no basis for changing the macroeconomic forecasts within the risk parameters, in the third and fourth quarter of 2020 and the first half of 2021.

Additional cost of risk due to COVID-19 pandemic:

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

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

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

In the first half of 2021, Bank withdrew gradually from using additional premisses for maintaining loans subject to the moratoria in Stage 2. In the following months of the first half of year 2021 Bank changed the stage classification for Stage 2 exposures which were repaid on time after moratoria period and for which there were no other transfer logic premises. As of 30 June 2021 classification to Stage 2 for all retail exposures previously subject to the moratoria were consistent with qualitative and quantitative criteria of transfer logic. The reclassification resulted in the recognition of additional income in the amount of PLN 43.2 million. The total gross carrying amount reclassified to the Stage 1 due to cancellation of additional premisses, amounted to PLN 2 793 million.

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

Bank 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 half of 2021. The total gross carrying amount of the temporarily reclassified portfolio as at 31 June 2021 was PLN 14.1 million.

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

The above-mentioned activities resulted in recognition of additional cost of credit risk in the amount of PLN 203.5 million in the portfolio measured at amortized cost in 2020. In addition, these activities had an impact on the valuation of the loan portfolio at fair value through profit or loss, for which the Bank recognized an additional cost of PLN 9.4 million. In the first half of 2021 a total of PLN 37.4 million of additional cost of expected credit losses was released.

Net impairment losses and fair value change on loans and advances	2020		
	Individual customers	Corporate customers	Total
Financial asset measured at amortised cost	**(133 273)**	**(70 254)**	**(203 527)**
Stage 1	(2 910)	(1 367)	(4 277)
Stage 2	(113 619)	(4 058)	(117 677)
Stage 3	(16 744)	(64 829)	(81 573)
Financial assets measured at fair value through profit or loss	**(9 414)**	**-**	**(9 414)**

Net impairment losses and fair value change on loans and advances	Period from 01.01.2021 to 30.06.2021		
	Individual customers	Corporate customers	Total
Financial asset measured at amortised cost	**40 964**	**(3 607)**	**37 357**
Stage 1	-	-	-
Stage 2	43 180	-	43 180
Stage 3	(2 216)	(3 607)	(5 823)
Financial assets measured at fair value through profit or loss	**-**	**-**	**-**

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

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

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

Apart from the activities related to the updating of the credit risk models mentioned above, the Bank 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 Bank has carried out cyclical and one-off activities such as:

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

Prepayments of retail loans

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

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

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

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

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

Fair value of derivatives and other financial instruments

The fair value of financial instruments not listed on active markets is determined by applying valuation techniques. All the models are approved prior to being applied and they are also calibrated in order to assure that the obtained results indeed reflect the actual data and comparable market prices. As far as possible, observable market data originating from an active market are used in the models. Methods for determining the fair value of financial instruments are described in Note 2.5 to the Financial Statements of mBank S.A. Group for 2020, published on 25 February 2021.

Deferred tax assets

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

Income tax in interim financial statements

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

The calculation of the average annual effective income tax rate requires the use of a pre-tax income forecast for the entire fiscal year and permanent differences between the carrying amounts of assets and liabilities and their tax base. The projected annual effective tax rate used to calculate the income tax expense during the first half of 2021 was 41,8% (49.2% in the first half of 2020).

Revenue and expenses from sale of insurance products bundled with loans

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

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

The Bank 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

Estimates relating to leases, where the Bank is a lessee, in areas such as 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 are presented in Note 2.20 to the Financial Statements of mBank S.A. Group for 2020, published on 25 February 2021.

SELECTED EXPLANATORY INFORMATION

1. Compliance with international financial reporting standards

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

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

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

The description of the Bank's accounting policies is presented in Note 1 and 2 of these condensed financial statements. The accounting principles adopted by the Bank 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 1 in point "Comparative data".

3. Seasonal or cyclical nature of the business

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

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

In the first half of 2021 the COVID-19 pandemic significantly affected the Group's activity, including affecting the level of expected credit losses charges and valuation of loan portfolio measured at fair value through profit or loss. The financial results for the first half of 2020 also include additional costs of legal risk related to individual court cases regarding indexation clauses in mortgage and housing loans in CHF in the amount of PLN 314.8 million. Detailed information in this regard is presented in Note 2 "Major estimates and judgments made in connection with the application of accounting policy principles".

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

The financial results for the first half of 2021 also include additional costs of legal risk related to individual court cases regarding indexation clauses in mortgage and housing loans in CHF in the amount of PLN 314.8 million. The increase of the impact of the legal risk in the first half of 2021 resulted mainly from higher than expected inflow of cases in the first half of 2021 and changes in level of loss on loan exposure in case of losing the case by the Bank. Detailed information in this regard is presented in Note 2 "Major estimates and judgments made in connection with the application of accounting policy principles.

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

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

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. Income and profit by business segments

Income and profit by business segments within the Bank are presented in Note 4 of the condensed consolidated financial statements for the first half of 2021.

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

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

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

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

On April 22, 2021, the Ordinary General Shareholders' Meeting of the subsidiary mFinance France S.A. 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.

11. Changes in contingent liabilities and commitments

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

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

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

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

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

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

period	from 01.01.2021 to 30.06.2021	from 01.01.2020 to 30.06.2020
Impairment or reversal of impairment of financial assets not measured at fair value through profit or loss, including:		
Financial assets at amortised cost	(367 445)	(583 935)
- debt securities	*16*	*(8)*
- loans and advances	*(367 461)*	*(583 927)*
Financial assets at fair value through other comprehensive income	2 866	(6 329)
- equity instruments	*1 850*	*485*
- debt securities	*1 016*	*(6 814)*
Commitments and guarantees granted	(533)	(32 152)
Total gains less losses from financial assets not measured at fair value through profit or loss	**(365 112)**	**(622 416)**

15. Reversals of provisions against restructuring costs

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

16. Acquisitions and disposals of tangible fixed asset items

In the first half of 2021, there were no material transactions of acquisition or disposal of any tangible fixed assets.

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

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

18. 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.

19. 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.

20. Corrections of errors from previous reporting periods

In the first half of 2021, events as indicated above did not occur in the Bank. The restatements of comparative data have been described in the Note 1, in the item "Comparative data".

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

For more information on the impact on the valuation of loans, see Note 2 "Major estimates and judgments made in connection with the application of accounting policy principles".

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

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

23. 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.

24. Registered share capital

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

REGISTERED SHARE CAPITAL (THE STRUCTURE) AS AT 30 JUNE 2021						
Share type	Type of privilege	Type of limitation	Number of shares	Series / face value of issue in PLN	Paid up	Registered in
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

25. Material share packages

Commerzbank AG is a shareholder holding over 5% of the share capital and votes at the General Meeting and as at 30 June 2021 it held 69.28% of the share capital and votes at the General Meeting of mBank S.A.

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

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

26. Earnings per share

period	from 01.01.2021 to 30.06.2021	from 01.01.2020 to 30.06.2020
Basic:		
Net profit	398 026	174 392
Weighted average number of ordinary shares	42 367 040	42 350 367
Net basic profit per share (in PLN per share)	**9.39**	**4.12**
Diluted:		
Net profit applied for calculation of diluted earnings per share	398 026	174 392
Weighted average number of ordinary shares	42 367 040	42 350 367
Adjustments for:		
- share options	62 466	35 642
Weighted average number of ordinary shares for calculation of diluted earnings per share	42 429 506	42 386 009
Diluted earnings per share (in PLN per share)	**9.38**	**4.11**

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

The Bank monitors the status of all court cases brought against it, 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 Bank creates provisions for litigations against it, 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 Bank based on the previous decisions of courts in similar matters and the experience of the Bank.

The value of provisions for litigations as at 30 June 2021 amounted to PLN 260 609 thousand (PLN 200 426 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 Bank.

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

1. Claims of Interbrok's clients

   Since 2008, the Bank has received 9 claims for damages in connection with the activities of Interbrok Investment E. Dróżdż i Spółka jawna (hereinafter Interbrok). Eight of the nine lawsuits were filed by former clients of Interbrok for the total amount of PLN 800 thousand with the proviso that the claims may be extended up to the total amount of PLN 5 950 thousand. The plaintiffs alleged that the Bank had aided in Interbrok's illegal activities, which caused damage to them. With regard to seven of the afore-mentioned cases, legal proceedings against the Bank were dismissed and the cases were finally concluded. In the eighth case, a plaintiff withdrew their suit waiving the claim and the Regional Court dismissed the action. As far as the ninth suit is concerned, the amount in dispute is PLN 276 499 thousand, including statutory interest and costs of proceedings. According to the claims brought in the suit, this amount comprises the receivables, acquired by the plaintiff by way of assignment, due to the parties aggrieved by Interbrok on account of a reduction (as a result of Interbrok's bankruptcy) of the receivables by a return of the deposits paid by the aggrieved for making investments on the forex market. The plaintiff claims the Bank's liability on the grounds of the Bank's aid in committing the illicit act of Interbrok, consisting in unlicensed brokerage operations. On

7 November 2017, the Regional Court in Warsaw dismissed the action in its entirety. The ruling is not final. The plaintiff appealed. By the judgment of 25 January 2021, the Court of Appeal in Warsaw dismissed the appeal of the plaintiff. The judgment of the District Court in Warsaw and the judgment of the Court of Appeal in Warsaw are final. The plantiff has the right to appeal against the sentence in the Supreme Court.

2. A lawsuit filed by LPP S.A.

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

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

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

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

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

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

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

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

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

   As at 17 October 2012, the group of class members consisted of 1 247 individuals. On 3 July 2013, the Court announced its judgment allowing the claim in full. According to the Court, the Bank did not properly execute the agreements concluded with consumers, as a result of which they suffered losses. On 30 April 2014, the Court of Appeal in Łódź dismissed the appeal of mBank S.A., upholding the stance adopted by the Regional Court expressed in the judgment. On 14 May 2015, the Supreme Court revoked the ruling of the Court of Appeal in Łódź and referred the case back to that court for re-examination. By the decision of 24 September 2015, the Court of Appeal in Łódź admitted the expert opinion evidence in order to verify the legality of mBank's actions connected with changing the interest rates on the mortgage loans covered by the class action in the period from 1 January 2009 to 28 February 2010. On Hearing which took place on 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 proceeding before the Court of first instance were suspended until the resolution undertaken by the full cabinet of Civil Chamber of the Supreme Court.

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

6. Individual court proceedings concerning indexation clauses

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

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

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

The Bank's approach to the measurement of the impact of the legal risk associated with this portfolio of loans has been described in the Note 2 "Major estimates and judgments made in connection with the application of accounting policy principles".

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

On 3 October 2019 the Court of Justice of the European Union issued the ruling in the prejudicial mode regarding a mortgage linked to the Swiss franc granted by a Polish bank. The submitted prejudicial questions were to determine, among other things, if a generally applicable custom can be used where there is no provision in domestic law that could replace an abusive exchange rate clause. In accordance with CJEU's ruling, the question of abusiveness will be decided by Polish courts. CJEU did not refer to this issue.

In addition, CJEU did not make a clear-cut decision regarding the consequences of an exchange rate clause being considered abusive by a domestic court. However, the possibility of a credit agreement being performed further in PLN and with interest calculated according to LIBOR was found doubtful by the Court. If an exchange rate clause is found abusive, a domestic court must decide whether the agreement in question can be performed further or should be declared invalid, taking into account the client's will and the consequences of invalidity for the client. CJEU approved the application of a disposable norm (in the bank's opinion article 358 of the Polish Civil Code referring to the NBP fixing rate can be considered to be a disposable norm), if the invalidity of the agreement would be unfavourable for the client. CJEU rejected the application of general provisions referring to a custom or equity principles.

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

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

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

Supreme Court resolutions on loans in CHF

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

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

The next sitting is scheduled for 2 September 2021.

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

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

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

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

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

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

PFSA's Chairman proposal

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

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

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

Tax inspections

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

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

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

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

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

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

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

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

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

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

28. Off-balance sheet liabilities

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

	30.06.2021	31.12.2020
1. Contingent liabilities granted and received	**46 885 679**	**45 752 511**
Commitments granted	**39 061 080**	**39 136 295**
- financing	29 374 970	31 040 531
- guarantees and other financial facilities	7 926 789	8 072 975
- other commitments	1 759 321	22 789
Commitments received	**7 824 599**	**6 616 216**
- financial commitments	909 658	459 429
- guarantees	6 914 941	6 156 787
2. Derivative financial instruments (nominal value of contracts)	**751 779 872**	**658 022 093**
Interest rate derivatives	625 925 971	527 305 492
Currency derivatives	118 483 664	126 387 303
Market risk derivatives	7 370 237	4 329 298
Total off-balance sheet items	**798 665 551**	**703 774 604**

29. Transactions with related entities

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

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

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

	mBank's subsidiaries			Commerzbank AG			Other companies of the Commerzbank AG Group		
As at the end of the period	**30.06.2021**	**31.12.2020**	**30.06.2020**	**30.06.2021**	**31.12.2020**	**30.06.2020**	**30.06.2021**	**31.12.2020**	**30.06.2020**
Statement of Financial Position									
Assets	19 838 074	17 964 178		2 189 862	773 702		9 877	2 806	
Liabilities	486 189	801 682		2 526 616	2 590 735		64 451	69 810	
Income Statement									
Interest income	82 723		145 923	10 952		16 827	79		256
Interest expense	(172)		(44 624)	(10 342)		(13 146)	(12)		(185)
Fee and commission income	10 525		8 208	2 674		2 817	230		49
Fee and commission expense	(103 629)		(85 688)	-		-	-		-
Other operating income	3 864		2 213	972		739	-		-
Overhead costs, amortisation and other operating expenses	(1 890)		(4 822)	(2 677)		(5 181)	-		-
Contingent liabilities granted and received									
Liabilities granted	2 197 101	2 791 357		1 933 083	1 721 547		3 531	7 409	
Liabilities received	-	-		1 836 017	1 911 651		-	-	

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

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

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

31. 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 Bank 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 Financial Statements of mBank for 2020, published on 25 February 2021.

Following market practices the Bank values open positions in financial instruments using either the mark to-market approach or is applying pricing models well established in market practice (mark-to-model method) which use as inputs market prices or market parameters, and in few cases parameters estimated internally by the Bank. All significant open positions in derivatives 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 Bank assumed that the fair value of short-term financial liabilities (less than 1 year) is equal to the balance sheet values of such items. In addition, the Bank assumes that the estimated fair value of financial assets and financial liabilities longer than 1 year is based on discounted cash flows using appropriate interest rates.

Financial assets and liabilities measured at amortised cost

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

	30.06.2021		31.12.2020	
	Carrying value	Fair value	Carrying value	Fair value
Financial assets at amortised cost				
Debt securities	**15 033 956**	**15 113 890**	**15 952 501**	**16 445 401**
Loans and advances to banks	**14 154 590**	**14 147 697**	**10 845 844**	**10 839 089**
Loans and advances to customers, including:	**88 004 885**	**87 953 044**	**82 729 021**	**83 256 569**
Loans and advances to individuals	**43 794 963**	**45 152 605**	**42 329 891**	**43 853 720**
Current accounts	7 185 362	7 395 814	6 807 188	6 948 252
Term loans	36 241 134	37 388 324	35 231 733	36 614 498
Other	368 467	368 467	290 970	290 970
Loans and advances to corporate entities	**44 070 271**	**42 661 967**	**40 255 292**	**39 258 906**
Current accounts	5 741 433	5 570 559	4 335 675	4 219 578
Term loans	36 480 162	35 242 732	35 522 354	34 642 065
Reverse repo or buy/sell back transactions	1 557 695	1 557 695	103 832	103 832
Other loans and advances	264 817	264 817	277 050	277 050
Other	26 164	26 164	16 381	16 381
Loans and advances to public sector	**139 651**	**138 472**	**143 838**	**143 943**
Financial liabilities at amortised cost				
Amounts due to other banks	**2 836 108**	**2 836 108**	**2 624 286**	**2 624 286**
Amounts due to customers	**156 517 196**	**156 528 326**	**137 778 034**	**137 805 488**
Debt securities in issue	**6 182 766**	**6 247 456**	**6 335 165**	**6 405 592**
Subordinated liabilities	**2 542 224**	**2 511 674**	**2 578 327**	**2 552 098**

The following sections present the key assumptions and methods used by the Bank 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 Bank. To reflect the fact that the majority of the Bank's exposures is collateralised whereas the median of market quotation is centred around unsecured issues, the Group applied appropriate adjustments.

Financial liabilities

Financial instruments representing liabilities for the Bank 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 Bank 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 Bank 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 Bank used curves based on cross-currency basis swap levels taking into account the original spread on subordinated liabilities and their maturities.

Bank 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 Bank, financial assets and liabilities are classified as follows:

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

Financial assets and liabilities measured at fair value

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

30.06.2021	including:	Level 1	Level 2	Level 3
		Quoted prices in active markets	Valuation techniques based on observable market data	Other valuation techniques
RECURRING FAIR VALUE MEASUREMENTS				
Financial assets				
Financial assets held for trading and hedging derivatives	**3 037 374**	**949 596**	**1 617 101**	**470 677**
Loans and advances to customers	44 587	-	-	44 587
Debt securities	1 375 686	949 596	-	426 090
Derivative financial instruments, including:	1 617 101	-	1 617 101	-
Derivative financial instruments held for trading	1 671 175	-	1 671 175	-
Hedging derivative financial instruments	537 206	-	537 206	-
Offsetting effect	(591 280)	-	(591 280)	-
Non-trading financial assets mandatorily at fair value through profit or loss	**1 475 647**	**1 000**	**-**	**1 474 647**
Loans and advances to customers	1 256 211	-	-	1 256 211
Debt securities	82 064	-	-	82 064
Equity securities	137 372	1 000	-	136 372
Financial assets at fair value through other comprehensive income	**46 307 775**	**29 659 192**	**679 979**	**15 968 604**
Loans and advances to customers	14 516 677	-	-	14 516 677
Debt securities	31 791 098	29 659 192	679 979	1 451 927
Total financial assets	**50 820 796**	**30 609 788**	**2 297 080**	**17 913 928**
Financial liabilities				
Derivative financial instruments, including:	1 327 158	-	1 327 158	-
Derivative financial instruments held for trading	1 483 040	-	1 483 040	-
Hedging derivative financial instruments	220 466	-	220 466	-
Offsetting effect	(376 348)	-	(376 348)	-
Liabilities from short sale of securities	522 576	522 576	-	-
Total financial liabilities	**1 849 734**	**522 576**	**1 327 158**	-

Assets measured at fair value based on Level 3 **changes in the period from 1 January to 30 June 2021**	**Debt trading securities**	**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	**333 151**	**76 068**	**135 520**	**1 509 952**
Gains and losses for the period:	**4 536**	**5 996**	**-**	**(14 677)**
Recognised in profit or loss:	4 536	5 996	-	-
Net trading income	*4 536*	*832*	-	-
Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss	-	*5 164*	-	-
Recognised in other comprehensive income:	-	-	-	(14 677)
Financial assets at fair value through other comprehensive income	-	-	-	*(14 677)*
Purchases	1 519 093	-	852	633 452
Redemptions	(52 608)	-	-	(370 605)
Sales	(5 146 810)	-	-	(1 090 556)
Issues	3 768 728	-	-	784 361
As at the end of the period	**426 090**	**82 064**	**136 372**	**1 451 927**

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	**2 493 535**	**366 517**	**1 605 965**	**521 053**
Loans and advances to customers	187 902	-	-	187 902
Debt securities	699 668	366 517	-	333 151
Derivative financial instruments, including:	1 605 965	-	1 605 965	-
Derivative financial instruments held for trading	1 817 678	-	1 817 678	-
Hedging derivative financial instruments	820 483	-	820 483	-
Offsetting effect	(1 032 196)	-	(1 032 196)	-
Non-trading financial assets mandatorily at fair value through profit or loss	**1 585 029**	**960**	**-**	**1 584 069**
Loans and advances to customers	1 372 481	-	-	1 372 481
Debt securities	76 068	-	-	76 068
Equity securities	136 480	960	-	135 520
Financial assets at fair value through other comprehensive income	**47 731 612**	**33 556 650**	**149 997**	**14 024 965**
Loans and advances to customers	12 515 013	-	-	12 515 013
Debt securities	35 216 599	33 556 650	149 997	1 509 952
Total financial assets	**51 810 176**	**33 924 127**	**1 755 962**	**16 130 087**
Financial liabilities				
Derivative financial instruments, including:	1 414 374	-	1 414 374	-
Derivative financial instruments held for trading	1 678 160	-	1 678 160	-
Hedging derivative financial instruments	7 706	-	7 706	-
Offsetting effect	(271 492)	-	(271 492)	-
Total financial liabilities	**1 414 374**	**-**	**1 414 374**	**-**

Assets measured at fair value based on Level 3 **changes in the period from 1 January to 31 December 2020**	**Debt trading securities**	**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	**460 191**	**133 774**	**86 772**	**1 488 819**
Gains and losses for the period:	**21 089**	**12 632**	**48 748**	**20 625**
Recognised in profit or loss:	21 089	12 632	48 748	-
Net trading income	*21 089*	*1 922*	*91*	-
Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss	-	*10 710*	*48 657*	-
Recognised in other comprehensive income:	-	-	-	20 625
Financial assets at fair value through other comprehensive income	-	-	-	*20 625*
Purchases	2 075 197	-	-	1 243 442
Redemptions	(233 837)	-	-	(433 937)
Sales	(9 729 999)	-	-	(5 090 143)
Issues	7 740 510	-	-	4 281 146
Conversion	-	(70 338)	-	-
As at the end of the period	**333 151**	**76 068**	**135 520**	**1 509 952**

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

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

Level 1

As at 30 June 2021, at level 1 of the fair value hierarchy, the Bank has presented the fair value of held for trading government bonds in the amount of PLN 949 596 thousand and the fair value of government bonds and treasury bills measured at fair value through other comprehensive income in the amount of PLN 28 257 459 thousand (31 December 2020 respectively: PLN 366 517 thousand and PLN 32 375 426 thousand). Level 1 includes the fair values of corporate bonds in the amount of PLN 1 401 733 thousand (31 December 2020: PLN 1 181 224 thousand).

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

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

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

Level 2

Level 2 of the fair value hierarchy mainly includes the fair values of bills issued by NBP in the amount of PLN 679 979 thousand (31 December 2020: PLN 149 997 thousand), whose valuation is based on a NPV model (discounted future cash flows) fed with interest rate curves generated by transformation of quotations taken directly from active and liquid financial markets.

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

Level 3

Level 3 of the hierarchy presents the fair values of commercial debt securities issued by local banks and companies in the amount of PLN 1 923 714 thousand (31 December 2020: PLN 1 882 836 thousand) and includes the fair value of a debt instrument measured at fair value through profit or loss, representing the rights to preferred stock of Visa Inc.

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

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

Level 3 as at 30 June 2021 includes the value of loans and advances to customers in the amount of PLN 15 817 475 thousand (31 December 2020: PLN 14 075 396 thousand). The fair value calculation process for loans and advances to customers is described detailly on the Note 3.3.7. of Financial Statement 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 136 372 thousand (31 December 2020: PLN 135 520 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.

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

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

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

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

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

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

33. Factors affecting the results in the coming quarter

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

In the third quarter of 2021, a resolution of the Supreme Court on issues related to the CHF loan portfolio is planned, which is described in more detail in Point 27 of Selected explanatory information "Proceedings pending before a court, body competent for arbitration proceedings or public administration body". The Bank expects that the rulings made by the Supreme Court may have an impact on further jurisprudence of common courts and the value of parameters used by the Bank to determine the impact of the legal risk related to CHF-indexed mortgage and housing loans.

34. Other information

Requirements on mBank capital ratios as at 30 June 2021

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

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

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

Ratings of mBank assigned by Fitch placed on Negative Watch

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

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

35. Events after the balance sheet date

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